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ELMERS RESTAURANTS INC

Form 10-Q

February 21, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JANUARY 7, 2002 OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 0-14837

ELMER'S RESTAURANTS, INC.

(Exact name of registrant as specified in its charter)

OREGON

93-0836824

(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

(I.R.S. EMPLOYER
IDENTIFICATION NO.)

11802 S.E. Stark St.
Portland, Oregon

97216

(503) 252-1485

(ADDRESS OF PRINCIPAL EXECUTIVE
OFFICES)

(ZIP CODE)

(REGISTRANT'S TELEPHONE
NUMBER, INCLUDING AREA CODE)

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, no par value

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 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 No

Number of shares of Common Stock outstanding at February 19, 2002: 1,960,032

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ELMER'S RESTAURANTS, INC.

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ELMER'S RESTAURANTS, INC., AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS

| | January 7, 2002 | April 2, 2001 |
|--|----------------------|------------------|
| | ----- (Unaudited) | ----- |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 740,964 | \$ 1,141,016 |
| Marketable securities | 1,175,064 | -- |
| Accounts receivable | 257,078 | 337,266 |
| Notes receivable - related parties, current portion | 247,729 | 180,213 |
| Inventories | 397,071 | 368,059 |
| Prepaid expenses and other | 245,718 | 237,681 |
| Income taxes receivable | 111,350 | 61,625 |
| | ----- | ----- |
| Total current assets | 3,174,974 | 2,325,860 |
| Notes receivable - related parties, net of current portion | 122,745 | 203,045 |
| Property, buildings and equipment, net | 7,712,113 | 8,441,867 |
| Intangible assets, net of accumulated amortization of \$362,244 and \$241,925 | 5,424,283 | 5,280,714 |
| Other assets | 151,736 | 122,661 |
| | ----- | ----- |
| Total assets | \$ 16,585,851 | \$ 16,374,147 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Notes payable, current portion | \$ 259,485 | \$ 569,327 |
| Accounts payable | 1,461,678 | 1,389,195 |
| Accrued expenses | 156,994 | 209,821 |
| Accrued payroll and related taxes | 440,830 | 390,825 |
| | ----- | ----- |
| Total current liabilities | 2,318,987 | 2,559,168 |
| Notes payable, net of current portion | 5,446,020 | 5,798,769 |
| Deferred income taxes | 772,000 | 772,000 |
| | ----- | ----- |
| Total liabilities | 8,537,007 | 9,129,937 |
| | ----- | ----- |
| Commitments and contingencies | | |
| Shareholders' equity | | |
| Issuance of 10% convertible notes | 6,861,790 | 6,871,190 |
| Retained earnings | 1,187,054 | 373,020 |
| | ----- | ----- |
| Total shareholders' equity | 8,048,844 | 7,244,210 |
| | ----- | ----- |
| Total liabilities and shareholders' equity | \$ 16,585,851 | \$ 16,374,147 |
| | ===== | ===== |

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

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ELMER'S RESTAURANTS, INC., AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

| | For the forty weeks ended | | For the twelve weeks ended | |
|--|---------------------------|--------------------|----------------------------|--------------------|
| | January 7, 2002 | January 8, 2001 | January 7, 2002 | January 7, 2001 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| REVENUES | \$ 26,366,999 | \$ 18,499,018 | \$ 7,905,618 | \$ 18,499,018 |
| COSTS AND EXPENSES: | | | | |
| Cost of restaurant sales: | | | | |
| Food and beverage | 7,489,687 | 5,152,012 | 2,239,124 | 5,152,012 |
| Labor and related costs | 8,240,943 | 5,767,459 | 2,311,340 | 5,767,459 |
| Occupancy costs | 1,643,527 | 1,112,978 | 508,807 | 1,112,978 |
| Depreciation and amortization | 592,099 | 529,609 | 200,211 | 529,609 |
| Restaurant opening and closing expenses | 68,338 | 131,746 | - | 131,746 |
| General and administrative expenses | 6,720,215 | 4,322,222 | 2,166,376 | 4,322,222 |
| | 24,754,809 | 17,016,026 | 7,425,858 | 17,016,026 |
| INCOME FROM OPERATIONS | 1,612,190 | 1,482,992 | 479,760 | 1,482,992 |
| OTHER INCOME (EXPENSE): | | | | |
| Interest income | 78,995 | 103,446 | 21,163 | 103,446 |
| Interest expense | (442,621) | (434,162) | (128,302) | (434,162) |
| Loss on disposition of assets | (5,764) | 22,936 | (1,717) | 22,936 |
| Income before provision for income taxes | 1,242,800 | 1,175,212 | 370,904 | 1,175,212 |
| Income tax provision | (428,766) | (405,448) | (127,962) | (405,448) |
| Net Income | \$ 814,034 | \$ 769,764 | \$ 242,942 | \$ 769,764 |
| PER SHARE DATA: | | | | |
| Net income per share - Basic | \$ 0.42 | \$ 0.42 | \$ 0.12 | \$ 0.42 |
| Weighted average number of common shares outstanding - Basic | 1,961,153 | 1,844,074 | 1,960,003 | 1,844,074 |
| Issuance of 10% convertible notes | | | | |
| Net income per share - Diluted | \$ 0.41 | \$ 0.41 | \$ 0.12 | \$ 0.41 |
| Weighted average number of common shares outstanding - Diluted | 1,984,203 | 1,881,914 | 1,983,686 | 1,881,914 |

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

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ELMER'S RESTAURANTS, INC., AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | For the forty weeks ended | |
|---|---------------------------|----------------------|
| | January 7, 2002 | January 8, 2001 |
| | ----- (Unaudited) | ----- (Unaudited) |
| Cash flows from operating activities: | | |
| Net income | \$ 814,034 | \$ 769,764 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 592,099 | 529,609 |
| (Gain) loss on disposition of assets | 5,764 | (22,936) |
| Changes in assets and liabilities: | | |
| Current assets | 43,139 | -- |
| Other assets | (29,075) | (333,163) |
| Accounts payable and accrued expenses | 69,661 | 669,625 |
| Income taxes | (49,725) | (311,128) |
| | ----- | ----- |
| Net cash provided by operating activities | 1,445,897 | 1,301,771 |
| | ----- | ----- |
| Cash flows from investing activities: | | |
| Net investment in marketable securities | (1,175,064) | |
| Additions to property, buildings and equipment | (774,624) | (1,006,864) |
| Business acquisition, net of cash acquired | -- | (1,379,683) |
| Proceeds from sale of assets | 906,515 | -- |
| Additions to intangible assets | (143,569) | -- |
| Issuance of note receivable | (110,535) | (200,000) |
| Principal collected on note receivables | 123,319 | 11,193 |
| | ----- | ----- |
| Net cash used in investing activities | (1,173,958) | (2,575,354) |
| | ----- | ----- |
| Cash flows from financing activities: | | |
| Repurchase of common stock | (9,400) | -- |
| Issuance of ten year term notes | 2,806,944 | -- |
| Issuance of 10% convertible notes | -- | 1,300,000 |
| Retirement of term debt | (3,224,865) | -- |
| Payments on notes payable | (244,670) | (488,672) |
| | ----- | ----- |
| Net cash used in financing activities | (671,991) | 811,328 |
| | ----- | ----- |
| Net decrease in cash and cash equivalents | (400,052) | (462,255) |
| Cash and cash equivalents, beginning of period | 1,141,016 | 1,640,210 |
| | ----- | ----- |
| Cash and cash equivalents, end of period | \$ 740,964 | \$ 1,177,955 |
| | ===== | ===== |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | \$ 442,621 | \$ 434,162 |
| | ===== | ===== |
| Income taxes | \$ 478,491 | \$ 716,576 |

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

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ELMER'S RESTAURANTS, INC. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements have been prepared in accordance with the instructions to form 10-Q and Rule 10-01 of Regulation S-X. These interim financial statements do not include all the information and footnotes necessary for a fair presentation of financial position and results of operations and cash flows in conformity with generally accepted accounting principles in the United States of America. These condensed financial statements should be read in conjunction with the financial statements and related notes contained in the Company's Annual Report on Form 10-K for the year ended April 2, 2001. Operating results reflected in the interim consolidated financial statements are not necessarily indicative of the results that may be expected for the year ended April 1, 2002.

In the opinion of management, the accompanying unaudited financial statements contain all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly the financial position of the Company and its subsidiaries, and their results of operations and cash flows.

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires business combinations initiated after June 30, 2001, to be accounted for using the purchase method of accounting, and broadens the criteria for recording intangible assets separate from goodwill. Recorded goodwill and intangibles will be evaluated against this new criteria and may result in certain intangibles being subsumed into goodwill, or alternatively, amounts initially recorded as goodwill may be separately identified and recognized apart from goodwill. Management does not believe that adoption of SFAS No. 141 will have a material effect on the condensed consolidated financial statements. SFAS No. 142 requires the use of a nonamortization approach to account for purchased goodwill and certain intangibles. Under a nonamortization approach, goodwill and certain intangibles (those deemed to have indefinite life) will not be amortized into results of operations, but instead will be reviewed for impairment and written down and charged to results of operations only in the periods in which the recorded value of goodwill and certain intangibles are determined to be more than their fair value.

The Company has adopted the provisions of SFAS No. 142 beginning April 3, 2001. These standards only permit prospective application of the new accounting; accordingly adoption of these standards will not affect previously reported financial information. The principal effect of implementing SFAS No. 142 was the cessation of the amortization of goodwill in the current period; however, impairment reviews may result in future write-downs. Any impairment losses for goodwill and certain intangibles that arise from the initial application of the SFAS will be reported as a cumulative effect of a change in accounting principle. The Company has not determined the effect of the initial application at this time. Goodwill amortization in the previous comparable 40 week period amounted to \$119,000 or \$.06 per diluted share.

All net income per share amounts and weighted average number of common shares outstanding have been retroactively adjusted to reflect a 10% stock dividend,

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which had a record date in August 2000.

PART I - FINANCIAL INFORMATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Elmer's Restaurants, Inc. (the "Company" or "Elmer's") (NASDAQ Small Cap Market symbol: ELMS), located in Portland, Oregon, is a franchisor and operator of full-service, family oriented restaurants under the names "Elmer's Breakfast. Lunch. Dinner." and "Mitzel's American Kitchen" and an operator of delicatessen restaurants under the names "Ashley's" and "Richard's Deli and Pub." The Company is an Oregon corporation

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and was incorporated in 1983. Walter Elmer opened the first Elmer's restaurant in Portland, Oregon in 1960, and the first franchised restaurant opened in 1966. The Company acquired the Elmer's franchising operation in January 1984 from the Elmer family.

The Company reached a termination agreement with a Montana franchisee in October 2001. The Company has signed a franchise agreement for a new location in Nampa, Idaho. This location is expected to open in April 2002.

The Company franchises or operates a total of 36 full-service, family-oriented restaurants, with a warm, friendly atmosphere and comfortable furnishings. Most of the restaurants are decorated in a home style, with fireplaces in the dining rooms. The restaurants are primarily freestanding buildings, ranging in size from 4,600 to approximately 9,000 square feet with seating capacities ranging from 120 to 220. A portion of the dining room in most restaurants may also be used for private group meetings by closing it off from the public dining areas.

The menu offers an extensive selection of items for breakfast, lunch and dinner--featuring large portions of high quality, signature "comfort"foods."

HIGHLIGHTS OF HISTORICAL RESULTS. The Company reported net income of \$242,942 and \$814,034 or \$.12 and \$.42 in basic earnings per share for the 12 and 40 week period ended January 7, 2002. These results are compared to reported net income of \$182,058 and \$769,764, or \$.10 and \$.42 per share for the 12 and 40 week period ended January 8, 2001. The approximately \$61,000 and \$44,000 increases in net income for the 12 and 40 weeks ended January 7, 2002 are largely attributable to lower restaurant opening and closing expenses. The Company's total assets as of January 7, 2002 were \$16.6 million, which is a increase of approximately \$211,000 over total assets as of April 2, 2001. In the 40 weeks ended January 7, 2002, working capital increased approximately \$1.1 million while notes payable (net of current portion) decreased \$353,000. Cash provided by operating activities totaled \$1,445,897 for the 40 weeks ended January 7, 2002 compared to \$1,301,771 for the 40 weeks ended January 8, 2001.

COMPARISON OF RESULTS OF OPERATIONS. The following discussion and analysis presents the Company's results of operations for the 12 and 40 weeks ended January 7, 2002 and the 12 and 40 weeks ending January 8, 2001 respectively.

For the 12 and 40 week periods ended January 7, 2002, the Company's net income increased 33% and 6% from the comparable periods in 2001. Net income as a percentage of total revenue decreased from 4.2% for the 40 week period ended January 8, 2001, to 3.1% for the 40 weeks ended January 7, 2002. For both the twelve week periods ended January 7, 2002 and January 8, 2001 net income as a percentage of revenues was 3.1%.

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| Dollar amounts in thousands except per share data | RESULTS OF OPERATIONS FOR THE 40 WEEKS ENDED JANUARY 7, 2002 | | RESULTS OF OPERATIONS FOR THE 40 WEEKS ENDED JANUARY 8, 2001 | |
|--|--|------------------------|--|------------------------|
| | Amount | Percent of Revenues | Amount | Percent of Revenues |
| Revenues | \$26,367 | 100.0% | \$18,499 | 100.0% |
| Restaurant costs and expenses | 18,035 | 68.4 | 12,694 | 68.6 |
| General and administrative expenses | 6,720 | 25.5 | 4,322 | 23.4 |
| Operating income | 1,612 | 6.1 | 1,483 | 8.0 |
| Non operating income (expense) | (369) | (1.4) | (308) | (1.7) |
| Net income | 814 | 3.1 | 770 | 4.2 |
| Basic earnings per share | \$0.42 | | \$0.42 | |

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REVENUES. Revenues for the 12 and 40 weeks ended January 7, 2002 were 36.1% and 42.5% greater, respectively, than the comparable period in 2001, reflecting the additional seven operating restaurants for most of the current year. Revenues from same store restaurant operations showed an increase of 1.7% and a decrease of 0.6% for the 12 and 40 weeks ended January 7, 2002 over the comparable period in 2001.

| Dollar amounts in thousands | REVENUES FOR THE 40 WEEKS ENDED JANUARY 7, 2002 | | REVENUES FOR THE 40 WEEKS ENDED JANUARY 8, 2001 | |
|--------------------------------|--|------------------------|--|------------------------|
| | Amount | Percent of Revenues | Amount | Percent of Revenues |
| Restaurant operations: | | | | |
| Restaurant sales | \$22,785 | 86.4% | \$15,333 | 82.9% |
| Lottery | 2,638 | 10.0 | 2,579 | 13.9 |
| | 25,423 | 96.4 | 17,912 | 96.8 |
| Franchise operations | 944 | 3.6 | 587 | 3.2 |
| Total revenue | \$26,367 | 100.0% | \$18,499 | 100.0% |

RESTAURANT COSTS AND EXPENSES. Restaurant costs and expenses, which consists of five categories including food, beverage and supply costs, labor and labor related costs, occupancy costs, and depreciation and amortization, and restaurant opening and closing expenses decreased to 66.5% and 68.4% of revenue for the 12 and 40 weeks ended January 7, 2002, respectively, compared to 70.2% and 68.6% for the 12 and 40 weeks ended January 8, 2001. Food, beverage and supply costs as a percentage of total revenues were 28.3% and 28.4% for the 12 and 40 weeks ended January 7, 2002 compared to 27.6% and 27.9% for the comparable period in 2001. Labor expenses totaled 29.2% and 31.3% of revenues for the 12 and 40 weeks ended January 7, 2002 compared to 30.9% and 31.2% of revenues for the 12 and 40 weeks ended January 8, 2001. Occupancy costs as a percentage of revenues decreased from 7.0% and 6.0% for the 12 and 40 weeks ended January 8, 2001 to 6.4% and 6.2% for the 12 and 40 weeks ended January 7, 2002. Due to the elimination of amortization expense pursuant to the adoption of SFAS No. 142., depreciation and amortization expense as a percentage of revenues dropped from 2.9% for the 12 and 40 weeks ended January 8, 2001 to 2.5% and 2.2% for both the 12 and 40 weeks ended January 7, 2002

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative ("G&A") expenses were 27.4% and 25.5% of total revenue for the 12 and 40 weeks ended January 7,

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2002 compared to 23.5% and 23.4% of revenues in the comparable period in 2001. G&A expense has increased as a result of implementation costs for a upgraded accounting package and other support costs.

NON-OPERATING EXPENSE. Non-operating expense was 1.4% of total revenues for both the 12 and 40 weeks ended January 7, 2002 compared to 1.5% and 1.7% of total revenues in the comparable period in 2001.

LIQUIDITY AND CAPITAL RESOURCES. As of January 7, 2002, the Company had cash and equivalents of approximately \$741,000 representing a decrease from April 2, 2001 of approximately \$400,000. The decrease resulted from cash used to acquire and remodel the new Roseburg Elmer's, as well as the investment of excess working capital in marketable securities. Cash used by financing activities was approximately \$672,000 including \$435,000 used to retire the mortgage on the Gresham property. Cash used in investing activities was approximately \$1,168,000, principally for investments in marketable securities. Proceeds from the sale of the Gresham property were largely offset by acquisition and remodel of the Roseburg property and notes receivable as well as ordinary capital expenditures.

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The Company repurchased 2000 shares of its common stock during the second quarter. These purchases were made in the NASDAQ market through the Company's broker. The board of directors has authorized the Company to repurchase shares valued, in aggregate, at less than \$300,000. This authorization is ongoing and the Company may from time to time make additional purchases.

The Company's primary liquidity needs arise from debt service on indebtedness, operating lease requirements and the funding of capital expenditures. The Company's primary source of liquidity during the year was the operation of its restaurants, franchise fees earned from its franchisees, cash on hand, and borrowings. As of January 7, 2002, the Company had outstanding indebtedness of \$2.7 million with GE Capital, \$1.6 million in real estate debt with Wells Fargo and \$1.3 million in convertible notes.

The GE Capital loan was originated in June 2001 with proceeds used to retire (without penalty) approximately \$1.55 million in Wells Fargo term debt and \$1.25 million in a term loan facility with Eagles View Management. The GE Capital loan fully amortizes over ten years, \$1.80 million of the loan has a fixed interest rate of 8.95%. Interest is variable at 385 basis points over 30 day commercial paper (currently approximately 5.9%) on the remaining \$1.00 million portion of the note. The variable portion of the note can be fixed (385 basis points above five-year treasuries) without penalty within the first two years. In addition, GE Capital has provided the Company with an option (expiring May 31, 2002) for up to \$1.5 million of additional financing on similar terms for the Company's growth purposes. No amounts had been drawn on the \$1.5 million facility as of January 7, 2002. The loan is collateralized by substantially all of the assets owned by Elmer's Restaurants, Inc. (except for real estate assets).

The remaining Wells Fargo real estate debt has a weighted-average maturity of eight years, bears interest at an average of 8.18%, requires monthly payments of principal and interest, and is collateralized by three real estate properties.

The \$1.3 million of convertible notes have a remaining maturity of approximately six years, bear interest at 10%, requires monthly interest-only payments, straight line principal amortization into a Company-held sinking fund, and are subordinated to the other Company funded debt. The notes include a convertible feature that permits the holder to convert the principal of the note into common stock at any time at \$6.50 per share.

Certain of the Company's debt agreements require compliance with debt covenants.

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The most restrictive covenants require the Company to maintain a maximum ratio of total liabilities, excluding subordinated debt, to tangible net worth plus subordinated debt of 3.25 to 1.0, and a ratio of cash generation (defined as net income before taxes, interest expense, depreciation and amortization) to total interest expense plus the prior period current maturities of long-term debt of at least 2.25 to 1.0. Management believes that the Company is in compliance with such requirements.

Elmer's Restaurants, Inc., like most restaurant businesses, is able to operate with nominal or deficit working capital because sales are for cash and inventory turnover is rapid. Renovation and/or remodeling of existing restaurants is either funded directly from available cash or, in some instances, is financed through outside lenders. Construction or acquisition of new restaurants is generally, although not always, financed by outside lenders.

The Company believes that it will continue to be able to obtain adequate financing on acceptable terms for new restaurant construction and acquisitions and that cash generated from operations will be adequate to meet its financial needs and to pay operating expenses for the foreseeable future, although no assurances can be given.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS:

Certain statements in this Form 10-Q constitute "forward-looking statements" which we believe are reasonable and within the meaning of the Securities Act of 1933, as amended and the Securities Exchange Act of 1934, as amended. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors relating to the Company's business, financial condition, and operations which may cause the actual results, performance, or achievements of Elmer's Restaurants, Inc. (individually and collectively with its subsidiaries, herein the "Company") to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions; the ability to accomplish stated goals and objectives; successful integration of acquisitions; the impact of competitive products and pricing; success of operating initiatives; development and operating costs; advertising and promotional efforts; adverse publicity; acceptance of new product offerings; consumer trial and frequency; availability, locations, and terms of sites for restaurant development; changes in business strategy or development plans; changes in regulations effecting lottery commissions; quality of management; availability, terms and deployment of capital; the results of financing efforts; business abilities and judgment of personnel; availability of qualified personnel; food, labor and employee benefit costs; changes in, or the failure to comply with, government regulations; continued NASDAQ listing; weather conditions; construction and remodeling schedules; and other factors referenced in this Form 10-Q.

The Company invests excess cash beyond its working capital requirements in liquid marketable securities. These securities include corporate and government bond mutual funds focusing on issues with medium and short term maturities. Certain of the Company's outstanding financial instruments are subject to market risks, including interest rate risk. Such financial instruments are not currently subject to foreign currency risk or commodity price risk. The Company's major market risk exposure is potential loss arising from changing interest rates and the impact of such changes on its long-term debt. Of the Company's long-term debt outstanding at January 7, 2002, Principal of \$967,000 was accruing interest at a variable rate of 3.85% over 30 day Commercial Paper. A rise in prevailing interest rates could have adverse effects on the Company's financial condition and results of operations. The fair value of financial

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instruments approximated the book value at January 7, 2002.

PART II - OTHER INFORMATION

ITEM 5. OTHER INFORMATION

In accordance with amendments adopted on May 21, 1998 to Rule 14a-4 under the Securities and Exchange Act of 1934, if notice of a shareholder proposal to be raised at the annual meeting of shareholders is received at the principal executive offices of the Company after May 15, 2002 (45 days prior to the month and date in 2001 corresponding to the date on which the Company mailed its proxy materials for the 2001 annual meeting), proxy voting on that proposal when and if raised at the 2002 annual meeting will be subject to the discretionary voting authority of the designated proxy holders. Any shareholder proposal to be considered for inclusion in proxy materials for the Company's 2002 annual meeting must be received at the principal executive office of the Company no later than May 15, 2002.

August 9, 2000 the board of directors approved a 10% stock dividend payable to shareholders of record as of August 18, 2000. The board directed that the dividend be paid on September 15, 2000 and that no consideration for fractional shares be issued or paid.

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ITEM 6. EXHIBITS AND REPORTS OF FORM 8-K

a) Exhibits:

Exhibits required to be attached by Item 601 of Regulation S-K are listed in the Index to Exhibits of this Form 10-Q, and are incorporated herein by this reference.

b) Reports on Form 8-K:
None.

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, Elmer's Restaurants, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Elmer's Restaurants, Inc.

By: /s/ WILLIAM W. SERVICE

William W. Service
Chief Executive Officer

Dated: February 19, 2002

EXHIBIT INDEX

| Exhibit No. ----- | Description ----- | Sequential Page No. ----- |
|-------------------------|---|---------------------------------|
| 3 (i) | * Restated Articles of Incorporation of the Company (Incorporated herein by reference from Exhibit No. 3.1 to the Company's Annual Report on Form 10-K for the year ended March 31, 1988.) | |
| 3 (ii) | * By-Laws of the Company, as amended. (Incorporated herein by reference from Exhibit 3.2 of the Company's Annual Report on Form 10-K for the year ended March 31, 1990.) | |

