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FRIENDLY ICE CREAM CORP  
Form 10-Q  
May 15, 2001

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)  
OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the quarterly period ended April 1, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)  
OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the transition period from to

COMMISSION FILE NO. 0-3930  
FRIENDLY ICE CREAM CORPORATION  
(Exact name of registrant as specified in its charter)

MASSACHUSETTS	5812	04-2053130
(State of Incorporation)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

1855 BOSTON ROAD  
WILBRAHAM, MASSACHUSETTS 01095  
(413) 543-2400

(Address, including zip code, and telephone number, including  
area code, of registrant's principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No\_\_\_

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

CLASS	OUTSTANDING AT APRIL 29, 2001
Common Stock, \$.01 par value	7,364,283 shares

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FRIENDLY ICE CREAM CORPORATION AND SUBSIDIARIES

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## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

### ASSETS

#### CURRENT ASSETS:

- Cash and cash equivalents
- Restricted cash
- Accounts receivable, net
- Inventories
- Deferred income taxes
- Prepaid expenses and other current assets

#### TOTAL CURRENT ASSETS

- PROPERTY AND EQUIPMENT, net
- INTANGIBLES AND DEFERRED COSTS, net
- OTHER ASSETS

#### TOTAL ASSETS

### LIABILITIES AND STOCKHOLDERS' DEFICIT

#### CURRENT LIABILITIES:

- Current maturities of long-term debt
- Current maturities of capital lease and finance obligations
- Accounts payable
- Accrued salaries and benefits
- Accrued interest payable
- Insurance reserves
- Restructuring reserve
- Other accrued expenses

#### TOTAL CURRENT LIABILITIES

#### DEFERRED INCOME TAXES

CAPITAL LEASE AND FINANCE OBLIGATIONS, less current maturities

LONG-TERM DEBT, less current maturities

OTHER LONG-TERM LIABILITIES

#### COMMITMENTS AND CONTINGENCIES

#### STOCKHOLDERS' DEFICIT:

- Common stock
- Additional paid-in capital
- Accumulated deficit

#### TOTAL STOCKHOLDERS' DEFICIT

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## TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT

The accompanying notes are an integral part of these condensed consolidated financial statements.

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### FRIENDLY ICE CREAM CORPORATION AND SUBSIDIARIES

### CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	For the Three Months	
	April 1,	A
	2001	A
	----	----
REVENUES	\$126,078	\$14
COSTS AND EXPENSES:		
Cost of sales	42,060	4
Labor and benefits	39,676	4
Operating expenses	27,453	3
General and administrative expenses	9,332	1
Restructuring costs	-	1
Write-downs of property and equipment	-	1
Depreciation and amortization	7,552	
Gain on franchise sales of restaurant operations and properties	-	(
(Gain) loss on dispositions of other property and equipment	(1,981)	
	-----	
OPERATING INCOME (LOSS)	1,986	(2
Interest expense, net	7,585	
	-----	
LOSS BEFORE BENEFIT FROM INCOME TAXES	(5,599)	(3
Benefit from income taxes	2,396	1
	-----	
NET LOSS AND COMPREHENSIVE LOSS	\$ (3,203)	\$ (1
	=====	=
BASIC AND DILUTED NET LOSS PER SHARE	\$ (0.43)	\$ (
	=====	=
WEIGHTED AVERAGE BASIC AND DILUTED SHARES	7,376	

The accompanying notes are an integral part of these condensed consolidated financial statements.

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FRIENDLY ICE CREAM CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)  
(In thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss

Adjustments to reconcile net loss to net cash provided by (used in) operating activities:

Stock compensation expense

Depreciation and amortization

Write-downs of property and equipment

Deferred income tax benefit

Gain on asset retirements and sales

Changes in operating assets and liabilities:

Accounts receivable

Inventories

Other assets

Accounts payable

Accrued expenses and other long-term liabilities

NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of property and equipment

Proceeds from sales of property and equipment

NET CASH PROVIDED BY INVESTING ACTIVITIES

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from borrowings

Repayments of debt

Repayments of capital lease and finance obligations

NET CASH USED IN FINANCING ACTIVITIES

NET DECREASE IN CASH AND CASH EQUIVALENTS

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CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD

CASH AND CASH EQUIVALENTS, END OF PERIOD

## SUPPLEMENTAL DISCLOSURES:

Cash paid (refunded) during the period for:

Interest

Income taxes

Capital lease obligations terminated

Notes received from the sale of property and equipment

The accompanying notes are an integral part of these condensed consolidated financial statements.

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## FRIENDLY ICE CREAM CORPORATION AND SUBSIDIARIES

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

#### 1. BASIS OF PRESENTATION

##### INTERIM FINANCIAL INFORMATION -

The accompanying condensed consolidated financial statements as of April 1, 2001 and for the first quarter ended April 1, 2001 and April 2, 2000 are unaudited, but, in the opinion of management, include all adjustments which are necessary for a fair presentation of the consolidated financial position, results of operations, cash flows and comprehensive loss of Friendly Ice Cream Corporation ("FICC") and subsidiaries (unless the context indicates otherwise, collectively the "Company"). Such adjustments consist solely of normal recurring accruals. Operating results for the three month period ended April 1, 2001 and April 2, 2000 are not necessarily indicative of the results that may be expected for the entire year due, in part, to the seasonality of the Company's business. Historically, higher revenues and operating income have been experienced during the second and third fiscal quarters. The Company's Consolidated Financial Statements, including the notes thereto, which are contained in the 2000 Annual Report on Form 10-K should be read in conjunction with these Condensed Consolidated Financial Statements.

##### INVENTORIES -

Inventories are stated at the lower of first-in, first-out cost or market. Inventories as of April 1, 2001 and December 31, 2000 were as follows (in thousands):

April 1, 2001 ----	December 31, 2000 ----
--------------------------	------------------------------

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Raw materials	\$1,657	\$1,307
Goods in process	139	66
Finished goods	12,284	10,197
	-----	-----
Total	\$14,080	\$11,570
	=====	=====

### DEBT -

Since 1997, the Company has entered into several amendments related to covenant violations on its credit facility. In March 2001, under the terms of the seventh amendment, covenant requirements, interest rates and principal payments were revised. The credit facility matures in November 2002 and principal payments of approximately \$14,948,000 are due on the term loans in 2001. The Company is in the process of exploring various refinancing alternatives and has engaged Banc of America Securities LLC for assistance in this process. The Company believes that based on the terms of the seventh amendment, the Company has adequate cash and availability on its revolving credit facility to meet its obligations through June 30, 2002. Additionally, the Company believes that it can comply with the revised covenant requirements under the amendment.

### RECLASSIFICATIONS -

Certain prior year amounts have been reclassified to conform with current year presentation.

### 2. NET LOSS PER SHARE

Basic net loss per share is calculated by dividing loss available to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is calculated by dividing earnings available to common stockholders by the weighted average number of shares of common stock and common stock equivalents outstanding during the period. Common stock equivalents are dilutive stock options that are assumed exercised for calculation purposes. There were no common stock equivalents which were excluded from diluted earnings (loss) per share for the three months ended April 2, 2000 and there were 4,000 common stock equivalents which were excluded from diluted earnings (loss) per share for the three months ended April 1, 2001 since the effect was antidilutive.

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## FRIENDLY ICE CREAM CORPORATION AND SUBSIDIARIES

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

### 3. SEGMENT REPORTING

Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief

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operating decision-maker, or decision-making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision-maker is the Chairman of the Board and Chief Executive Officer of the Company. The Company's operating segments include restaurant, foodservice and franchise. The revenues from these segments include both sales to unaffiliated customers and intersegment sales, which generally are accounted for on a basis consistent with sales to unaffiliated customers. Intersegment sales and other intersegment transactions have been eliminated in the accompanying condensed consolidated financial statements.

The Company's restaurants target families with children and adults who desire a reasonably-priced meal in a full-service setting. The Company's menu offers a broad selection of freshly-prepared foods which appeal to customers throughout all dayparts. The menu currently features over 100 items comprised of a broad selection of breakfast, lunch, dinner and afternoon and evening snack items. Foodservice operations manufactures frozen dessert products and distributes such manufactured products and purchased finished goods to the Company's restaurants and franchised operations. Additionally, it sells frozen dessert products to distributors and retail and institutional locations. The Company's franchise segment includes a royalty based on franchise restaurant revenue. In addition, the Company receives rental income from various franchised restaurants. The Company does not allocate general and administrative expenses associated with its headquarters operations to any business segment. These costs include general and administrative expenses of the following functions: legal, accounting, personnel not directly related to a segment, information systems and other headquarters activities.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies except that the financial results for the foodservice operating segment, prior to intersegment eliminations, have been prepared using a management approach, which is consistent with the basis and manner in which the Company's management internally reviews financial information for the purpose of assisting in making internal operating decisions. The Company evaluates performance based on stand-alone operating segment income (loss) before income taxes and generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices.

### FRIENDLY ICE CREAM CORPORATION AND SUBSIDIARIES

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

#### 3. SEGMENT REPORTING (CONTINUED)

EBITDA represents net loss before (i) cumulative effect of change in accounting principle, net of income taxes, (ii) benefit from income taxes, (iii) interest expense, net, (iv) depreciation and amortization and (v) write-downs

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and all other non-cash items plus cash distributions from unconsolidated subsidiaries. The Company has included information concerning EBITDA in this Form 10-Q because it believes that such information is used by certain investors as one measure of a company's historical ability to service debt. EBITDA should not be considered as an alternative to, or more meaningful than, earnings (loss) from operations or other traditional indications of a company's operating performance.

	For the Three Months Ended	
	April 1, 2001	April 2, 2000
	-----	-----
	(in thousands)	
Revenues:		
Restaurant	\$107,145	\$125,423
Foodservice (retail and institutional)	48,181	54,993
Franchise	1,561	2,277
	-----	-----
Total	\$156,887	\$182,693
	=====	=====
Intersegment revenues:		
Restaurant	\$ -	\$ -
Foodservice (retail and institutional)	(30,809)	(38,513)
Franchise	-	-
	-----	-----
Total	\$ (30,809)	\$ (38,513)
	=====	=====
External revenues:		
Restaurant	\$107,145	\$125,423
Foodservice (retail and institutional)	17,372	16,480
Franchise	1,561	2,277
	-----	-----
Total	\$126,078	\$144,180
	=====	=====

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FRIENDLY ICE CREAM CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

3. SEGMENT REPORTING (CONTINUED)



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	For the Three Months Ended	
	April 1, 2001 -----	April 2, 2000 -----
	(in thousands)	
EBITDA:		
Restaurant	\$8,767	\$7,468
Foodservice (retail and institutional)	3,079	5,518
Franchise	494	938
Corporate	(4,593)	(4,928)
Gain on property and equipment, net	1,884	1,623
Restructuring costs	-	(12,057)
	-----	-----
Total	\$9,631	\$(1,438)
	=====	=====
Interest expense, net	\$7,585	\$7,938
	=====	=====
(Loss) income before benefit from income taxes:		
Restaurant	\$3,721	\$1,433
Foodservice (retail and institutional)	2,225	4,659
Franchise	434	855
Corporate	(13,863)	(14,451)
Gain on property and equipment, net	1,884	(16,049)
Restructuring costs	-	(12,057)
	-----	-----
Total	\$ (5,599)	\$ (35,610)
	=====	=====
Depreciation and amortization:		
Restaurant	\$5,046	\$6,035
Foodservice (retail and institutional)	854	859
Franchise	60	83
Corporate	1,592	1,444
	-----	-----
Total	\$7,552	\$8,421
	=====	=====
	April 1, 2001 -----	December 31, 2000 -----
	(in thousands)	
Total assets:		
Restaurant	\$194,853	\$199,223
Foodservice (retail and institutional)	33,607	33,880
Franchise	4,076	3,745
Corporate	52,419	60,838
	-----	-----
Total	\$284,955	\$297,686
	=====	=====
Capital expenditures:		

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Restaurant	\$1,301	\$18,245
Foodservice (retail and institutional)	490	2,667
Corporate	235	1,535
	-----	-----
Total	\$2,026	\$22,447
	=====	=====

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### FRIENDLY ICE CREAM CORPORATION AND SUBSIDIARIES

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

#### 4. NEW ACCOUNTING PRONOUNCEMENTS

In April 2001, the Financial Accounting Standards Board reached consensus on Emerging Issues Task Force ("EITF") Issue No. 00-25, "Accounting for Consideration from a Vendor to a Retailer in Connection with the Purchase or Promotion of the Vendor's Products," which is effective for quarters beginning after December 15, 2001, with prior financial statements restated if practicable. This Issue addresses whether consideration from a vendor to a retailer is (a) an adjustment of the selling prices of the vendor's products to the retailer and, therefore, should be deducted from revenue when recognized in the vendor's income statement or (b) a cost incurred by the vendor for assets or services provided by the retailer to the vendor and, therefore, should be included as a cost or an expense when recognized in the vendor's income statement. Arrangements within the scope of this Issue include slotting fees, cooperative advertising arrangements and buy-downs. Management has not yet quantified the impact of implementing Issue No. 00-25 on the Company's financial statements.

In May 2000, the Emerging Issues Task Force issued EITF No. 00-14, "Accounting for Certain Sales Incentives," which provides guidance on the recognition, measurement and income statement classification for sales incentives offered voluntarily by a vendor without charge to customers that can be used in, or that are exercisable by a customer as a result of, a single exchange transaction. The Company adopted EITF No. 00-14 on July 3, 2000. As a result, the Company has reclassified certain retail selling expenses against retail revenue for the three months ended April 2, 2000 to conform with the current period presentation.

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards requiring that each derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the statement of operations, and requires that a Company formally document, designate and assess

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the effectiveness of transactions that receive hedge accounting. Since the Company's commodity option contracts do not meet the criteria for hedge accounting, changes in the value of the commodity option contracts are recognized monthly in earnings. The cumulative effect upon adoption of approximately \$77,000 has been recorded as income in the accompanying Condensed Consolidated Statement of Operations. It is not separately reported as a cumulative effect since the effect is not significant. Additional income of approximately \$129,000 was recorded during the first quarter of 2001. The unrealized gain on derivatives at April 1, 2001 was approximately \$206,000.

FRIENDLY ICE CREAM CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

5. RESTRUCTURING PLAN

In March 2000, the Company's Board of Directors approved a restructuring plan that provided for the immediate closing of 81 restaurants at the end of March 2000 and the disposition of an additional 70 restaurants over the next 24 months. The 70 locations will remain in operation until they are sold, subleased or closed prior to March 2002. In connection with the restructuring plan, the Company eliminated approximately 150 management and administrative positions in the field organization and at corporate headquarters. As a result of this plan, the Company reported a pre-tax restructuring charge of approximately \$12,057,000 for severance pay, rent, utilities and real estate taxes, demarking, lease termination costs and certain other costs associated with the closing of the locations, along with a pre-tax write-down of property and equipment for these locations of approximately \$17,008,000 in the first quarter ended April 2, 2000.

The following represents the restructuring reserve activity (in thousands):

	Balance as of December 31, 2000 -----	Costs Paid During the Quarter Ended April 1, 2001 -----	Balanc April -----
Severance pay	\$74	\$(74)	
Rent	3,585	(278)	3,
Utilities and real estate taxes	1,105	(210)	
Demarking	138	(12)	
Lease termination costs	120	-	
Inventory	5	(5)	

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Other	544	(148)	
	-----	-----	---
Total	\$5,571	\$ (727)	\$4,
	=====	=====	====

The write-down of property and equipment consisted of \$7.8 million for the 81 locations closed at the end of March 2000 and \$9.2 million for the 70 locations to be disposed of over the following 24 months. At April 1, 2001 the aggregate carrying amount of the remaining 65 properties to be disposed of was \$5.8 million. At April 2, 2000, the aggregate carrying value of the 151 properties to be disposed of was \$18.9 million. These amounts are reflected in the condensed consolidated balance sheets as property and equipment, net.

FRIENDLY ICE CREAM CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

6. SALES OF RESTAURANT OPERATIONS AND PROPERTIES TO FRANCHISEES

On April 13, 2001, the Company executed an agreement granting J&B Restaurants Partners of Long Island Holding Co., LLC ("J&B") certain limited exclusive rights to operate and develop Friendly's full-service restaurants in the franchising regions of Nassau and Suffolk Counties in Long Island, New York (the "J&B Agreement"). Pursuant to the J&B Agreement, J&B purchased certain assets and rights in 31 existing Friendly's restaurants and committed to open an additional 29 restaurants over the next 12 years. The transaction price was approximately \$19,950,000, of which approximately \$4,250,000 was received in a note. The cash proceeds were used to prepay approximately \$4,711,000 on the term loans with the remaining balance being applied to the revolving credit facility. The 5-year note bears interest at an annual rate of 11% using a 20-year amortization schedule. Payments are due monthly through the five years with a balloon payment due at the end of five years.

On January 19, 2000, the Company entered into an agreement granting Kessler Family LLC ("Kessler") non-exclusive rights to operate and develop Friendly's full-service restaurants in the franchising region of Rochester, Buffalo and Syracuse, New York (the "Kessler Agreement"). Pursuant to the Kessler Agreement, Kessler purchased certain assets and rights in 29 existing Friendly's restaurants and committed to open an additional 15 restaurants over the next seven years. Gross proceeds from the sale were approximately \$13,300,000 of which \$735,000 was for franchise fees for the initial 29 restaurants. The \$735,000 was recorded as revenue in the first quarter ending April 2, 2000. The Company recognized a gain of approximately \$1,400,000 related to the sale of the assets for the 29 locations in the first quarter ending April 2, 2000. The Company also sold certain assets and rights in six other restaurants to two additional franchisees resulting in a gain of \$687,000.

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### 7. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION

FICC's obligation related to the \$200 million Senior Notes is guaranteed fully and unconditionally by one of FICC's wholly-owned subsidiaries. There are no restrictions on FICC's ability to obtain dividends or other distributions of funds from this subsidiary, except those imposed by applicable law. The following supplemental financial information sets forth, on a condensed consolidating basis, balance sheets, statements of operations and statements of cash flows for Friendly Ice Cream Corporation (the "Parent Company"), Friendly's Restaurants Franchise, Inc. (the "Guarantor Subsidiary") and Friendly's International, Inc., Friendly Holding (UK) Limited, Friendly Ice Cream (UK) Limited and Restaurant Insurance Corporation (collectively, the "Non-guarantor Subsidiaries"). Separate complete financial statements and other disclosures of the Guarantor Subsidiary as of April 1, 2001 and April 2, 2000, and for the periods ended April 1, 2001 and April 2, 2000, are not presented because management has determined that such information is not material to investors.

Investments in subsidiaries are accounted for by the Parent Company on the equity method for purposes of the supplemental consolidating presentation. Earnings of the subsidiaries are, therefore, reflected in the Parent Company's investment accounts and earnings. The principal elimination entries eliminate the Parent Company's investments in subsidiaries and intercompany balances and transactions.

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### FRIENDLY ICE CREAM CORPORATION AND SUBSIDIARIES

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

### 7. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (CONTINUED)

#### SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEET AS OF APRIL 1, 2001

(In thousands)

	Parent Company -----	Guarantor Subsidiary -----	Non-guarantor Subsidiaries -----
Assets			
Current assets:			
Cash and cash equivalents	\$7,626	\$12	\$1,154
Restricted cash	-	-	775
Accounts receivable, net	4,960	576	-
Inventories	14,080	-	-
Deferred income taxes	10,258	43	-

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Prepaid expenses and other current assets	6,995	563	3,510
	-----	---	-----
Total current assets	43,919	1,194	5,439
Deferred income taxes	-	506	1,327
Property and equipment, net	218,674	-	-
Intangibles and deferred costs, net	21,185	-	-
Investments in subsidiaries	3,640	-	-
Other assets	2,325	2,844	6,229
	-----	-----	-----
Total assets	\$289,743	\$4,544	\$12,995
	=====	=====	=====
Liabilities and Stockholders' Equity (Deficit)			
Current liabilities:			
Current maturities of long-term obligations	\$14,324	\$-	\$-
Accounts payable	19,633	-	-
Accrued expenses	50,210	201	7,637
	-----	---	-----
Total current liabilities	84,167	201	7,637
Deferred income taxes	12,619	-	-
Long-term obligations, less current maturities	282,121	-	-
Other long-term liabilities	13,929	1,191	4,870
Stockholders' equity (deficit)	(103,093)	3,152	488
	-----	-----	---
Total liabilities and stockholders' equity (deficit)	\$289,743	\$4,544	\$12,995
	=====	=====	=====

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FRIENDLY ICE CREAM CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

7. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (CONTINUED)

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
FOR THE THREE MONTHS ENDED APRIL 1, 2001

(In thousands)

Parent Company	Guarantor Subsidiary	Non-guarantor Subsidiaries
-----	-----	-----

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Revenues	\$124,885	\$1,193	\$-
Costs and expenses:			
Cost of sales	42,060	-	-
Labor and benefits	39,676	-	-
Operating expenses and write-downs of property and equipment	27,462	-	(9)
General and administrative expenses	8,173	1,159	-
Depreciation and amortization	7,552	-	-
Gain on dispositions of other property and equipment	(1,981)	-	-
Interest expense (income)	7,806	-	(221)
	-----	-	-----
 (Loss) income before benefit from (provision for) income taxes and equity in net income of consolidated subsidiaries	 (5,863)	 34	 230
Benefit from (provision for) income taxes	2,491	(14)	(81)
	-----	-----	-----
 (Loss) income before equity in net income of consolidated subsidiaries	 (3,372)	 20	 149
Equity in net income of consolidated subsidiaries	169	-	-
	-----	-----	-----
Net (loss) income	\$ (3,203)	\$20	\$149
	=====	===	=====

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FRIENDLY ICE CREAM CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

7. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (CONTINUED)

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS  
FOR THE THREE MONTHS ENDED APRIL 1, 2001

(In thousands)

	Parent Company	Guarantor Subsidiary	Non-guarantor Subsidiaries
	-----	-----	-----
Net cash provided by (used in) operating			

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activities	\$1,986	\$ (21)	\$1,184
	-----	-----	-----
Cash flows from investing activities:			
Purchases of property and equipment	(2,026)	-	-
Proceeds from sales of property and equipment	5,246	-	-
	-----	-----	-----
Net cash provided by investing activities	3,220	-	-
	-----	-----	-----
Cash flows from financing activities:			
Proceeds from borrowings	8,000	-	-
Repayments of obligations	(19,199)	-	-
Reinsurance payments made from deposits	-	-	(962)
	-----	-----	-----
Net cash used in financing activities	(11,199)	-	(962)
	-----	-----	-----
Net (decrease) increase in cash and cash equivalents	(5,993)	(21)	222
Cash and cash equivalents, beginning of period	13,619	33	932
	-----	-----	-----
Cash and cash equivalents, end of period	\$7,626	\$12	\$1,154
	=====	===	=====
Supplemental disclosures:			
Interest paid (received)	\$2,357	\$-	\$(221)
Income taxes paid	-	2	-

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FRIENDLY ICE CREAM CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

7. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (CONTINUED)

SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEET  
AS OF DECEMBER 31, 2000

(In thousands)

Parent Company	Guarantor Subsidiary	Non-guarantor Subsidiaries
-----	-----	-----



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Assets			
Current assets:			
Cash and cash equivalents	\$13,619	\$33	\$932
Restricted cash	-	-	1,737
Accounts receivable, net	5,649	508	-
Inventories	11,570	-	-
Deferred income taxes	10,258	43	-
Prepaid expenses and other current assets	7,435	551	4,057
	-----	---	-----
Total current assets	48,531	1,135	6,726
Deferred income taxes	-	506	1,327
Property and equipment, net	226,865	-	-
Intangible assets and deferred costs, net	21,529	-	-
Investments in subsidiaries	3,500	-	-
Other assets	1,135	3,614	5,729
	-----	-----	-----
Total assets	\$301,560	\$5,255	\$13,782
	=====	=====	=====
Liabilities and Stockholders' Equity (Deficit)			
Current liabilities:			
Current maturities of long-term obligations	\$19,172	\$-	\$-
Accounts payable	20,100	-	-
Accrued expenses	43,683	648	8,082
	-----	---	-----
Total current liabilities	82,955	648	8,082
Deferred income taxes	15,015	-	-
Long-term obligations, less current maturities	288,472	-	-
Other liabilities	15,101	1,475	5,332
Stockholders' equity (deficit)	(99,983)	3,132	368
	-----	-----	----
Total liabilities and stockholders' equity (deficit)	\$301,560	\$5,255	\$13,782
	=====	=====	=====

FRIENDLY ICE CREAM CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

7. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (CONTINUED)

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
FOR THE THREE MONTHS ENDED APRIL 2, 2000

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(In thousands)

	Parent Company -----	Guarantor Subsidiary -----	Non-guarantor Subsidiaries -----
Revenues	\$142,306	\$1,874	\$-
Costs and expenses:			
Cost of sales	44,822	-	-
Labor and benefits	48,176	-	-
Operating expenses and write-downs of property and equipment	48,683	-	(60)
General and administrative expenses	10,950	426	-
Restructuring costs	12,057	-	-
Depreciation and amortization	8,421	-	-
Gain on franchise sales of restaurant operations and properties	(2,087)	-	-
Loss on dispositions of other property and equipment	464	-	-
Interest expense (income)	8,110	-	(172)
	-----	-----	-----
(Loss) income before benefit from (provision for) income taxes and equity in net income of consolidated subsidiaries	(37,290)	1,448	232
Benefit from (provision for) income taxes	17,774	(593)	(81)
	-----	-----	-----
(Loss) income before equity in net income of consolidated subsidiaries	(19,516)	855	151
Equity in net income of consolidated subsidiaries	1,006	-	-
	-----	-----	-----
Net (loss) income	\$ (18,510)	\$855	\$151
	=====	=====	=====

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FRIENDLY ICE CREAM CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

7. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (CONTINUED)

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### SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS FOR THE THREE MONTHS ENDED APRIL 2, 2000

(In thousands)

	Parent Company	Guarantor Subsidiary	Non-guarantor Subsidiaries	EL ---
Net cash (used in) provided by operating activities	\$ (5,724)	\$36	\$1,080	
	-----	---	-----	
Cash flows from investing activities:				
Purchases of property and equipment	(2,227)	-	-	
Proceeds from sales of property and equipment	16,740	-	-	
	-----	---	-----	
Net cash provided by investing activities	14,513	-	-	
	-----	---	-----	
Cash flows from financing activities:				
Proceeds from borrowings	33,000	-	-	
Repayments of obligations	(42,252)	-	-	
Reinsurance deposits received	-	-	800	
Reinsurance payments made from deposits	-	-	(1,549)	
	-----	---	-----	
Net cash used in financing activities	(9,252)	-	(749)	
	-----	---	-----	
Net (decrease) increase in cash and cash equivalents	(463)	36	331	
Cash and cash equivalents, beginning of period	9,674	14	2,374	
	-----	---	-----	
Cash and cash equivalents, end of period	\$9,211	\$50	\$2,705	
	=====	===	=====	
Supplemental disclosures:				
Interest paid (received)	\$2,966	\$-	\$(357)	
Income taxes (refunded) paid	(928)	823	84	
Capital lease obligations terminated	659	-	-	
Notes received from the sale of property and equipment	577	-	-	

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THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY AND THE NOTES THERETO INCLUDED ELSEWHERE HEREIN.

### FORWARD LOOKING STATEMENTS

Statements contained herein that are not historical facts, constitute "forward looking statements" as that term is defined in the Private Securities Litigation Reform Act of 1995. All forward looking statements are subject to risks and uncertainties, which could cause results to differ materially from those anticipated. These factors include the Company's highly competitive business environment, uncertainty with respect to the Company's ability to refinance its existing debt facilities, exposure to commodity prices, risks associated with the foodservice industry, the ability to retain and attract new employees, government regulations, the Company's high geographic concentration in the Northeast and its attendant weather patterns, conditions needed to meet re-imaging and new opening and franchising targets and risks associated with improved service and other initiatives. Other factors that may cause actual results to differ from the forward looking statements contained herein and that may affect the Company's prospects in general are included in the Company's other filings with the Securities and Exchange Commission.

### OVERVIEW

As of April 1, 2001, the Company owned and operated 438 restaurants and franchised 123 restaurants and five cafes. The Company distributes a full line of frozen dessert products to Friendly's restaurants and through more than 3,500 supermarkets and other retail locations in 15 states. The restaurants offer a wide variety of reasonably-priced breakfast, lunch and dinner menu items as well as the frozen dessert products.

### REVENUES:

Total revenues decreased \$18.1 million, or 12.6%, to \$126.1 million for the first quarter ended April 1, 2001 from \$144.2 million for the same quarter in 2000. Restaurant revenues decreased \$18.3 million, or 14.6%, to \$107.1 million for the first quarter of 2001 from \$125.4 million for the same quarter in 2000. Restaurant revenues decreased by \$19.7 million due to the closing of 133 under-performing restaurants and the re-franchising of 49 additional locations over the past 15 months. Closing of restaurants accounted for \$14.2 million of the restaurant revenue decline and re-franchising reduced restaurant revenues by an additional \$5.5 million. Partially offsetting this decrease was a 1.0% increase in comparable restaurant revenues. Revenues from the one location open less than one year were \$0.4 million. Foodservice (product sales to franchisees, retail and institutional) revenues increased by \$0.9 million, or 5.5%, to \$17.4 million for the first quarter of 2001 from \$16.5 million for the same quarter in 2000. The increase was due to the increase in the number of franchised units. Revenues from foodservice retail supermarket customers were lower in the current quarter when compared to same quarter in 2000. The Company's foodservice division sells a variety of products to the Company's franchisees and ice cream products to supermarkets and other retail locations. Franchise revenues decreased \$0.7 million, or 30.4%, to \$1.6 million for the three months ended April 1, 2001 from \$2.3 million for the three months ended April 2, 2000. The decrease is due to a reduction of \$1.0 million in initial fees from new franchised locations as 41 new locations were added in the first quarter of 2000 and only one new location was added in the same period in 2001. There were 128 franchised units (including cafes) open at April 1, 2001 compared to 109 franchised units open at April 2, 2000.

### COST OF SALES:

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Cost of sales decreased \$2.7 million, or 6.0%, to \$42.1 million for the first quarter ended April 1, 2001 from \$44.8 million for the same quarter in 2000. Cost of sales as a percentage of total revenues increased to 33.3% for the first quarter of 2001 from 31.1% for the same quarter in 2000. The higher food cost as a percentage of total revenue was partially due to a shift in sales mix from Company-owned restaurant sales to foodservice sales. Foodservice sales to franchisees and retail customers have a higher food cost as a percentage of revenue than sales in Company-owned restaurants to restaurant patrons. The cost of cream, the principle ingredient used in making ice cream, was higher in the first quarter of 2001 when compared to the first quarter of 2000 and contributed to the rise in cost of sales as a percentage of total revenues, especially in foodservice's retail supermarket business. The Company believes that cream prices will continue to rise and will peak during the summer months. To minimize risk, hedging opportunities and alternative supply sources will be pursued. Additionally, the Company intends to raise prices to its retail customers.

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### LABOR AND BENEFITS:

Labor and benefits decreased \$8.5 million, or 17.6%, to \$39.7 million for the first quarter ended April 1, 2001 from \$48.2 million for the same quarter in 2000. Labor and benefits as a percentage of total revenues decreased to 31.5% for the first quarter of 2001 from 33.4% for the same period in 2000. The lower labor cost as a percentage of total revenue is partially the result of revenue increases derived from additional franchised locations, which do not have any associated restaurant labor and benefits. In addition, the closing of 133 under-performing Company-owned units over the past 15 months improved the relationship of restaurant labor and benefits to restaurant sales as well as to total revenues. Partially offsetting the decreases were higher group insurance costs in 2001 when compared to the same period in 2000.

### OPERATING EXPENSES:

Operating expenses decreased \$3.5 million, or 11.3%, to \$27.5 million for the first quarter ended April 1, 2001 from \$31.0 million for the same quarter in 2000. Operating expenses as a percentage of total revenues were 21.8% and 21.5% for the first quarters ended April 1, 2001 and April 2, 2000, respectively. The increase as a percentage of total revenues resulted from higher advertising and promotional expenses, utility costs and snowplowing costs in the 2001 quarter when compared to the 2000 quarter.

### GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses were \$9.3 million and \$11.4 million for the first quarters ended April 1, 2001 and April 2, 2000, respectively. General and administrative expenses as a percentage of total revenues decreased to 7.4% in the first quarter of 2001 from 7.9% for the same period in 2000. The decrease is primarily the result of the elimination of certain management and administrative positions associated with the Company's announcement of the immediate closing of 81 restaurants and the planned closing of 70 additional restaurants in March 2000.

### EBITDA:

As a result of the above, EBITDA (EBITDA represents net loss before (i) cumulative effect of change in accounting principle, net of income taxes, (ii) benefit from income taxes (iii) interest expense, net, (iv) depreciation and

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amortization and (v) write-downs and all other non-cash items plus cash distributions from unconsolidated subsidiaries) increased \$11.0 million, or 786.0%, to \$9.6 million for the first quarter ended April 1, 2001 from \$(1.4) million for the same quarter in 2000. EBITDA as a percentage of total revenues was 7.6% and (0.9)% for the first quarters of 2001 and 2000, respectively. The increase was primarily the result of the restructuring costs of \$12.1 million recorded during the first quarter ended April 2, 2000 partially offset by the impact of the increased gains of \$0.4 million on the sales of restaurant operations and properties. The Company has included information concerning EBITDA in this Form 10-Q because it believes that such information is used by certain investors as one measure of a company's historical ability to service debt. EBITDA should not be considered as an alternative to, or more meaningful than, earnings (loss) from operations or other traditional indications of a company's operating performance.

### RESTRUCTURING COSTS:

Restructuring costs were \$12.1 million for the first quarter ended April 2, 2000 as a result of the costs associated with the Company's decision to reorganize its restaurant field and headquarters organizations in conjunction with the closing of 81 under-performing restaurants and the planned closing of an additional 70 restaurants over the next 24 months. Included in these costs are severance, rent on closed units until lease termination, utilities and real estate taxes, demarking, lease termination, environmental and other miscellaneous costs.

### WRITE-DOWNS OF PROPERTY AND EQUIPMENT:

Write-downs of property and equipment were \$17.7 million for the first quarter ended April 2, 2000. The write-downs were primarily the result of the non-cash write-down of the 81 under-performing restaurants which were closed at the end of March 2000 and the non-cash write-down of the additional 70 restaurants which will be closed over the next 24 months to their estimated net realizable value. As of April 1, 2001, 36 of these 70 restaurants have been closed.

### DEPRECIATION AND AMORTIZATION:

Depreciation and amortization decreased \$0.8 million, or 9.5%, to \$7.6 million for the first quarter ended April 1, 2001 from \$8.4 million for the same quarter in 2000. Depreciation and amortization as a percentage of total revenues was 5.9% for the first quarter ended April 1, 2001 compared to 5.8% for the first quarter ended April 2, 2000.

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### GAIN ON FRANCHISE SALES OF RESTAURANT OPERATIONS AND PROPERTIES:

On January 19, 2000, the Company entered into an agreement granting Kessler Family LLC ("Kessler") non-exclusive rights to operate and develop Friendly's full-service restaurants in the franchising region of Rochester, Buffalo and Syracuse, New York (the "Kessler Agreement"). Pursuant to the Kessler Agreement, Kessler purchased certain assets and rights in 29 existing Friendly's restaurants and committed to open an additional 15 restaurants over the next seven years. Gross proceeds from the sale were approximately \$13,300,000 of which \$735,000 was for franchise fees for the initial 29 restaurants. The \$735,000 was recorded as revenue in the first quarter ending

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April 2, 2000. The Company recognized a gain of approximately \$1,400,000 related to the sale of the assets for the 29 locations in the first quarter ending April 2, 2000. The Company also sold certain assets and rights in six other restaurants to two additional franchisees resulting in a gain of \$687,000.

### (GAIN) LOSS ON SALES OF OTHER PROPERTY AND EQUIPMENT:

The (gain) loss on sales of other property and equipment was \$(2.0) million and \$0.5 million for the quarters ended April 1, 2001 and April 2, 2000, respectively. The gain in the 2001 quarter resulted from the sale of 11 closed locations during the first quarter ending April 1, 2001. The loss for the quarter ended April 2, 2000 resulted from normal retirements.

### INTEREST EXPENSE, NET:

Interest expense, net of capitalized interest and interest income, decreased by \$0.3 million, or 3.8%, to \$7.6 million for the first quarter ended April 1, 2001 from \$7.9 million for the same quarter in 2000. The decrease is primarily due to a reduction in the average outstanding debt. Total outstanding debt, including capital leases, was reduced from \$305.8 million at April 2, 2000 to \$287.6 million at April 1, 2001.

### BENEFIT FROM INCOME TAXES:

The benefit from income taxes was \$2.4 million, or 43%, and \$17.1 million, or 48.0%, for the first quarters ended April 1, 2001 and April 2, 2000, respectively. The Company records income taxes based on the effective rate expected for the year with any changes in valuation allowance reflected in the period of change. The sale of the land and buildings to franchisees during the first quarter ended April 2, 2000 favorably impacted the provision for income taxes as it triggered built-in gains, which allowed for a reduction in the valuation allowance on certain net operating loss carryforwards.

### NET LOSS:

Net loss was \$3.2 million and \$18.5 million for the first quarters ended April 1, 2001 and April 2, 2000, respectively.

### LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of liquidity and capital resources are cash generated from operations and borrowings under its revolving credit facility. Net cash provided by operating activities was \$2.2 million for the three months ended April 1, 2001. Net cash used in operating activities was \$5.4 million for the three months ended April 2, 2000. Inventories increased \$2.5 million primarily as a result of anticipated increased retail sales. Accrued expenses and other long-term liabilities increased \$4.4 million from December 31, 2000 to April 1, 2001 primarily due to a \$5.2 million increase in accrued interest on the Senior Notes due to four months accrued at April 1, 2001 compared to one month accrued at December 31, 2000. This increase was offset by \$1.0 million of payments made against the captive insurance company's reserves for workers compensation claims. Available borrowings under the revolving credit facility were \$8.0 million as of April 1, 2001.

Additional sources of liquidity consist of capital and operating leases for financing leased restaurant locations (in malls and shopping centers and land or building leases), restaurant equipment, manufacturing equipment, distribution vehicles and computer equipment. Additionally, sales of under-performing existing restaurant properties and other assets (to the extent the Company's debt instruments, if any, permit) are sources of cash. The amounts of debt financing that the Company will be able to incur under capital leases and for property and casualty insurance financing and the amount of asset sales

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by the Company are limited by the terms of its credit facility and Senior Notes.

Net cash provided by investing activities was \$3.2 million in the three months ended April 1, 2001 compared to \$14.5 million in the three months ended April 2, 2000. Capital expenditures were approximately \$2.0 million and \$2.2 million for the three months ended April 1, 2001 and April 2, 2000, respectively. Proceeds from the sales of property and equipment were \$5.2 million and \$16.7 million in the three months ended April 1, 2001 and April 2, 2000, respectively. The decrease in proceeds was due to the receipt of \$16.6 million in 2000 related to sales of restaurants to franchisees. There were no such sales in 2001.

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Net cash used in financing activities was \$11.2 million and \$9.3 million in the three months ended April 1, 2001 and April 2, 2000, respectively.

The Company had a working capital deficit of \$41.6 million as of April 1, 2001. The Company is able to operate with a substantial working capital deficit because: (i) restaurant operations are conducted primarily on a cash (and cash equivalent) basis with a low level of accounts receivable; (ii) rapid turnover allows a limited investment in inventories and (iii) cash from sales is usually received before related expenses for food, supplies and payroll are paid.

The Company's credit facility imposes significant operating and financial restrictions on the Company's ability to, among other things, incur indebtedness, create liens, sell assets, engage in mergers or consolidations, pay dividends and engage in certain transactions with affiliates. The credit facility limits the amount which the Company may spend on capital expenditures and requires the Company to comply with certain financial covenants. The Company's credit facility also restricts the use of proceeds from asset sales. Proceeds, as defined in the credit agreement and subject to certain exceptions, in excess of stated maximum allowable amounts must be used to permanently reduce outstanding obligations under the credit facility. During the three months ended April 1, 2001, the Company received \$4.9 million of asset sale proceeds which were used to reduce the amount outstanding on the term loans.

The Company entered into its existing credit facility in November 1997. Since 1997, the Company has executed several amendments to the credit facility. The most recent amendment occurred on March 19, 2001. All of the existing financial covenants were amended and a new financial covenant was added requiring minimum cumulative Consolidated EBITDA, as defined, on a monthly basis. Interest rates on term loans, borrowings under the revolving credit facility and issued letters of credit increased 0.25%. In addition, automatic increases in the interest rates will occur on August 2, 2001, January 2, 2002, April 1, 2002, July 1, 2002 and October 1, 2002 of 0.25%, 0.50%, 0.25%, 0.25% and 0.25%, respectively. Interest payments on all ABR loans, Eurodollar loans and issued letters of credit are required on a monthly basis rather than quarterly.

Also due to the March 19, 2001 amendment, the maturity dates of Tranche B and Tranche C of the term loans were changed to November 15, 2002 from their original maturity dates of November 15, 2004 and November 15, 2005, respectively. Annual scheduled principal payments due through October 15, 2002 did not change. However, the amendment requires additional minimum cumulative prepayments on the term loans by the dates specified below as follows:

October 15, 2001	\$6,000,000
January 15, 2002	7,500,000



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April 15, 2002	8,500,000
July 15, 2002	10,000,000

Any remaining unpaid balances due on Tranches B and C of the term loans will be paid on November 15, 2002.

FICC paid a fee of approximately \$256,000 to the lenders in connection with this amendment. Also, unless all obligations under the credit facility are satisfied prior to September 30, 2001, FICC will pay an additional fee of approximately \$512,000 on that date. If all obligations under the credit facility are satisfied prior to September 30, 2001, the additional fee will be payable at that time and will be reduced to approximately \$128,000.

The Company anticipates requiring capital in the future principally to maintain existing restaurant and plant facilities and to continue to renovate and re-image existing restaurants. Capital expenditures for 2001 are anticipated to be \$15.0 million in the aggregate, of which \$8.5 million is expected to be spent on restaurant operations. The Company's actual 2001 capital expenditures may vary from these estimated amounts. The Company believes that the combination of the funds anticipated to be generated from operating activities and borrowing availability under the credit facility will be sufficient to meet the Company's anticipated operating requirements, capital requirements and obligations associated with the restructuring.

On April 13, 2001, the Company executed an agreement granting J&B Restaurants Partners of Long Island Holding Co., LLC ("J&B") certain limited exclusive rights to operate and develop Friendly's full-service restaurants in the franchising regions of Nassau and Suffolk Counties in Long Island, New York (the "J&B Agreement"). Pursuant to the J&B Agreement, J&B purchased certain assets and rights in 31 existing Friendly's restaurants and committed to open an additional 29 restaurants over the next 12 years. The transaction price was approximately \$19,950,000, of which approximately \$4,250,000 was received in a note. The cash proceeds were used to prepay approximately \$4.7 million on the term loans with the remaining balance being applied to the revolving credit facility. The 5-year note bears interest at an annual rate of 11% using a 20-year amortization schedule. Payments are due monthly through the five years with a balloon payment due at the end of five years.

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### SEASONALITY

Due to the seasonality of frozen dessert consumption, and the effect from time to time of weather on patronage in its restaurants, the Company's revenues and EBITDA are typically higher in its second and third quarters.

### GEOGRAPHIC CONCENTRATION

Approximately 89% of the Company-owned restaurants are located, and substantially all of its retail sales are generated, in the Northeast. As a result, a severe or prolonged economic recession or changes in demographic mix, employment levels, population density, weather, real estate market conditions or other factors specific to this geographic region may adversely affect the Company more than certain of its competitors which are more geographically diverse.

### RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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In April 2001, the Financial Accounting Standards Board reached consensus on Emerging Issues Task Force ("EITF") Issue No. 00-25, "Accounting for Consideration from a Vendor to a Retailer in Connection with the Purchase or Promotion of the Vendor's Products," which is effective for quarters beginning after December 15, 2001, with prior financial statements restated if practicable. This Issue addresses whether consideration from a vendor to a retailer is (a) an adjustment of the selling prices of the vendor's products to the retailer and, therefore, should be deducted from revenue when recognized in the vendor's income statement or (b) a cost incurred by the vendor for assets or services provided by the retailer to the vendor and, therefore, should be included as a cost or an expense when recognized in the vendor's income statement. Arrangements within the scope of this Issue include slotting fees, cooperative advertising arrangements, and buy-downs. Management has not yet quantified the impact of implementing Issue No. 00-25 on the Company's financial statements.

In May 2000, the Emerging Issues Task Force issued EITF No. 00-14, "Accounting for Certain Sales Incentives," which provides guidance on the recognition, measurement, and income statement classification for sales incentives offered voluntarily by a vendor without charge to customers that can be used in, or that are exercisable by a customer as a result of, a single exchange transaction. The Company adopted EITF No. 00-14 on July 3, 2000. As a result, the Company has reclassified certain retail selling expenses against retail revenue for the three months ended April 2, 2000 to conform with the current period presentation.

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards requiring that each derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the statement of operations, and requires that a Company formally document, designate and assess the effectiveness of transactions that receive hedge accounting. Since the Company's commodity option contracts do not meet the criteria for hedge accounting, changes in the value of the commodity option contracts are recognized monthly in earnings. The cumulative effect upon adoption of approximately \$77,000 has been recorded as income in the accompanying condensed Consolidated Statement of Operations. It is not separately reported as a cumulative effect since the effect is not significant. Additional income of approximately \$129,000 was recorded during the first quarter of 2001. The unrealized gain on derivatives at April 1, 2001 was approximately \$206,000.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no material change in the Company's market risk exposure since the filing of the Annual Report on Form 10-K.

## PART II - OTHER INFORMATION

### ITEM 6. EXHIBIT AND REPORTS ON FORM 8-K

(a) Exhibits:

Seventh Amendment to Credit Agreement.

(b) No report on Form 8-K was filed during the three months ended April 1, 2001.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FRIENDLY ICE CREAM CORPORATION

By: By: /s/

-----  
Name: Paul J. McDonald  
Title: Executive Vice President,  
Chief Financial Officer