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FRIENDLY ICE CREAM CORP  
Form 8-K  
March 04, 2005

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 8-K

Current Report Pursuant  
to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) February 28, 2005  
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FRIENDLY ICE CREAM CORPORATION  
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(Exact Name Of Registrant As Specified In Its Charter)

MASSACHUSETTS  
-----

(State or Other Jurisdiction of Incorporation)

001-13579  
-----

(Commission File Number)

04-2053130  
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(I.R.S. Employer Identification No.)

1855 Boston Road, Wilbraham, MA  
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(Address of Principal Executive Offices)

01095  
-----

(Zip Code)

(413) 543-2400  
-----

(Registrant's Telephone Number, Including Area Code)

Not Applicable  
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(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition

On March 3, 2005, Friendly Ice Cream Corporation (the "Company") issued a press release announcing selected financial results of the Company for the fourth quarter and year ended January 2, 2005, included herewith as Exhibit 99.1.

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Item 4.02 Non-Reliance on Previously Issued Financial Statements or a Related Audit Report or Completed Interim Review

(a) This filing describes certain adjustments which the Company has determined to make in the course of restating certain of its prior period financial statements to correct certain errors in the application of existing generally accepted accounting principles applicable to leases and leasehold depreciation. The Company is unaware of any evidence that the restatement is due to any material noncompliance by the Company, as a result of misconduct, with any financial reporting requirements under the securities laws. The restatement has no impact on the Company's previously reported cash flows, revenue or same-store sales, or on the Company's compliance with covenants under its current credit facilities or other debt instruments.

Historically, when accounting for lease renewal options, the Company recorded rent expense on a straight-line basis over the non-cancelable lease term. The depreciable lives of certain leasehold improvements and other long-lived assets on those properties were not aligned with the non-cancelable lease term.

The Company believed that its accounting treatment was permitted under generally accepted accounting principles ("GAAP") and that such treatment was consistent with the practices of other public companies. Following a review of its lease accounting treatment and relevant accounting literature in consultation with Ernst & Young LLP ("E&Y"), its current independent registered public accounting firm, the Company determined that it should: i) conform the depreciable lives for buildings on leased land and other leasehold improvements to the shorter of the economic life of the asset or the lease term used for determining the capital versus operating lease classification and calculating straight-line rent and ii) include option periods in the depreciable lives assigned to leased buildings and leasehold improvements and in the calculation of straight-line rent expense only in instances in the which the exercise of the option period can be reasonably assured and failure to exercise such options would result in an economic penalty (the "Accounting Treatment").

On February 28, 2005, the Audit Committee of the Company's Board of Directors (the "Committee"), its senior management and E&Y met to discuss the results of the Company's review of its accounting practices, the analysis of its records and the authoritative accounting literature with respect to the treatment of lease accounting and leasehold depreciation and the other matters discussed in this Current Report on Form 8-K. At that meeting, it was determined that the Company's accounting practices for leases and leasehold improvements should be corrected in accordance with the Accounting Treatment. The Committee determined that the correction relating to fiscal years 1988 through 2003 should be presented through the restatement of previously issued financial statements for the Company's 2003 and 2002 fiscal years. As a result, the Committee concluded at that time that the previously issued financial statements covering these periods should no longer be relied upon.

The application of the Accounting Treatment resulted in the acceleration of depreciation for certain leasehold improvements and additional rent expense. The cumulative balance sheet effect of the restatement related to the Accounting

2

Treatment was an increase in accumulated depreciation of \$7,438,000 and an increase in the deferred rent liability of \$1,251,000 as of December 28, 2003 relating to fiscal years 1988 through 2003. Of these amounts, \$848,000 and \$627,000 (\$500,000 and \$370,000 net of taxes) was recorded as additional depreciation and amortization expense and \$310,000 and \$266,000 (\$183,000 and \$157,000 net of taxes) was recorded as additional rent expense for the years ended December 28, 2003 and December 29, 2002, respectively.

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The impact of the restatement to previously reported interim periods of 2004 and 2003 was not material.

The following schedules reflect the adjustments described above:

3

### FRIENDLY ICE CREAM CORPORATION AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS AS RESTATED December 28, 2003

(In thousands, except share and per share data)

	As Reported	Adjustments
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 25,631	\$ -
Restricted cash	1,671	-
Accounts receivable, net	10,384	-
Inventories	15,669	-
Deferred income taxes	6,647	513
Prepaid expenses and other current assets	1,539	-
	-----	-----
TOTAL CURRENT ASSETS	61,541	513
DEFERRED INCOME TAXES	-	1,761
PROPERTY AND EQUIPMENT, net of accumulated depreciation and amortization	167,109	(7,438)
INTANGIBLE ASSETS AND DEFERRED COSTS, net of accumulated amortization of \$12,122	17,890	-
OTHER ASSETS	5,912	-
	-----	-----
TOTAL ASSETS	\$ 252,452	\$ (5,164)
	=====	=====

### LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES:

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Current maturities of long-term debt	\$	1,127	\$	-
Current maturities of capital lease and finance obligations		911		-
Accounts payable		22,475		-
Accrued salaries and benefits		9,635		-
Accrued interest payable		2,033		-
Insurance reserves		10,041		-
Restructuring reserves		441		-
Other accrued expenses		19,055		1,251
TOTAL CURRENT LIABILITIES		65,718		1,251
DEFERRED INCOME TAXES		1,289		(1,289)
CAPITAL LEASE AND FINANCE OBLIGATIONS, less current maturities		5,773		-
LONG-TERM DEBT, less current maturities		227,937		-
ACCRUED PENSION COST		16,127		-
OTHER LONG-TERM LIABILITIES		33,634		-
COMMITMENTS AND CONTINGENCIES				
STOCKHOLDERS' DEFICIT:				
Common stock, par value \$.01 per share; authorized 50,000,000 shares 7,489,478 shares issued and outstanding		75		-
Preferred stock, par value \$.01 per share; authorized 1,000,000 shares; no shares issued and outstanding		-		-
Additional paid-in capital		140,826		-
Accumulated other comprehensive loss		(19,922)		-
Accumulated deficit		(219,005)		(5,126)
TOTAL STOCKHOLDERS' DEFICIT		(98,026)		(5,126)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$	252,452	\$	(5,164)

4

FRIENDLY ICE CREAM CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS AS RESTATED  
FOR THE YEAR ENDED DECEMBER 28, 2003

(In thousands, except per share data)

	As Reported	Adjustments	Res
REVENUES:			
Restaurant	\$ 459,758	\$ -	\$ -
Foodservice	110,190	-	-
Franchise	9,822	-	-
TOTAL REVENUES	579,770	-	-
COSTS AND EXPENSES:			
Cost of sales	207,071	-	-
Labor and benefits	166,982	-	-

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Operating expenses	108,322		310
General and administrative expenses	41,657		-
Pension curtailment gain	(8,113)		-
Write-downs of property and equipment	26		-
Depreciation and amortization	22,539		848
Loss on disposals of other property and equipment, net	2,044		-
	-----	-----	-----
OPERATING INCOME	39,242		(1,158)
Interest expense, net of capitalized interest of \$144 and interest income of \$838	24,157		-
INCOME BEFORE PROVISION FOR INCOME TAXES	15,085		(1,158)
Provision for income taxes	(4,899)		475
	-----	-----	-----
NET INCOME	\$ 10,186	\$ (683)	\$
	=====	=====	=====
BASIC NET INCOME PER SHARE	\$ 1.37	\$ (0.09)	\$
	=====	=====	=====
DILUTED NET INCOME PER SHARE	\$ 1.34	\$ (0.09)	\$
	=====	=====	=====
WEIGHTED AVERAGE SHARES:			
Basic	7,447		-
	=====	=====	=====
Diluted	7,609		-
	=====	=====	=====

5

FRIENDLY ICE CREAM CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS AS RESTATED  
FOR THE YEAR ENDED DECEMBER 29, 2002

(In thousands, except per share data)

	As Reported	Adjustments	Res
	-----	-----	-----
REVENUES:			
Restaurant	\$ 454,569	\$ -	\$
Foodservice	106,331	-	
Franchise	9,472	-	
	-----	-----	-----
TOTAL REVENUES	570,372	-	
	-----	-----	-----
COSTS AND EXPENSES:			
Cost of sales	202,418	-	
Labor and benefits	161,647	-	
Operating expenses	108,829	266	

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General and administrative expenses	39,462	-	
Reversal of restructuring expenses, net	(400)	-	
Write-downs of property and equipment	976	-	
Depreciation and amortization	24,521	627	
Gain on franchise sales of restaurant operations and properties	(675)	-	
Loss on disposals of other property and equipment, net	578	-	
	-----	-----	-----
OPERATING INCOME	33,016	(893)	
Interest expense net of interest income of \$808	24,870	-	
INCOME BEFORE PROVISION FOR INCOME TAXES	8,146	(893)	
Provision for income taxes	(1,959)	366	
	-----	-----	-----
NET INCOME	\$ 6,187	\$ (527)	\$
	=====	=====	=====
BASIC NET INCOME PER SHARE	\$ 0.84	\$ (0.07)	\$
	=====	=====	=====
DILUTED NET INCOME PER SHARE	\$ 0.82	\$ (0.07)	\$
	=====	=====	=====
WEIGHTED AVERAGE SHARES:			
Basic	7,372	-	
	=====	=====	=====
Diluted	7,551	-	
	=====	=====	=====

6

Item 9.01 Financial Statements and Exhibits

(c) Exhibits

Exhibit Number	Exhibit Description
99.1	Friendly Ice Cream Corporation Press Release dated March 3, 2005 announcing its financial results for the fourth quarter and year ended January 2, 2005. (This press release is attached hereto as Exhibit 99.1 and is being furnished, not filed, pursuant to Item 2.02, Results of Operations and Financial Condition, to this Report on Form 8-K).

7

SIGNATURE

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

Dated: March 3, 2005

FRIENDLY ICE CREAM CORPORATION

By: /s/ PAUL V. HOAGLAND

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Name: Paul V. Hoagland  
Title: Executive Vice President of  
Administration and Chief  
Financial Officer

EXHIBIT INDEX

Exhibit      Exhibit Description  
Number

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announcing its financial results for the fourth quarter and year ended  
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