

TOTAL ENTERTAINMENT RESTAURANT CORP  
Form 10-K  
March 25, 2002

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

-----  
FORM 10-K

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the fiscal year ended DECEMBER 25, 2001  
-----

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 000-22753

TOTAL ENTERTAINMENT RESTAURANT CORP.  
(Exact name of Registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of incorporation or organization)

52-2016614  
(I.R.S. employer identification number)

9300 E. CENTRAL, SUITE 100  
WICHITA, KS 67206  
(Address of principal executive offices) (Zip code)

(316) 634-0505  
(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, \$.01 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 X No  
--- ---

Indicate by check mark if disclosure of delinquent filers pursuant to Item

# Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes X No

--- ---

As of March 13, 2002, the aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant was \$44,505,098. Solely for the purposes of this calculation, shares held by directors and officers of the Registrant have been excluded. Such exclusion should not be deemed a determination or an admission by the Registrant that such individuals are in fact, affiliates of the Registrant.

As of March 13, 2002, there were 8,665,611 shares outstanding of the Registrant's Common Stock.

## DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III will be incorporated by reference to certain portions of a definitive proxy statement which is expected to be filed by the Registrant within 120 days after the close of its fiscal year.

## TABLE OF CONTENTS

-----

### ITEM

-----

#### PART I

1. Business .....
2. Properties .....
3. Legal Proceedings .....
4. Submission of Matters to a Vote of Security Holders .....

#### PART II

5. Market for the Registrant's Common Equity and Related Stockholder Matters .....
6. Selected Financial Data .....
7. Management's Discussion and Analysis of Financial Condition and Results of Operations .....
- 7A. Quantitative and Qualitative Disclosures About Market Risk .....
8. Financial Statements and Supplementary Data .....
9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure .....

#### PART III

10. Directors and Executive Officers of the Registrant .....
11. Executive Compensation .....
12. Security Ownership of Certain Beneficial Owners and Management .....
13. Certain Relationships and Related Transactions .....

#### PART IV

# Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

|     |  |
|-----|--|
| 14. | Exhibits, Financial Statement Schedules, and Reports on Form 8-K ..... |
|     | Signatures .....   |

-2-

## PART I

### ITEM 1. BUSINESS

-----

#### GENERAL

Total Entertainment Restaurant Corp., a Delaware corporation ("the Company"), owns and operates 47 entertainment restaurant locations which utilize the Fox and Hound English Pub & Grille and Fox and Hound Smokehouse & Tavern ("Fox and Hound"), Bailey's Sports Grille, Bailey's Pub & Grille and Bailey's Smokehouse & Tavern ("Bailey's") tradenames. The Company's entertainment concepts combine a comfortable and inviting social gathering place, full menu and full service bar, state-of-the-art audio and video systems for sports entertainment, traditional games of skill such as pocket billiards and a late-night dining and entertainment alternative all in a single location. The Company's entertainment restaurant concepts appeal to a broad range of guests who can participate in one or more aspects of the Company's total entertainment restaurant experience. Both the Fox and Hound and Bailey's locations encompass the Company's multi-dimensional concept and serve both larger urban and smaller regional markets. The Company operates in one business segment.

The first Bailey's unit was opened in Charlotte, North Carolina in 1989 and the first Fox and Hound unit was opened in Arlington, Texas in 1994. As of March 13, 2002, the Company owns and operates 32 Fox and Hound units and 15 Bailey's units in Alabama, Arizona, Arkansas, Colorado, Georgia, Illinois, Indiana, Kansas, Louisiana, Michigan, Missouri, Nebraska, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee and Texas.

#### SECTION 351 EXCHANGE

The Company was organized on February 7, 1997 for the purpose of developing entertainment restaurant locations. On February 20, 1997, the Company effected an exchange (the "Exchange") of property under Section 351 of the Internal Revenue Code of 1986, as amended (the "Code"), with the stockholders of four corporations (the "Subsidiary Corporations") and certain limited partners of four Texas limited partnerships (the "Subsidiary Limited Partnerships"). Pursuant to the Exchange, the Company became the owner of the eight then-existing Bailey's locations and the three then-existing Fox and Hound locations. The Company issued 8,000,000 shares of its common stock, \$0.01 par value (the "Common Stock"), in exchange for all the outstanding stock of the Subsidiary Corporations and the outstanding limited partnership interests of the Subsidiary Limited Partnerships not owned by the Subsidiary Corporations. The Subsidiary Corporations and Subsidiary Limited Partnerships thereby became wholly-owned subsidiaries of the Company.

#### CONCEPT

The Company's entertainment restaurant concept differentiates itself by offering all of the following features in a single location:

- o SOCIAL GATHERING PLACE. The Company's concepts provide a contemporary social gathering place where friends and acquaintances can gather regularly for food, drinks and

## Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

- entertainment in an upscale yet casual environment.
- o FOOD AND BEVERAGE. The Company's concepts offer a full menu with a wide range of mid-priced appetizers, entrees and desserts served in generous portions. Each

-3-

- location features a full service bar and a wide variety of domestic, imported and premium craft beers. Food and beverages can be enjoyed in all areas of each location.
- o SPORTS ENTERTAINMENT. The Company's concepts feature state-of-the-art audio and video systems for viewing sporting events. Each location has numerous TV's (including several mega-screen TV's) with satellite and cable coverage of national, regional and local sporting events.
- o GAMES OF SKILL. The Company's concepts offer traditional games of skill, including pocket billiards featuring tournament-quality tables, shuffleboard and darts. Most locations also offer a variety of popular interactive games.
- o LATE-NIGHT DESTINATION. The Company provides guests with an upscale entertainment and dining alternative by serving food and beverages during the increasingly popular late-night segment.

### STRATEGY

Management believes its unique entertainment restaurant concept will enable the Company to distinguish itself as the leader in this market segment. Management's strategy for attaining this leadership position is based on the following key elements:

TOTAL ENTERTAINMENT AND RESTAURANT EXPERIENCE. The Company's concept offers a social gathering place, food and beverages, sports entertainment, games of skill and a late-night destination all in a single location. Each location provides guests with a multi-dimensional entertainment and restaurant experience that enables them to participate in one or more elements of the experience.

SEASONED MANAGEMENT TEAM. The Company employs a seasoned management team with experience in successfully developing and operating multi-unit concepts in a variety of geographic markets throughout the United States. The Company intends to leverage this experience to secure favorable real estate sites, control costs and implement proven operating procedures. In addition, the Company maintains centralized financial and accounting controls through Franchise Services Company, a third party accounting and administrative services company. By employing the services and infrastructure provided by Franchise Services Company, the Company is able to focus its energy and resources on brand and unit development.

GROWTH AND EXPANSION. The Company believes its entertainment restaurant concept will be attractive in a variety of geographic markets throughout the United States. The Company plans to open ten to twelve locations in 2002 and between seven and ten locations in 2003. The Company has opened four units in 2002 and currently has seven leases executed with contingencies and two non-binding letters of intent. The Company is currently evaluating locations in markets that are familiar to its management team and plans to actively negotiate additional leases at a number of sites. However, the number of locations actually opened and the timing thereof may vary depending upon the ability of the Company to locate suitable sites and negotiate favorable leases.

FLEXIBILITY AND VERSATILITY OF CONCEPT. The Company is implementing its concept through both the Fox and Hound and Bailey's brand names. The Company's concept allows for significant versatility through the reconfiguration of the

## Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

entertainment areas within each of its locations to accommodate various special events.

COMMITMENT TO HIGH QUALITY PRODUCTS AND SERVICES. The Company is committed to providing a superior experience that includes high quality menu items, a wide variety of domestic,

-4-

imported and premium craft beers, state-of-the-art audio and video systems and tournament-quality pocket billiard tables. These features, combined with the Company's focus on a high level of customer service, help build a loyal clientele and attract new guests.

-5-

### LOCATIONS

The following table sets forth the location, opening date and approximate square footage of the Company's existing entertainment and restaurant locations:

| LOCATION<br>-----                  | MONTH OPENED<br>----- | APPROXIM<br>SQUARE FOO<br>----- |
|------------------------------------|-----------------------|---------------------------------|
| FOX AND HOUND ENGLISH PUB & GRILLE |                       |                                 |
| Arlington, TX                      | August 1994           | 6,500                           |
| College Station, TX                | September 1994        | 7,700                           |
| Dallas, TX                         | December 1995         | 9,600                           |
| Memphis #1, TN                     | September 1997        | 8,400                           |
| Omaha, NE                          | December 1997         | 9,000                           |
| Chicago, IL                        | December 1997         | 10,100                          |
| Montgomery, AL                     | January 1998          | 7,700                           |
| Cleveland, OH                      | May 1998              | 8,500                           |
| Evansville, IN                     | July 1998             | 8,600                           |
| Springfield, MO                    | August 1998           | 9,100                           |
| San Antonio, TX                    | August 1998           | 8,400                           |
| Erie, PA                           | August 1998           | 10,400                          |
| Lubbock, TX                        | October 1998          | 10,600                          |

Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

|                                   |                |        |
|-----------------------------------|----------------|--------|
| Dayton, OH                        | October 1998   | 8,700  |
| Memphis #2, TN                    | November 1998  | 7,600  |
| Overland Park, KS                 | November 1998  | 9,100  |
| Canton, OH                        | November 1998  | 9,700  |
| New Orleans, LA                   | December 1998  | 9,200  |
| Pittsburgh, PA                    | January 1999   | 10,500 |
| Winston-Salem, NC                 | January 1999   | 9,400  |
| Indianapolis, IN                  | February 1999  | 8,400  |
| Houston, TX                       | February 1999  | 9,100  |
| Baton Rouge, LA                   | March 1999     | 11,500 |
| Cleveland #2, OH                  | October 2000   | 13,500 |
| Lewisville, TX                    | December 2000  | 7,600  |
| Ft. Worth, TX                     | April 2001     | 9,900  |
| Ft. Worth #2, TX                  | February 2002  | 14,000 |
| FOX AND HOUND SMOKEHOUSE & TAVERN |                |        |
| Charlotte #3, NC                  | August 2001    | 15,300 |
| Dallas #2, TX                     | December 2001  | 13,360 |
| Denver, CO                        | January 2002   | 10,500 |
| Phoenix, AZ                       | January 2002   | 11,600 |
| Charlotte #4, NC                  | March 2002     | 7,200  |
| BAILEY'S SPORTS GRILLE            |                |        |
| Charlotte #2, NC                  | October 1990   | 7,600  |
| Little Rock, AR                   | February 1994  | 8,400  |
| Greenville, SC                    | September 1994 | 7,000  |
| Nashville #1, TN                  | April 1995     | 9,400  |
| Knoxville, TN                     | December 1995  | 9,400  |
| Johnson City, TN                  | May 1996       | 8,250  |
| Columbia, SC                      | October 1996   | 10,000 |
| Clarksville, IN                   | March 1997     | 9,200  |
| Nashville #2, TN                  | October 1997   | 7,500  |
| BAILEY'S PUB & GRILLE             |                |        |
| Atlanta #1, GA                    | October 1998   | 8,500  |
| Detroit, MI                       | November 1998  | 9,100  |
| Chapel Hill, NC                   | December 1998  | 9,000  |
| Dearborn, MI                      | December 2000  | 8,450  |
| Nashville #3, TN                  | May 2001       | 11,400 |
| BAILEY'S SMOKEHOUSE & TAVERN      |                |        |
| Atlanta #2, GA                    | November 2001  | 10,500 |

-7-

#### EXPANSION PLANS

The Company's management team has extensive experience in the restaurant business and has successfully developed and operated numerous restaurants in many geographic markets throughout the United States. The Company intends to open ten to twelve entertainment restaurant locations in 2002 and between seven to ten locations in 2003. The Company is currently evaluating locations in markets familiar to its management team. However, the number of locations actually opened and the timing thereof may vary depending upon the ability of the Company to locate suitable sites and negotiate favorable leases.

The Company has granted a license agreement to operate one "Fox and Hound" concept in Lincoln, Nebraska. This unit opened in February 2001. The Company may in the future franchise and/or grant additional license or joint venture rights to the Fox and Hound and Bailey's concepts in certain limited geographic areas of the United States. It is expected that these franchisees, licensees or joint venture partners will be required to develop a specific number of locations within a specified time frame and that a license fee and/or a royalty fee will be paid to the Company in connection with the development and operation of each such site. The Company has granted to Stephen P. Hartnett, Co-Chairman, the right to operate one "Fox and Hound" concept in Dallas, Texas without the payment of any license fee.

#### SELECTION CRITERIA AND LEASING

The Company believes the site selection process is critical in determining the potential success of each entertainment restaurant location. Senior management devotes significant time and resources in analyzing each prospective site and inspects and approves each location prior to final lease execution. A variety of factors are considered in the site selection process, including local market demographics, site visibility, traffic count, nature of the retail environment and accessibility and proximity to major retail centers, office complexes, hotels and entertainment centers (e.g., stadiums, arenas, theaters).

The Company leases all locations, with the exception of the Bailey's unit in Columbia, South Carolina, which is owned by the Company. Most of the units are located in shopping centers. Leases are generally negotiated with initial terms of three to ten years, with multiple renewal options. The Company has generally required approximately 90 to 120 days after the signing of a lease and obtaining required permits to complete construction and open a new location. Additional time is sometimes required to obtain certain government approvals and licenses, such as liquor licenses. In the future, the Company anticipates principally leasing its locations, although it may consider purchasing free-standing sites where it is cost-effective to do so.

#### UNIT ECONOMICS

The Company's management team focuses on selecting locations with the potential of producing significant revenues while controlling capital expenditures and rent as a percentage of net sales. The Company's restaurants have historically generated a sales to investment ratio of approximately 0.8 to 1, assuming that the average minimum annual rents pursuant to operating leases

## Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

were capitalized for purposes of determining the investment. The Company's entertainment restaurants averaged \$1,780,000 and \$1,590,000 in sales during fiscal years ended December 25, 2001 and December 26, 2000, respectively. Of the 43 units open at December 25, 2001, 42 were leased facilities and had an average cash investment of \$1,258,000. The one open unit the Company owned as of December 25, 2001 had a cost of \$1,845,000

-8-

(including the costs for land acquisition, construction, equipment and pre-opening costs). In the future the Company anticipates most locations will be leased rather than purchased and anticipates an average cash investment per unit between \$1.0 million and \$1.5 million.

### MENU

Both Bailey's and Fox and Hound concepts offer a single menu for lunch (weekends only in some locations), dinner and late-night dining. The menu features a selection of appetizers, including quesadillas, chicken wings and nachos, soups and salads, gourmet-style sandwiches, pizzas, ribs, burgers, a selection of grilled and smoked barbecued entrees and desserts. Appetizers typically range in price from \$3.49 to \$6.99, and entrees range from \$5.99 to \$16.99, with most entrees priced below \$10.00. Each location features a full service bar and most units have over 100 brands of ales, lagers, stouts and premium craft beers from around the world, including over 35 on tap. Alcoholic beverage service accounted for approximately 60% of the Company's revenues in the fiscal year ended December 25, 2001.

### AMBIANCE AND DESIGN

FOX AND HOUND ENGLISH PUB & GRILLE, FOX AND HOUND SMOKEHOUSE & TAVERN, BAILEY'S PUB & GRILLE, AND BAILEY'S SMOKEHOUSE & TAVERN. The Fox and Hound English Pub & Grille, Fox and Hound Smokehouse & Tavern, Bailey's Pub & Grille, and Bailey's Smokehouse & Tavern entertainment restaurant concepts incorporate the tradition, spirit and sophistication of a contemporary social gathering place, with an elegant yet comfortable atmosphere of finished wood, polished brass, embroidered chairs and booths, hunter green and burgundy walls and etched glass. Each location features a full service restaurant and bar as well as state-of-the-art audio and video technology (including several mega-screen TV's) and traditional games of skill such as pocket billiards generously spaced to avoid crowding, darts and shuffleboard. The entertainment area can be readily configured into a comfortable "arena" for viewing national, regional and local sporting and other television events. All locations are also capable of accommodating business and social organizations for special events.

Fox and Hound is the evolution of a concept originally conceived by Stephen P. Hartnett, Co-Chairman. The first Fox and Hound unit was opened in August 1994. Management believes the design of Fox and Hound plays an essential role in its success. The bar and primary dining room are centrally located while the wing rooms are partitioned from the bar and dining area by etched glass and house games of skill along with state-of-the-art audio and video technology. This layout provides guests with an open view of the main dining room, bar and gaming areas. The open kitchen is organized for efficient work flow and is also centrally located so as to entice guests with its flavorful aromas.

BAILEY'S SPORTS GRILLE. The Bailey's Sports Grille concept has a casual, relaxed atmosphere that features a full-service restaurant and bar, numerous TV's (including several big screen TV's) with satellite and cable coverage of sporting events, pocket billiard tables, darts, foosball and shuffleboard. Most locations also feature a variety of popular interactive games. The bar and



## Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

primary dining room in each Bailey's unit is centrally located with games situated around the perimeter.

Bailey's is the evolution of a concept originally conceived by Dennis L. Thompson, Co-Chairman and Thomas A. Hager, a director of the Company. The first Bailey's unit opened in Charlotte, North Carolina in November 1989. There are presently nine locations operating in five states. Since the opening of the first location in 1989, management has modified and

-9-

improved its original concept. With each successive opening, the decor has been modified to a more upscale yet casual decor.

All locations opened since July 1997 have incorporated the general layout and design of the Fox and Hound unit in Dallas, Texas. The Company anticipates this layout and design will be utilized for future locations.

-10-

### MARKETING

The Company believes its entertainment restaurant concept attracts a loyal clientele, and the Company relies primarily on word-of-mouth to attract new business. The Company does, however, advertise through traditional marketing and advertising media in selected markets. These media include billboard signage, radio and print advertising, local store marketing to households and volunteer community involvement.

The Company's marketing efforts also seek to focus on national, regional and local sporting events such as the Super Bowl and the NCAA basketball tournament, which attract locally active groups of fans, supporters or alumni. The versatile layout and design of the units can also accommodate group events.

### OPERATIONS AND MANAGEMENT

The Company's operations and management systems are based upon systems and controls that were developed by senior management and have been successfully used to manage a large number of restaurants located in numerous states. The Company strives to maintain quality and consistency in its entertainment

## Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

restaurant locations through the careful training and supervision of personnel and the establishment of standards relating to food and beverage preparation, maintenance of locations and conduct of personnel.

The management of a typical unit consists of one general manager and between two and four supporting managers depending upon unit revenue and hours of operation. Each general manager is responsible for the unit's day-to-day operations and is required to follow the Company's established operating procedures and standards. Each entertainment restaurant location also employs a staff of hourly employees, many of whom are part-time personnel. Unit management personnel participate in an eight-week training program which focuses on various aspects of the unit's operations and customer service. The Company currently employs nine district managers, each of which oversees between two and six units. The district managers, general managers and support managers participate in incentive cash bonus programs. Awards under the incentive plans are tied to achievement of specified operating targets, including achievement of specific unit objectives and control of operating expense budgets. Senior management regularly visits the Fox and Hound and Bailey's locations and meets with the respective management teams to ensure compliance with the Company's strategies and standards of quality.

The Company maintains financial and accounting controls for each of its entertainment restaurant locations through the use of centralized accounting and management information systems. Sales and labor information are collected daily from each location, and general managers are provided with operating statements for their locations. Cash is controlled through daily deposits of sales proceeds in local operating accounts, the balances of which are wire-transferred daily or weekly to the Company's principal operating account. The Company utilizes a comprehensive peer review reporting system for its general managers. Within 10 days after the close of each 28-day accounting period, profit and loss statements are produced and, subsequently, the general managers of each location meet in person with their respective district managers to review the profit and loss statements. The participants offer each other feedback on their respective performances and suggest ways of improving profitability. The district managers then meet in person with the senior management team to review the performance for the past accounting period as well as set the operating agenda for the next period. The Company believes the peer review system enables each general manager

-11-

and district manager to benefit from the collective experience of all of the Company's management.

The Company believes customer service and satisfaction are keys to the success of its operations. The Company's commitment to customer service and satisfaction is evidenced by several Company practices and policies, including multiple mystery-shop visits every 28-day period by a national restaurant evaluation firm, periodic visits by unit management to guests' tables, active involvement of management in responding to guest comments and assigning wait persons so as to ensure customer satisfaction. Teamwork is emphasized for efficient and timely service.

Each new unit employee of the Company participates in a training program during which the employee works under the close supervision of a manager. Management strives to instill enthusiasm and dedication in its employees and to create a stimulating and rewarding working environment where employees know what is expected of them in measurable terms. Management continuously solicits employee feedback concerning unit operations and strives to be responsive to the employees' concerns.

## Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

### PURCHASING

The Company's management negotiates directly with suppliers for most food and beverage products to ensure uniform quality, adequate supplies, and to obtain competitive prices. The Company engages a purchasing consultant to assist in the negotiation of purchasing agreements with suppliers. Food and supplies are shipped directly to the entertainment restaurant locations, although invoices for purchases are forwarded to a central location for payment. Due to the experience of the Company's senior management in the restaurant business, the Company has been and expects to continue to be able to purchase most of its restaurant equipment directly from equipment manufacturers. The Company has not experienced any significant delays in receiving supplies or equipment.

### MANAGEMENT INFORMATION SYSTEMS

The Company utilizes an in-store computer-based management support system which is designed to improve labor scheduling and food and beverage cost management, provide corporate management quick access to financial data and reduce the general manager's administrative time. Each general manager uses the system for production planning, labor scheduling and food and beverage cost variance analysis. The system generates reports on sales, bank deposits and variance data for the Company's management on a daily basis.

The Company generates weekly consolidated sales reports and food, beverage and labor-cost variance reports as well as detailed profit and loss statements for each entertainment restaurant location every four weeks. Additionally, the Company monitors sales mix, sales growth, labor variances and other sales trends on a daily basis.

-12-

### ACCOUNTING AND ADMINISTRATIVE SERVICES

On March 1, 2002, the Company entered into a three-year services agreement with Franchise Services Company ("FSC") for certain accounting and administrative services, which renewed its prior three-year agreement. The per unit per 28-day accounting fee is at a market rate with no fixed annual charge and is to remain fixed for the entire three-year agreement.

### COMPETITION

The entertainment and restaurant industries are highly competitive. There are a large number of restaurants and entertainment businesses that compete directly and indirectly with the Company. The Company competes with restaurants primarily on the basis of quality of food and service, ambiance and location and competes with sports bars and entertainment complexes on the basis of entertainment quality, ambiance and location. Competition for sales in the entertainment and restaurant industries is intense. While the Company believes its entertainment restaurant units are distinctive in design and operating concept, it is aware of competitors that operate with similar concepts. Many of the Company's existing and potential competitors are well-established and have significantly greater financial, marketing and other resources than does the Company. In addition to other entertainment and restaurant companies, the Company competes with numerous businesses for suitable locations for its units.

### QUARTERLY FLUCTUATIONS, SEASONALITY AND INFLATION

As a result of the revenues associated with each new location, the timing of new unit openings will result in significant fluctuations in quarterly

## Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

results. The Company expects seasonality to be a factor in the operation or results of its business in the future due to expected lower second and third quarter revenues due to the summer season. The primary inflationary factors affecting the Company's operations include food, liquor and labor costs. Significant numbers of the Company's personnel are paid at rates related to the federal minimum wage which is currently \$5.15 per hour. Accordingly, increases in the minimum wage will increase the company's labor costs. As costs of food and labor have increased, the Company has historically been able to offset these increases through economies of scale and improved operating procedures. To date, inflation has not had a material impact on operating margins.

-13-

### GOVERNMENT REGULATION

The Company's entertainment restaurant locations are subject to numerous federal, state and local laws affecting health, sanitation, safety and Americans with Disabilities Act accessibility standards, as well as to state and local licensing regulation of the sale of alcoholic beverages. Each location has appropriate licenses from regulatory authorities allowing it to sell liquor, beer and wine, and each location has food service licenses from local health authorities. The Company's licenses to sell alcoholic beverages must be renewed annually and may be suspended or revoked at any time for cause, including violation by the Company or its employees of any law or regulation pertaining to alcoholic beverage control, such as those regulating the minimum age of patrons or employees, advertising, wholesale, purchasing, and inventory control. The failure of a location to obtain or retain liquor or food service licenses would have a material adverse effect on the Company's operations. In order to reduce this risk, each location is operated in accordance with standardized procedures designed to ensure compliance with all applicable codes and regulations.

The Company may be subject in certain states to "dram-shop" statutes, which generally provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. The Company carries liquor liability coverage as part of its existing comprehensive general liability insurance.

The development and construction of additional locations will be subject to compliance with applicable zoning, land use and environmental regulations. The Company's operations are also subject to federal and state minimum wage laws governing such matters as working conditions, overtime and tip credits and other employee matters. Significant numbers of the company's personnel are paid at rates related to the federal minimum wage which is currently \$5.15 per hour. Accordingly, increases in the minimum wage will increase the Company's labor costs.

A portion of the Company's revenues is derived from the use and operation of video gaming machines. In August 1999, law changes in South Carolina resulted in a significant decrease in the revenue of video gaming machines. Further law changes in July 2000 completely eliminated the use of video gaming machines in South Carolina. Video gaming revenue was \$100,253 and \$350,306 during the fiscal years ended December 26, 2000 and December 28, 1999, respectively.

### TRADEMARKS

## Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

The Company has federally registered its "Fox and Hound" and "Bailey's Sports Grille" service marks. The Company's "7 Bailey's Sports Grille" and "Serious Fun 7 Bailey's Sports Grille" design marks are also federally registered. The Company regards its service and design marks as having significant value and as being an important factor in the marketing of its entertainment restaurant concept. The Company is aware of names and marks similar to the service marks of the Company that are used by other persons in certain geographic areas. The Company believes such uses will not have a material adverse effect on the Company as either the Bailey's or Fox and Hound tradenames may be used if either name is unavailable. The Company's policy is to pursue registration of its marks whenever possible and to oppose vigorously any infringement of its marks.

-14-

However, as more fully described in Item 3 - Legal Proceedings, below, a cancellation proceeding has recently been filed with the Trademark Trial and Appeal Board of the U.S. Patent and Trademark Office seeking to cancel certain of the Bailey's marks.

### EMPLOYEES

As of December 25, 2001, the Company employed approximately 3,000 persons, four of whom are executive officers, ten of whom are support staff, nine of whom are multi-unit supervisors, 200 of whom are entertainment restaurant unit management personnel and the remainder of whom are hourly entertainment restaurant personnel. None of the Company's employees is covered by a collective bargaining agreement. The Company believes its employee relations are satisfactory.

### ITEM 2. PROPERTIES

-----

All of the Company's units are located in leased space with the exception of the Bailey's unit in Columbia, South Carolina, which is owned by the Company. Initial lease terms range from three to ten years, with multiple renewal options. All of the Company's leases provide for a minimum annual rent, and some leases call for additional rent based on sales volume at the particular location over specified minimum levels. Generally, the leases are net leases which require the Company to pay the costs of insurance, taxes and a portion of lessors' operating cost. See "Business-Locations."

The Company's executive offices are located at 9300 E. Central, Suite 100, Wichita, Kansas 67206. The Company believes there is sufficient office space available at favorable leasing terms in the Wichita, Kansas area to satisfy the additional needs of the Company that may result from future expansion.

### ITEM 3. LEGAL PROCEEDINGS

-----

On February 28, 2001, Patrick O'Shea, David W. Faber, Ann Swanson, Stacy Gregory, Wes L. Patterson, Dale Sproat, Mark Thagard, and Patrick Wilson filed a complaint on their own behalf and on behalf of other similarly situated persons against the Company, Fox & Hound of Indiana, Inc., a subsidiary of the Company, Gary Judd, the Company's president, Steven M. Johnson, the Company's chief executive officer, J.C. Weinberg, the Company's former chief operating officer, and Kenneth Syvarth, the Company's vice president - operations, in the United States District Court for the Southern District of Indiana.

The plaintiffs, who purport to have been employees of the defendants with the titles of manager-in-training, assistant manager, and/or general manager,

## Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

each alleged that the Company and the other defendants willfully and in bad faith failed to pay the defendants overtime pay for hours worked in excess of forty hours per week in violation of the provisions of the Fair Labor Standards Act. The plaintiffs' complaint seeks (1) declaratory judgment that the Company and other defendants violated the plaintiffs' legal rights, (2) an accounting of compensation to which the defendants are owed, (3) monetary damages in the form of back pay compensation and benefits, unpaid entitlements, liquidated damages, and pre-judgment and post-judgment interest, and (4) attorneys' fees and costs. Defendants including the Company have filed their answer to the plaintiffs' complaint. The court has not yet entered its order establishing this case as a collective action. On June 27, 2001, the Magistrate Judge held

-15-

an initial pre-trial conference and entered orders establishing deadlines in this action. A settlement conference is scheduled for June 27, 2002 and a five-day trial is scheduled for March 3, 2003.

Although it is not possible at this time for the Company to evaluate the merits of this claim, nor their likelihood of success, management of the Company is of the opinion that any resulting liability should not have a material adverse effect on the Company's financial statements.

On October 2, 2000, R&A Bailey & Company of Dublin, Ireland, filed a notice of opposition in the Trademark Trial and Appeal Board of the U.S. Patent and Trademark Office to the Company's U.S. service mark applications for "BAILEY'S PUB & GRILLE" (color), "BAILEY'S PUB & GRILLE" (stylized), and "BAILEY'S PUB & GRILLE." Additionally, on November 14, 2000, R&A Bailey & Company filed a petition in the Trademark Trial and Appeal Board of the U.S. Patent and Trademark Office to cancel the Company's U.S. service mark registrations for "7 BAILEY'S SPORTS GRILLE" (+ Design), "SERIOUS FUN 7 BAILEY'S SPORTS GRILLE" (+ Design), and "BAILEY'S SPORTS GRILLE."

R&A Bailey & Company claims to be the owner of several U.S. trademark registrations, including "BAILEYS ORIGINAL IRISH CREAM" (+ Design), "BAILEYS," "BAILEYS THE ORIGINAL LIGHT CREAM," "BAILEYS" (+ Design), and "BAILEYS YUM," that are claimed to be used in association with liqueurs, distilled spirits, ice cream, coffee cups, and other ceramic accessories. R&A Bailey & Company has alleged that the cited Company registrations and applications cause it damage, are likely to create a likelihood of confusion, mistake, or deception, and would likely dilute and lessen its "famous" marks in violation of the Lanham Act. R&A Bailey & Company seeks cancellation of the Company's registrations and opposes the registration of the Company's applications for registration of the above-listed marks.

On December 29, 2000, the Company through its trademark counsel filed an answer to R&A Bailey & Company's notice of opposition, denying its allegations. On February 16, 2001, the Company filed a Stipulated Motion to Extend Answer to Petition in response to the petition to cancel by R&A Bailey & Company. The actions have been suspended by the Trademark Trial & Appeal Board to allow the parties time to negotiate for possible settlement of these pending actions. The Company is actively pursuing settlement, and is of the opinion that any resulting liability should not have a material adverse effect on the Company's financial statements.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

-----

No matters were submitted to a vote of the holders of the Company's Common Stock during the fourth quarter of the Company's fiscal year ended December 25,

2001.

-16-

## PART II

## ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER

## MATTERS

## MARKET INFORMATION

The Company's Common Stock is traded over-the-counter on the Nasdaq National Market System (ticker symbol: TENT). The following table sets forth, for the periods indicated, the high and low bid quotations for the Common Stock, as reported by Nasdaq. These quotations reflect the inter-dealer prices, without retail markup, markdown or commission and may not necessarily represent actual transactions.

|                  | Bid Prices |      |
|------------------|------------|------|
|                  | High       | Low  |
| Fiscal Year 1999 |            |      |
| -----            | ----       | ---  |
| First Quarter    | 5.88       | 2.75 |
| Second Quarter   | 4.25       | 2.50 |
| Third Quarter    | 3.06       | 1.25 |
| Fourth Quarter   | 1.75       | 1.50 |
| Fiscal Year 2000 |            |      |
| -----            | ----       | ---  |
| First Quarter    | 1.75       | 1.38 |
| Second Quarter   | 2.50       | 1.50 |
| Third Quarter    | 2.31       | 2.19 |
| Fourth Quarter   | 2.38       | 1.44 |
| Fiscal Year 2001 |            |      |
| -----            | ----       | ---  |
| First Quarter    | 3.31       | 1.38 |
| Second Quarter   | 3.20       | 2.10 |
| Third Quarter    | 3.32       | 2.50 |
| Fourth Quarter   | 3.20       | 2.19 |

## HOLDERS

As of March 13, 2002, there were 70 holders of record of the Company's Common Stock.

## DIVIDENDS

The Company has not paid any cash dividends on its Common Stock and does not intend to pay cash dividends on its Common Stock for the foreseeable future. The Company intends to retain future earnings to finance future development.

## SALE OF UNREGISTERED SECURITIES

- (c) The following unregistered securities were issued by the Company during the sixteen weeks ended December 25, 2001:

| Date of Sale/Issuance<br>----- | Description of<br>Securities Issued<br>----- | Number of Shares<br>Sold/Issued/Subject<br>to Options or Warrants<br>----- |
|--------------------------------|--|--|
| September 27, 2001             | Common Stock Options                         | 5,000  |
| September 27, 2001             | Common Stock Options                         | 5,000  |
| September 27, 2001             | Common Stock Options                         | 5,000  |
| September 27, 2001             | Common Stock Options                         | 5,000  |
| September 27, 2001             | Common Stock Options                         | 5,000  |
| September 27, 2001             | Common Stock Options                         | 5,000  |
| October 24, 2001               | Common Stock Options                         | 7,500  |

All of the above options were granted to certain key employees pursuant to the 1997 Incentive and Nonqualified Stock Option Plan or to non-employee directors pursuant to the Directors Stock Option Plan. The options for employees have a vesting period of five years and a life of ten years and the options for non-employee directors have a vesting period of three years and a life of five years.

The issuance of these securities is claimed to be exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended, as transactions by an issuer not involving a public offering. There were no underwriting discounts or commissions paid in connection with the issuance of any of these securities.

## ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data of the Company and its predecessors should be read in conjunction with the financial statements and the notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Form 10-K. The historical income statement data for the Company for the 52 weeks ended December 25, 2001, December 26, 2000, December 28, 1999 and December 29, 1998 and period from February 7, 1997 through December 30, 1997, the historical income statement data for F&H Restaurant Corp. ("FHRC") for the period from January 1, 1997 through February 20, 1997, the balance sheet data for the Company as of December 25, 2001, December 26, 2000, December 28, 1999, December 29, 1998 and December 30, 1997 are derived from the Company's and its predecessors' audited financial



## Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

statements. The table also sets forth the pro forma income statement data for the Company as if the Exchange had occurred on January 1, 1997. The pro forma data set forth below for the periods presented are unaudited and have been prepared by management solely to facilitate period-to-period comparison and do not purport to be indicative of the consolidated results of operations that would have occurred had the Exchange occurred at January 1, 1997, or which may be expected to occur in the future.

-18-

| Historical  |               |               |               |               |
|---|---------------|---------------|---------------|---------------|
| The Company   |               |               |               |               |
| 52 Weeks Ended  |               |               |               |               |
|   | DEC. 25, 2001 | DEC. 26, 2000 | DEC. 28, 1999 | DEC. 29, 1998 |
| (In thousands, except per share data)                                     |               |               |               |               |
| <b>INCOME STATEMENT DATA:</b>   |               |               |               |               |
| Net sales   | \$70,952      | \$55,990      | \$55,930      | \$34,114      |
| Costs and expenses:   |               |               |               |               |
| Cost of sales   | 19,213        | 14,790        | 15,349        | 9,429         |
| Operating expenses  | 35,741        | 28,395        | 28,632        | 15,586        |
| Depreciation and amortization   | 3,706         | 3,592         | 3,697         | 2,875         |
| Preopening costs  | 1,218         | 501           | 488           | --            |
| Provision for asset impairment<br>and store closing                       | 575           | 2,362         | 1,087         | --            |
|   | -----         | -----         | -----         | -----         |
| Entertainment and restaurant costs<br>and expenses                        | 60,453        | 49,640        | 49,253        | 27,890        |
|   | -----         | -----         | -----         | -----         |
| Entertainment and restaurant<br>operating income                          | 10,499        | 6,350         | 6,677         | 6,224         |
| General and administrative expenses                                       | 3,991         | 3,768         | 3,900         | 2,609         |
| Goodwill amortization   | 244           | 244           | 244           | 244           |
|   | -----         | -----         | -----         | -----         |
| Income from operations  | 6,264         | 2,338         | 2,533         | 3,371         |
| Other income (expense)  | (997)         | (1,148)       | (1,298)       | (70)          |
|   | -----         | -----         | -----         | -----         |
| Income before provision for<br>income taxes                               | 5,267         | 1,190         | 1,235         | 3,301         |
| Provision for income taxes  | 1,938         | 342           | 418           | 1,221         |
| Minority interest   | --            | --            | --            | --            |
|   | -----         | -----         | -----         | -----         |
| Income before cumulative effect<br>of a change in accounting<br>principle | 3,329         | 848           | 817           | 2,080         |
| Cumulative effect of change in<br>accounting principle                    | --            | --            | (1,128)       | --            |
|   | -----         | -----         | -----         | -----         |
| Net income (loss)   | \$3,329       | \$ 848        | \$ (311)      | \$ 2,080      |

Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

|  |        |        |          |        |
|--|--------|--------|----------|--------|
|  | =====  | =====  | =====    | =====  |
| Basic and diluted net income (loss)<br>per share | \$ .38 | \$ .09 | \$ (.03) | \$ .20 |
|  | =====  | =====  | =====    | =====  |
| Weighted number of shares<br>outstanding         | 8,670  | 9,323  | 10,348   | 10,415 |
|  | =====  | =====  | =====    | =====  |

CONT'D

|  |               |                          |
|--|---------------|--------------------------|
|  | FHRC          | The Company<br>Pro Forma |
|  | -----         | -----                    |
|  | 51 days ended | Year ended               |
|  | FEB. 20, 1997 | DEC. 30,<br>1997         |
|  | -----         | -----                    |

INCOME STATEMENT DATA:

|   |        |           |
|---|--------|-----------|
| Net sales   | \$ 858 | \$ 18,557 |
| Costs and expenses:   |        |           |
| Cost of sales   | 245    | 4,912     |
| Operating expenses  | 393    | 8,281     |
| Depreciation and amortization   | 35     | 1,052     |
| Preopening costs  | --     | --        |
| Provision for asset impairment<br>and store closing                       | --     | --        |
|   | -----  | -----     |
| Entertainment and restaurant costs<br>and expenses                        | 673    | 14,245    |
|   | -----  | -----     |
| Entertainment and restaurant<br>operating income                          | 185    | 4,312     |
| General and administrative expenses                                       | 36     | 2,014     |
| Goodwill amortization   | 24     | 242       |
|   | -----  | -----     |
| Income from operations  | 125    | 2,056     |
| Other income (expense)  | 63     | 370       |
|   | -----  | -----     |
| Income before provision for<br>income taxes                               | 62     | 1,686     |
| Provision for income taxes  | 11     | 605       |
| Minority interest   | 34     | --        |
|   | -----  | -----     |
| Income before cumulative effect<br>of a change in accounting<br>principle | 17     | 1,081     |
| Cumulative effect of change in<br>accounting principle                    | --     | --        |
|   | -----  | -----     |
| Net income (loss)   | \$ 17  | \$ 1,081  |
|   | =====  | =====     |

Basic and diluted net income (loss)

Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

per share \$ .12  
=====

Weighted number of shares  
outstanding 9,062  
=====

|  | The Company          |                      |                      |                      |
|--|----------------------|----------------------|----------------------|----------------------|
|  | December 25,<br>2001 | December 26,<br>2000 | December 28,<br>1999 | December 29,<br>1998 |
|  | (In thousands)       |                      |                      |                      |
| BALANCE SHEET DATA:                      |                      |                      |                      |                      |
| Working capital (deficit)                | \$ (5,160)           | \$ (3,435)           | \$ (489)             | \$ (947)             |
| Total assets                             | 43,150               | 40,128               | 41,352               | 41,284               |
| Notes payable, including current portion | 10,350               | 11,980               | 14,395               | 11,815               |
| Stockholders' equity                     | 24,149               | 20,987               | 22,232               | 23,736               |

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
-----  
AND RESULTS OF OPERATIONS  
-----

GENERAL

The following discussion and analysis should be read in conjunction with the information set forth under "Selected Financial Data" and the Financial Statements and Notes thereto included elsewhere in this Form 10-K.

The Company began operations February 20, 1997 with three Fox and Hound and eight Bailey's entertainment restaurant locations, and opened three Fox and Hound and two Bailey's entertainment restaurant locations during the year ended December 30, 1997, opened thirteen Fox and Hound and three Bailey's entertainment restaurant locations during the year ended December 29, 1998, opened five Fox and Hound entertainment restaurant locations and closed one Fox and Hound and one Bailey's entertainment restaurant location during the year ended December 28, 1999, and opened two Fox and Hound and one Bailey's entertainment restaurant locations during the year ended

-19-

December 26, 2000, and opened four Fox and Hound and one Bailey's entertainment restaurant locations during the year ended December 25, 2001.

Prior to December 30, 1998, pre-opening costs which include labor costs, costs of hiring and training personnel and certain other costs relating to opening new restaurants, were capitalized and amortized over a 12 month period, beginning in the period that the restaurant opened. Effective December 30, 1998, pre-opening costs are expensed as incurred.

# Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

## RESULTS OF OPERATIONS

The following table sets forth for the periods indicated the percentages which certain items included in the Condensed Consolidated Statement of Income bear to net sales and other selected operating data.

|  | Year Ended(1)    |                  |                |
|--|------------------|------------------|----------------|
|  | Dec. 25,<br>2001 | Dec. 26,<br>2000 | Dec. 2<br>1999 |
| <b>INCOME STATEMENT DATA:</b>  |                  |                  |                |
| Net sales  | 100.0%           | 100.0%           | 100.           |
| Costs and expenses:  |                  |                  |                |
| Cost of sales  | 27.1             | 26.4             | 27.            |
| Operating expenses   | 50.4             | 50.7             | 51.            |
| Depreciation and amortization  | 5.2              | 6.4              | 6.             |
| Preopening costs   | 1.7              | 1.0              | 1.             |
| Provision for asset impairment<br>and store closing                    | 0.8              | 4.2              | 1.             |
| Restaurant costs and expenses  | 85.2             | 88.7             | 88.            |
| Restaurant operating income  | 14.8             | 11.3             | 11.            |
| General and administrative   | 5.6              | 6.7              | 7.             |
| Goodwill amortization  | 0.4              | 0.4              | 0.             |
| Income from operations   | 8.8              | 4.2              | 4.             |
| Loss on disposal of assets   | (0.2)            | (0.1)            | (0.            |
| Other income, principally interest                                     | ---              | ---              | -              |
| Interest expense   | (1.2)            | (2.0)            | (2.            |
| Income before provision for income taxes                               | 7.4              | 2.1              | 2.             |
| Provision for income taxes   | 2.7              | 0.6              | 0.             |
| Income before cumulative effect of a<br>change in accounting principle | 4.7              | 1.5              | 1.             |
| Cumulative effect of change in<br>accounting principle                 | ---              | ---              | (2.            |
| Net income (loss)  | 4.7%             | 1.5%             | (0.            |
|  | =====            | =====            | =====          |
| <b>RESTAURANT OPERATING DATA:</b>                                      |                  |                  |                |
| Number of locations at end of period                                   | 43               | 38               | 3              |
| Number of store operating weeks (2)                                    | 2,071            | 1,831            | 1,84           |
| Annualized average weekly sales per location (3)                       | \$1,780          | \$1,590          | \$1,57         |

- 
- (1) The Company operates on a 52 or 53 week fiscal year ending the last Tuesday in December. The fiscal quarters for the Company consist of accounting periods of 12, 12, 12 and 16 or 17 weeks, respectively.
  - (2) Store operating weeks represents the number of weeks all locations were open during the period.
  - (3) Annualized average weekly sales per location are computed by dividing

## Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

net sales during the period by the number of store operating weeks and multiplying the result by fifty-two.

-20-

### THE COMPANY

#### FIFTY-TWO WEEKS ENDED DECEMBER 25, 2001 COMPARED TO FIFTY-TWO WEEKS ENDED DECEMBER 26, 2000

Net sales increased \$14,962,000 (26.7%) for the fifty-two weeks ended December 25, 2001 to \$70,952,000 from \$55,990,000 in the fifty-two weeks ended December 26, 2000, which is attributable to a 11.9% increase in average unit volumes (\$1,780,000 versus \$1,590,000) and a 13.1% increase in store operating weeks (2,071 versus 1,831). Same store sales increased 7.4% for the fifty-two weeks ended December 25, 2001.

Costs of sales, primarily food and beverages, increased \$4,423,000 (29.9%) for the fifty-two weeks ended December 25, 2001 to \$19,213,000 from \$14,790,000 in the fifty-two weeks ended December 26, 2000, and such expenses increased as a percentage of sales to 27.1% from 26.4%. This increase as a percentage of sales is principally attributable to higher food costs associated with a new menu implemented in the first quarter of 2001 and an increase in certain raw product costs.

Restaurant operating expenses for the fifty-two weeks ended December 25, 2001 increased \$7,346,000 (25.9%) to \$35,741,000 from \$28,395,000 in the fifty-two weeks ended December 26, 2000, and such expenses decreased as a percentage of net sales to 50.4% from 50.7%. This decrease as a percentage of sales is principally attributable to the effect of leveraging fixed expenses against higher unit volumes.

Depreciation and amortization increased \$114,000 (3.2%) for the fifty-two weeks ended December 25, 2001 to \$3,706,000 from \$3,592,000 in the fifty-two weeks ended December 26, 2000, and such expenses decreased as a percentage of net sales to 5.2% from 6.4%. This net increase is due principally to depreciation incurred during 2001 on eight units opened since September 5, 2000 offset by depreciation in 2000 on assets in two units for which an impairment charge was taken in the fourth quarter of 2000 and depreciation in 2000 on certain assets with a two-year life which were added in 1998. No depreciation charge was incurred on these assets in 2001.

Preopening costs increased \$716,000 (142.9%) for the fifty-two weeks ended December 25, 2001 to \$1,217,000 from \$501,000 in the fifty-two weeks ended December 26, 2000, and such expenses increased as a percentage of net sales to 1.7% from 1.0%. Preopening costs for 2001 were related to the opening of five units in 2001 and costs related to units which will open in 2002. Preopening costs for 2000 were related to the opening of three units in 2000 and costs related to units which opened in 2001.

Provision for asset impairment and store closing decreased \$1,787,000 (75.7%) for the fifty-two weeks ended December 25, 2001 to \$575,000 from \$2,362,000 in the fifty-two weeks ended December 26, 2000, and such expenses decreased as a percentage of net sales to 0.8% from 4.2%. The provision in 2001 and 2000 reflects the charge made in the fourth quarter of 2001 and 2000 for the write down of certain under-performing restaurant assets. The Company periodically reviews its long lived assets which are held and used in its entertainment restaurant operations for indications of impairment (see Note 1 of Notes to Consolidated Financial Statements).

General and administrative expenses increased \$222,000 (5.9%) for the

## Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

fifty-two weeks ended December 25, 2001 to \$3,991,000 from \$3,769,000 in the fifty-two weeks ended December 26, 2000, and such expenses decreased as a percentage of net sales to 5.6% from 6.7%. The increase reflects the addition of multi-unit supervisory positions and corporate-level positions to accommodate future unit growth.

-21-

Loss on disposal of assets was \$134,000 for the fifty-two weeks ended December 25, 2001 and \$67,000 for the fifty-two weeks ended December 26, 2000. The losses reflect the disposal of certain video games for several units in both years.

Interest expense decreased \$217,000 (20.1%) for the fifty-two weeks ended December 25, 2001 to \$864,000 from \$1,081,000. This decrease is due to a lower interest rate applicable to the revolving note payable in the current year compared with the prior year offset by a higher average balance on the revolving note payable during the current year compared with the prior year.

The effective income tax rate on income was 36.8% for the fifty-two weeks ended December 25, 2001 as compared to 28.7% for the fifty-two weeks ended December 26, 2000. This increase was primarily due to the impact of the credit for social security taxes paid on tips in excess of minimum wage relative to the amount of income before taxes.

### FIFTY-TWO WEEKS ENDED DECEMBER 26, 2000 COMPARED TO FIFTY-TWO WEEKS ENDED DECEMBER 28, 1999

Net sales increased \$60,000 (0.1%) for the fifty-two weeks ended December 26, 2000 to \$55,990,000 from \$55,930,000 in the fifty-two weeks ended December 28, 1999, which is attributable to a 0.8% increase in average unit volumes (\$1,590,000 versus \$1,578,000) offset by a 0.7% decrease in store operating weeks (1,831 versus 1,843). Same store sales increased 3.8% for the fifty-two weeks ended December 26, 2000.

Costs of sales, primarily food and beverages, decreased \$559,000 (3.6%) for the fifty-two weeks ended December 26, 2000 to \$14,790,000 from \$15,349,000 in the fifty-two weeks ended December 28, 1999, and such expenses decreased as a percentage of sales from 27.4% to 26.4%. This decrease is attributable to better food and beverage controls.

Restaurant operating expenses for the fifty-two weeks ended December 26, 2000 decreased \$237,000 (0.8%) to \$28,395,000 from \$28,632,000 in the fifty-two weeks ended December 28, 1999, and such expenses decreased as a percentage of net sales to 50.7% from 51.2%. This decrease is primarily attributable to lower hourly labor costs (1.7%) resulting from better labor controls, offset by higher other operating expenses including maintenance costs (0.6%) and live music costs (0.6%).

Depreciation and amortization decreased \$105,000 (2.8%) for the fifty-two weeks ended December 26, 2000 to \$3,592,000 from \$3,697,000 in the fifty-two weeks ended December 28, 1999, and such expenses decreased as a percentage of net sales to 6.4% from 6.6%. This decrease is due to the closing of two units in 1999 offset by three new units opened in the fourth quarter of 2000.

Preopening costs increased \$14,000 (2.9%) for the fifty-two weeks ended December 26, 2000 to \$501,000 from \$487,000 in the fifty-two weeks ended December 28, 1999, and such expenses were 1.0% of net sales for both periods. Preopening costs for 2000 were related to the opening of three units in 2000 and costs related to units which will open in 2001. Preopening costs for 1999 were related to the opening of five units in 1999.

## Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

Provision for asset impairment and store closing increased \$1,275,000 (117.3%) for the fifty-two weeks ended December 26, 2000 to \$2,362,000 from \$1,087,000 in the fifty-two weeks ended December 28, 1999, and such expenses increased as a percentage of net sales to 4.2% from 1.9%. The provision in 2000 reflects the charge made in the fourth quarter of 2000 for the write down of certain under-performing restaurant assets. The Company periodically reviews its long lived assets which are held and used in its entertainment restaurant operations for indications of impairment (see Note 1 of Notes to Consolidated Financial Statements). The provision in 1999 represents the estimated costs associated with closing the Fox and Hound

-22-

location in Davenport, Iowa. The provision included \$394,000 of future lease costs, \$640,000 in abandoned leasehold improvements and \$53,000 in abandoned furniture, fixtures and equipment. This unit was opened in June 1998 and closed in October 1999. The unit had been experiencing consistent negative cash flows due to low sales volumes.

General and administrative expenses decreased \$132,000 (3.4%) for the fifty-two weeks ended December 26, 2000 to \$3,768,000 from \$3,900,000 in the fifty-two weeks ended December 28, 1999, and such expenses decreased as a percentage of net sales to 6.7% from 7.0%. The decrease reflects the realignment of certain executive positions during 2000.

The loss on disposal of assets in 2000 consisted mainly of the disposal of certain video games in several units. The loss on disposal of assets in 1999 consisted mainly of the disposal of POS equipment in six units which was replaced with POS systems consistent with the systems used in each of the other units.

Interest expense decreased \$94,000 (8.0%) for the fifty-two weeks ended December 26, 2000 to \$1,081,000 from \$1,175,000. This decrease reflects a decrease in the average debt balance offset by an increase in the average interest rate.

The effective income tax rate on income was 28.7% for the fifty-two weeks ended December 26, 2000 as compared to 44.0% for the fifty-two weeks ended December 28, 1999. This decrease was primarily due to the impact of the credit for social security taxes paid on tips in excess of minimum wage relative to the amount of income before taxes.

### QUARTERLY FLUCTUATIONS, SEASONALITY AND INFLATION

As a result of the revenues associated with each new location, the timing of new unit openings will result in significant fluctuations in quarterly results. The Company expects seasonality to be a factor in the operation or results of its business in the future due to expected lower second and third quarter revenues due to the summer season. The primary inflationary factors affecting the Company's operations include food, liquor and labor costs. Although a large number of the Company's restaurant personnel are paid at the federal minimum wage level, the majority of personnel are tipped employees, and therefore, recent as well as future minimum wage changes are likely to have very little effect on labor costs. As costs of food and labor have increased, the Company has historically been able to offset these increases through economies of scale and improved operating procedures. To date, inflation has not had a material impact on operating margins.

### LIQUIDITY AND CAPITAL RESOURCES

## Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

The Company was formed on February 7, 1997 and, pursuant to the Exchange on February 20, 1997, the Company became the owner of the eight then-existing Bailey's locations and three then-existing Fox and Hound locations. Prior to the Exchange, Bailey's financed its expansion primarily with loans from stockholders and loans from banks. Prior to the Exchange, Fox and Hound financed its expansion primarily with partners' equity contributions and loans from related parties.

Immediately following the Initial Public Offering, the Company repaid outstanding indebtedness to Intrust Bank, N.A., Wichita, in the principal amount of approximately \$10.8 million out of a total credit line of \$12.0 million available to the Company. This outstanding indebtedness was incurred to refinance the debt of the acquired entities in the Exchange of approximately \$9.1 million and to finance the stockholder dividend payment to the former stockholders of Bailey's of approximately \$1.7 million.

-23-

On September 1, 1998 the Company entered into a loan agreement with Intrust Bank, N.A. (the "Facility") which provides for a line of credit of \$20,000,000 subject to certain limitations based on earnings before interest, income taxes, depreciation and amortization of the past fifty-two weeks. The Facility requires monthly payments of interest only until November 1, 2003, at which time equal monthly installments of principal and interest are required as necessary to fully amortize the outstanding indebtedness plus future interest over a period of four years. Interest is accrued at a rate of 1/2% below the prime rate as published in THE WALL STREET JOURNAL. Proceeds from the Facility were used for restaurant development, common stock repurchases, and general corporate purposes. As of December 25, 2001, the Company had borrowed \$10,350,000 under the Facility. The Company is in compliance with all debt covenants.

Cash flows from operations were \$10,388,000 in the fifty-two weeks ended December 25, 2001 compared to \$7,131,000 in the fifty-two weeks ended December 28, 1999. This increase is attributable to an increase in net income before the provision for asset impairment to \$3,904,000 in the fifty-two weeks ended December 25, 2001 compared to net income before the provision for asset impairment to \$3,210,000 in the fifty-two weeks ended December 26, 2000. Purchases of property and equipment were \$9,540,000 for the fifty-two weeks ended December 25, 2001 compared to \$3,005,000 for the fifty-two weeks ended December 26, 2000. Net payments of the revolving note payable to bank was \$1,630,000 for the fifty-two weeks December 25, 2001 compared to net payments of \$2,415,000 for the fifty-two week period ending December 26, 2000. The Company spent \$167,000 to repurchase 75,800 shares of common stock in 2001 compared to \$2,093,000 of common stock repurchases in 2000. At December 25, 2001, the Company had \$1,346,000 in cash and cash equivalents.

The Company intends to open ten to twelve entertainment restaurant locations in 2002 and between seven to ten locations in 2003. Four units have been opened in fiscal 2002, two units are currently under construction and an additional five leases have been executed. The Company is currently evaluating locations in markets familiar to its management team. However, the number of locations actually opened and the timing thereof may vary depending upon the ability of the Company to locate suitable sites and negotiate favorable leases. The Company expects to expend approximately \$12.0 to \$18.0 million to open new locations over the next 12 months.

The Company believes the funds available from the Facility and its cash flow from operations will be sufficient to satisfy its working capital and capital expenditure requirements for at least the next 12 months. There can be



## Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

no assurance, however, that changes in the Company's operating plans, the acceleration of the Company's expansion plans, lower than anticipated revenues, increased expenses, potential acquisitions or other events will not cause the Company to seek additional financing sooner than anticipated, prevent the Company from achieving the goals of its expansion strategy or prevent any newly opened locations from operating profitably. There can be no assurance that additional financing will be available on acceptable terms or at all.

A summary of the Company's obligations and commitments to make future payments under contracts, including debt and lease agreements is presented below. The long-term debt payments represent principal payments only. The Company must also make monthly interest payments on the outstanding debt balance at a rate of 1/2% below the prime rate as published in THE WALL STREET JOURNAL (4.50% at December 25, 2001).

| Contractual Obligations | Total        | Less than<br>1 Year | 1-3<br>Years | 4-5<br>Years | After<br>5 Years |
|-------------------------|--------------|---------------------|--------------|--------------|------------------|
| -----                   | -----        | -----               | -----        | -----        | -----            |
| Long-term debt          | \$10,350,000 | \$ --               | \$ 2,829,166 | \$ 5,208,631 | \$ 2,312,200     |
| Operating leases        | 29,258,798   | 4,950,171           | 7,578,008    | 5,028,837    | 11,647,780       |
|                         | -----        | -----               | -----        | -----        | -----            |
| Totals                  | \$39,608,798 | \$4,950,171         | \$10,407,174 | \$10,291,468 | \$13,959,980     |

### Critical Accounting Policies

The Company considers determination of impairment of long-lived assets as a critical accounting policy because determination as to whether the long-lived assets of a restaurant are impaired and, if impaired, the fair value of such assets requires the use of judgment, particularly as it relates to projecting whether the sum of expected undiscounted future cash flows for the restaurant over an extended period of time will equal or exceed the carrying value of such assets. Management uses the best information available to make the determination; however, actual future cash flows for the restaurant may vary significantly from the cash flows projected in conjunction with the impairment assessment. The potential impact on the financial statements of incorrect judgments regarding impairment of long-lived assets is that a provision for impairment could be needlessly recorded if projected future cash flows for a restaurant are significantly under estimated or a provision for impairment could be deferred until later determined necessary in a future period if initial projected cash flows are over estimated. See Note 1 of Notes to Consolidated Financial Statements for a description of the Company's accounting policy for impairment of long-lived assets.

### NEW ACCOUNTING STANDARDS

In June 2001, the FASB issued SFAS No. 142, Goodwill and Other Intangible Assets (SFAS No. 142). SFAS No. 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. In addition, SFAS No. 142 requires the Company to perform an assessment of whether its recorded goodwill is impaired as of the date of adoption.

SFAS No. 142 is effective for the Company's fiscal year 2002. The Company currently records annual goodwill amortization of approximately \$244,000.

## Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144). SFAS No. 144 addresses significant issues relating to the implementation of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and develops a single accounting method under which long-lived assets that are to be disposed of by sale are measured at the lower of book value or fair value less cost to sell. Additionally, SFAS No. 144 expands the scope of discontinued operations to include all components of an entity with operations that (1) can be distinguished from the rest of the entity and (2) will be eliminated from the ongoing operations of the entity in a disposal transaction. SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001 and its provisions are to be applied prospectively. Management believes that the adoption of SFAS No. 144 will not have a significant impact on the financial statements.

### FORWARD LOOKING STATEMENTS

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1936, as amended, which are intended to be covered by the safe harbors created thereby. Although the Company believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore, there can be no assurance that the forward-looking statements included in this report will prove to be accurate. Factors that could cause actual results to differ from the results discussed in the forward-looking statements include, but are not limited to, potential increases in food and liquor costs, competition and the inability to find suitable new locations. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives and plans of the Company will be achieved.

-25-

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

---

#### INTEREST RATE RISK

The Company's Facility has a variable rate which is directly affected by changes in U.S. interest rates. The average interest rate of the Facility was 6.73% for the year ended December 25, 2001. The following table presents the quantitative interest rate risks at December 25, 2001:

PRINCIPAL AMOUNT BY EXPECTED MATURITY

---

Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

(In thousands)

| (dollars in thousands)                       | 2002  | 2003  | 2004    | 2005    | 2006    | There<br>After |
|--|-------|-------|---------|---------|---------|----------------|
| -----  | ----  | ----  | ----    | ----    | ----    | -----          |
| Variable rate debt                           | ---   | \$395 | \$2,434 | \$2,546 | \$2,663 | \$2,312        |
| Average Interest Rate --<br>1/2% below prime | 4.50% | 4.50% | 4.50%   | 4.50%   | 4.50%   | 4.50%          |

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See the Consolidated Financial Statements listed in the accompanying Index to Financial Statements on Page F-1 herein. Information required for financial schedules under Regulation S-X is either not applicable or is included in the financial statements or notes thereto.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND  
FINANCIAL DISCLOSURE

Not applicable.

-26-

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item 10 will be in the Company's definitive proxy materials to be filed with the Securities and Exchange Commission and is incorporated in this Annual Report on Form 10-K by this reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 will be in the Company's definitive proxy materials to be filed with the Securities and Exchange Commission and is incorporated in this Annual Report on Form 10-K by this reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item 12 will be in the Company's definitive proxy materials to be filed with the Securities and Exchange

## Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

Commission and is incorporated in this Annual Report on Form 10-K by this reference.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

-----

The information required by this Item 13 will be in the Company's definitive proxy materials to be filed with the Securities and Exchange Commission and is incorporated in this Annual Report on Form 10-K by this reference.

-27-

### PART IV

### ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND AND REPORTS ON FORM 8-K

-----

(a) The following documents are filed as part of this report:

(1) Financial Statements.

See Index to Financial Statements which appears on page F-1 herein.

(2) Exhibits

#### INDEX TO EXHIBITS

| Exhibit<br>Number<br>----- | Exhibit<br>-----   |
|----------------------------|--|
| *2.1                       | Form of Stock for Stock Exchange Agreement between the Registrant, the Shareholders of F&H Restaurant Corp., Fox & Hound, Inc., Fox & Hound II, Inc. and Bailey's Sports Grille, Inc. and Certain Limited Partners of N. Collins Entertainment, Ltd., 505 Entertainment, Ltd., Midway Entertainment, Ltd. and F&H Dallas, L.P., dated February 20, 1997. |
| *3.1                       | Certificate of Incorporation of the Registrant.  |
| *3.1.1                     | Amendment to the Certificate of Incorporation of the Registrant.   |
| *3.2                       | By-laws of the Registrant.   |
| *4.1                       | Specimen Certificate of the Registrant's Common Stock.   |

Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

- \*10.2 Form of Employment Agreement between the Registrant and Gary M. Judd.
- \*10.3 Form of Employment Agreement between the Registrant and James K. Zielke.
- \*10.4 Form of 1997 Incentive and Nonqualified Stock Option Plan of the Registrant.
- \*10.5 Form of 1997 Directors' Stock Option Plan of the Registrant.
- \*10.6 Form of Indemnification Agreement for officers and directors of the Registrant.
- \*10.8 Non-Competition, Confidentiality and Non-Solicitation Agreement between the Registrant and Dennis L. Thompson, dated February 20, 1997.

-28-

- \*10.9 Non-Competition, Confidentiality and Non-Solicitation Agreement between the Registrant and Thomas A. Hager, dated February 20, 1997.
- \*10.10 Lease by and between Real Alchemy I, L.P. and Midway Entertainment, Ltd., dated June 1, 1995.
- \*10.11 First Amendment to Lease by and between Real Alchemy I, L.P. and Midway Entertainment, Ltd., dated December 6, 1996.
- \*10.12 Amendment to Lease by and between Real Alchemy I, L.P. and Midway Entertainment, Ltd., dated December 6, 1996.
- \*10.13 Lease by and between 505 Center, L.P. and 505 Entertainment, Ltd., dated January 31, 1994.
- \*10.14 Amendment to Lease by and between 505 Center, L.P. and 505 Entertainment, Ltd., dated December 6, 1996.
- \*\*21.1 Subsidiaries of Registrant.
- \*\*24.1 Powers of Attorney (included on the signature page of this Form 10-K).

-----  
(b) Reports on Form 8-K filed in the fourth quarter of 2001:

None

\* Incorporated by reference to the Company's Registration Statement on Form S-1, as amended (Commission File No. 333-23343).

Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

\*\* Filed herewith.

-29-

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Wichita, State of Kansas, on this 20th day of March 2002.

TOTAL ENTERTAINMENT RESTAURANT CORP.  
(Registrant)

/s/ James K. Zielke

-----  
James K. Zielke  
Chief Financial Officer,  
Treasurer, Secretary and Director  
(principal accounting officer)

-30-

SIGNATORIES

Know all men by these presents, that each person whose signature appears below hereby constitutes and appoints James K. Zielke his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Form 10-K and to file the same, with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent or either of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

SIGNATURE

-----

TITLE

-----

Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

|   |  |    |
|---|--|----|
| /s/ Dennis L. Thompson<br>-----<br>Dennis L. Thompson   | Co-Chairman of the Board   | Ma |
| /s/ Stephen P. Hartnett<br>-----<br>Stephen P. Hartnett | Co-Chairman of the Board   | Ma |
| /s/ Steven M. Johnson<br>-----<br>Steven M. Johnson     | Chief Executive Officer and<br>Director<br>(principal executive officer)                           | Ma |
| /s/ Gary M. Judd<br>-----<br>Gary M. Judd               | President and Director   | Ma |
| /s/ James K. Zielke<br>-----<br>James K. Zielke         | Chief Financial Officer,<br>Treasurer, Secretary<br>and Director<br>(principal accounting officer) | Ma |

-31-

|   |          |    |
|---|----------|----|
| /s/ Thomas A. Hager<br>-----<br>Thomas A. Hager         | Director | Ma |
| /s/ C. Wells Hall, III<br>-----<br>C. Wells Hall, III   | Director | Ma |
| /s/ E. Gene Street<br>-----<br>E. Gene Street           | Director | Ma |
| /s/ John D. Harkey, Jr.<br>-----<br>John D. Harkey, Jr. | Director | Ma |

-32-

SUBSIDIARIES OF TOTAL ENTERTAINMENT RESTAURANT CORP.

-----  
AS OF MARCH 13, 2002  
-----

|                                     |                                  |
|-------------------------------------|----------------------------------|
| F & H RESTAURANT CORP.              | BRYANT BEVERAGE CORPORATION      |
| TENT FINANCE, INC.                  | CAMPBELL BEVERAGE CORP.          |
| TENT MANAGEMENT, INC.               | DOWNTOWN BEVERAGE CORP.          |
| BAILEY'S SPORTS GRILL               | FOX & HOUND CLUB                 |
| BAILEY'S SPORTS GRILLE, INC.        | GUADALUPE BEVERAGE CORP.         |
| FOX & HOUND, INC.                   | JACKSON BEVERAGE CORPORATION     |
| FOX & HOUND II, INC.                | LEWISVILLE BEVERAGE CORP.        |
| F & H RESTAURANTS OF TEXAS, INC.    | RAIDER BEVERAGE CORPORATION      |
| ALABAMA FOX & HOUND, INC.           | ROCKET BEVERAGE CORPORATION      |
| FOX & HOUND OF ARIZONA, INC.        | SKILLMAN BEVERAGE CORP.          |
| FOX & HOUND OF COLORADO, INC.       | MIDWAY ENTERTAINMENT, LTD.       |
| F & H RESTAURANT OF GEORGIA, INC.   | N. COLLINS ENTERTAINMENT, LTD.   |
| FOX & HOUND OF ILLINOIS, INC.       | 505 ENTERTAINMENT, LTD.          |
| FOX & HOUND OF INDIANA, INC.        | FOX & HOUND OF SAN ANTONIO, LTD. |
| F & H OF IOWA, INC.                 | FOX & HOUND OF AUSTIN, LTD.      |
| FOX & HOUND OF KANSAS, INC.         | FOX & HOUND OF DALLAS, LTD.      |
| F & H OF KENNESAW, INC.             | FOX & HOUND OF DALLAS #3, LTD.   |
| FOX & HOUND OF LOUISIANA, INC.      | FOX & HOUND OF LUBBOCK, LTD.     |
| FOX & HOUND OF MICHIGAN, INC.       | FOX & HOUND OF HOUSTON, LTD.     |
| FOX & HOUND OF MISSOURI, INC.       | FOX & HOUND OF HOUSTON #2, LTD.  |
| FOX & HOUND OF NEBRASKA, INC.       | FOX & HOUND OF HOUSTON #3, LTD.  |
| FOX & HOUND OF NORTH CAROLINA, INC. | FOX & HOUND OF LEWISVILLE, LTD.  |
| FOX & HOUND OF OHIO, INC.           | FOX & HOUND OF FT. WORTH, LTD.   |
| PENNSYLVANIA FOX & HOUND, INC.      | FOX & HOUND OF RICHARDSON, LTD.  |
| FOX & HOUND OF TENNESSEE, INC.      |                                  |
| FOX & HOUND OF TEXAS, INC.          |                                  |
| FOX & HOUND OF VIRGINIA, INC.       |                                  |

-33-

TOTAL ENTERTAINMENT RESTAURANT CORP.

INDEX TO FINANCIAL STATEMENTS



Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

TOTAL ENTERTAINMENT RESTAURANT CORP.

Independent Auditors' Report -----  
Report of Independent Certified Public Accountants -----  
Consolidated Balance Sheets as of December 25, 2001 and December 26, 2000-----  
Consolidated Statements of Income for the years ended December 25, 2001,  
December 26, 2000, and December 28, 1999-----  
Consolidated Statements of Stockholders' Equity for the years ended December 25, 2001,  
December 26, 2000, and December 28, 1999-----  
Consolidated Statements of Cash Flows for the years ended December 25, 2001,  
December 26, 2000, and December 28, 1999-----  
Notes to Consolidated Financial Statements-----

F-1

Independent Auditors' Report

The Stockholders  
Total Entertainment Restaurant Corp.

We have audited the accompanying consolidated balance sheets of Total Entertainment Restaurant Corp. and subsidiaries as of December 25, 2001 and December 26, 2000 and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Total Entertainment Restaurant Corp. and subsidiaries as of December 25, 2001 and December 26, 2000, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

Wichita, Kansas  
February 1, 2002

Report of Independent Certified Public Accountants

The Stockholders  
Total Entertainment Restaurant Corp.

We have audited the accompanying consolidated statements of income, stockholders' equity and cash flows of Total Entertainment Restaurant Corp. for the year ended December 28, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of operations and consolidated cash flows of Total Entertainment Restaurant Corp. for the year ended December 28, 1999, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, on December 30, 1998, the Company changed its method of accounting for pre-opening costs.

/s/ Grant Thornton LLP

Wichita, Kansas  
January 28, 2000

TOTAL ENTERTAINMENT RESTAURANT CORP.  
CONSOLIDATED BALANCE SHEETS

DECEMBER 25,  
2001

DECEMBER  
2000

ASSETS  
Current assets:

Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

|  |               |       |
|--|---------------|-------|
| Cash and cash equivalents  | \$ 1,346,495  | \$ 2  |
| Inventories  | 1,230,636     | 1     |
| Deferred income taxes  | 223,742       |       |
| Other current assets   | 586,967       |       |
| Total current assets   | 3,387,840     | 4     |
| Property and equipment:  |               |       |
| Land   | 600,000       |       |
| Buildings  | 670,629       |       |
| Leasehold improvements   | 26,336,678    | 21    |
| Equipment  | 15,284,124    | 13    |
| Furniture and fixtures   | 3,890,170     | 3     |
|  | 46,781,601    | 39    |
| Less accumulated depreciation and amortization   | 12,249,339    | 9     |
| Net property and equipment   | 34,532,262    | 30    |
| Other assets:  |               |       |
| Goodwill, net of accumulated amortization of \$1,222,121<br>(\$977,959 at December 26, 2000) | 3,661,134     | 3     |
| Deferred income taxes  | 982,875       | 1     |
| Other assets   | 586,048       |       |
| Total other assets   | 5,230,057     | 5     |
| Total assets   | \$ 43,150,159 | \$ 40 |

F-4

|   | DECEMBER 25,<br>2001 | DECEMBER<br>2000 |
|---|----------------------|------------------|
| LIABILITIES AND STOCKHOLDERS' EQUITY Current liabilities: |                      |                  |
| Current portion notes payable                             | \$ -                 | \$ 3             |
| Accounts payable  | 3,741,281            |                  |
| Sales tax payable   | 529,852              |                  |
| Accrued payroll   | 873,765              |                  |
| Accrued payroll taxes                                     | 23,258               |                  |
| Accrued income taxes                                      | 2,155,170            | 1                |
| Lease obligation for closed store                         | 158,342              |                  |
| Other accrued liabilities                                 | 1,065,734            |                  |
| Total current liabilities                                 | 8,547,402            | 7                |
| Notes payable   | 10,350,000           | 11               |
| Deferred revenue  | 103,875              |                  |
| Stockholders' equity:                                     |                      |                  |

## Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

|   |               |       |
|---|---------------|-------|
| Preferred stock, \$.10 par value, 2,000,000 shares authorized; none issued  | -             |       |
| Common stock, \$.01 par value; 20,000,000 shares authorized; 8,665,611 shares issued and outstanding (8,741,411 at December 26, 2000) | 86,656        |       |
| Additional paid-in capital  | 17,134,953    | 17    |
| Retained earnings   | 6,927,273     | 3     |
|   |               |       |
| Total stockholders' equity  | 24,148,882    | 20    |
|   |               |       |
| Commitments   |               |       |
| Total liabilities and stockholders' equity  | \$ 43,150,159 | \$ 40 |
|   |               |       |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

F-5

### TOTAL ENTERTAINMENT RESTAURANT CORP. CONSOLIDATED STATEMENTS OF INCOME

|  | YEAR ENDED<br>DECEMBER 25, 2001 | YEAR EN<br>DECEMBER 2 |
|--|---------------------------------|-----------------------|
|  |                                 |                       |
| Sales:   |                                 |                       |
| Food and beverage                                | \$64,504,884                    | \$50,8                |
| Entertainment and other                          | 6,447,603                       | 5,1                   |
|  |                                 |                       |
| Total net sales                                  | 70,952,487                      | 55,9                  |
| Cost and expenses:                               |                                 |                       |
| Cost of sales                                    | 19,213,441                      | 14,7                  |
| Entertainment and restaurant operating expenses  | 35,741,386                      | 28,3                  |
| Depreciation and amortization                    | 3,706,054                       | 3,5                   |
| Preopening costs                                 | 1,217,455                       | 5                     |
| Provision for asset impairment and store closing | 575,098                         | 2,3                   |
|  |                                 |                       |
| Entertainment and restaurant costs and expenses  | 60,453,434                      | 49,6                  |
|  |                                 |                       |
| Entertainment and restaurant operating income    | 10,499,053                      | 6,3                   |
| General and administrative expenses:             |                                 |                       |
| Related parties                                  | -                               |                       |
| Other  | 3,990,827                       | 3,7                   |
| Goodwill amortization                            | 244,163                         | 2                     |
|  |                                 |                       |
| Income from operations                           | 6,264,063                       | 2,3                   |
| Other income (expense):                          |                                 |                       |

Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

|  |              |      |
|--|--------------|------|
| Loss on disposal of assets   | (133,825)    | (    |
| Other income (principally interest income)                               | 1,484        |      |
| Interest expense   | (864,375)    | (1,0 |
|  | -----        |      |
| Income before provision for income taxes                                 | 5,267,347    | 1,1  |
| Provision for income taxes   | 1,938,195    | 3    |
|  | -----        |      |
| Income before cumulative effect of a<br>change in accounting principle   | 3,329,152    | 8    |
| Cumulative effect of a change in accounting principle                    | -            |      |
|  | -----        |      |
| Net income (loss)  | \$ 3,329,152 | \$ 8 |
|  | =====        |      |
| Basic and diluted earnings (loss) per share:                             |              |      |
| Earnings before cumulative effect of a<br>change in accounting principle | \$ 0.38      | \$   |
| Cumulative effect of a change in accounting principle                    | -            |      |
|  | -----        |      |
| Basic and diluted earnings (loss) per share                              | \$ 0.38      | \$   |
|  | =====        |      |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

F-6

TOTAL ENTERTAINMENT RESTAURANT CORP.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

|   | COMMON STOCK |           | ADDITIONAL         |
|---|--------------|-----------|--------------------|
|   | NUMBER       | AMOUNT    | PAID-IN<br>CAPITAL |
|   | -----        | -----     | -----              |
| Balance at December 29, 1998                      | 10,415,000   | \$104,150 | \$20,571,17        |
| Purchase and retirement of shares of common stock | (733,729)    | (7,337)   | (1,185,94          |
| Net loss  | -            | -         |                    |
|   | -----        | -----     | -----              |
| Balance at December 28, 1999                      | 9,681,271    | 96,813    | 19,385,22          |
| Purchase and retirement of shares of common stock | (939,860)    | (9,399)   | (2,083,71          |
| Net income  | -            | -         |                    |
|   | -----        | -----     | -----              |
| Balance at December 26, 2000                      | 8,741,411    | 87,414    | 17,301,51          |
| Purchase and retirement of shares of common stock | (75,800)     | (758)     | (166,55            |
| Net income  | -            | -         |                    |
|   | -----        | -----     | -----              |
| Balance at December 25, 2001                      | 8,665,611    | \$ 86,656 | \$17,134,95        |
|   | =====        | =====     | =====              |

Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

F-7

TOTAL ENTERTAINMENT RESTAURANT CORP.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

|  | YEAR ENDED<br>DECEMBER 25,<br>2001 | YEAR<br>DECEMBER<br>2000 |
|--|------------------------------------|--------------------------|
|  | -----                              | -----                    |
| OPERATING ACTIVITIES   |                                    |                          |
| Net income (loss)  | \$ 3,329,152                       | \$                       |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                                    |                          |
| Cumulative effect of a change in accounting principle                                    | -                                  |                          |
| Write off of property and equipment related to asset impairment and store closure        | 575,098                            | 2                        |
| Loss on disposal of assets   | 133,825                            |                          |
| Depreciation   | 3,725,337                          | 3                        |
| Amortization   | 272,952                            |                          |
| Deferred taxes   | 14,428                             |                          |
| Net change in operating assets and liabilities:  |                                    |                          |
| Inventories  | (201,661)                          |                          |
| Other current assets   | (7,373)                            |                          |
| Other assets   | (229,453)                          |                          |
| Accounts payable   | 1,505,297                          |                          |
| Accounts payable - affiliates  | -                                  |                          |
| Accrued liabilities  | 1,401,240                          |                          |
| Deferred revenue   | (25,674)                           |                          |
| Lease obligation for closed store  | (105,582)                          |                          |
| Net cash provided by operating activities  | -----<br>10,387,586                | 7                        |
| INVESTING ACTIVITIES   |                                    |                          |
| Purchases of property and equipment  | (9,540,231)                        | (3                       |
| Proceeds from disposal of assets   | 51,850                             |                          |
| Net cash used in investing activities  | -----<br>(9,488,381)               | (2                       |
| FINANCING ACTIVITIES   |                                    |                          |
| Proceeds from revolving note payable to bank   | 41,945,000                         | 38                       |
| Payments of revolving note payable to bank   | (43,575,000)                       | (40                      |

Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

|  |              |      |
|--|--------------|------|
| Purchase of common stock                             | (167,316)    | (2)  |
|  | -----        |      |
| Net cash (used in) provided by financing activities  | (1,797,316)  | (4)  |
| Net (decrease) increase in cash and cash equivalents | (898,111)    |      |
| Cash and cash equivalents at beginning of year       | 2,244,606    | 2    |
|  | -----        |      |
| Cash and cash equivalents at end of year             | \$ 1,346,495 | \$ 2 |
|  | =====        |      |

F-8

TOTAL ENTERTAINMENT RESTAURANT CORP.  
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

|   | YEAR ENDED<br>DECEMBER 25,<br>2001 | YEAR<br>DECEMBER<br>2 |
|---|------------------------------------|-----------------------|
|   | -----                              |                       |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION                    |                                    |                       |
| Cash paid for interest  | \$ 885,206                         | \$ 1                  |
| Cash paid for income taxes  | 778,189                            |                       |
| SUPPLEMENTAL DISCLOSURE OF NON CASH ACTIVITY                        |                                    |                       |
| Additions to property and equipment in accounts payable at year end | \$ 261,525                         | \$ 1                  |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

TOTAL ENTERTAINMENT RESTAURANT CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BACKGROUND AND SIGNIFICANT ACCOUNTING POLICIES

o BACKGROUND

Total Entertainment Restaurant Corp. (the Company) owns and operates a chain of entertainment and restaurant locations under the Fox and Hound English Pub & Grille and Fox and Hound Smokehouse & Tavern (Fox & Hound), Bailey's Sports Grille, Bailey's Pub & Grille, and Bailey's Smokehouse & Tavern (Bailey's) brand names. The Company's entertainment restaurant locations combine a comfortable and inviting social gathering place, full menu and full service bar, state-of-the-art audio and video systems for sports entertainment, traditional games of skill such as pocket billiards and late-night dining alternatives in a single location. The Company's entertainment restaurant locations appeal to a broad range of guests who can participate in one or more aspects of the Company's total entertainment restaurant experience. Fox & Hound and Bailey's encompass the Company's multi-dimensional concept and serve both larger urban and smaller regional markets. As of December 25, 2001, the Company owned and operated 29 Fox & Hounds and 14 Bailey's in Alabama, Arkansas, Georgia, Illinois, Indiana, Kansas, Louisiana, Michigan, Missouri, Nebraska, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee and Texas. The Company operates in one business segment.

The company has a 52/53 week fiscal year ending on the last Tuesday in December.

o PRINCIPLES OF CONSOLIDATION

The accompanying financial statements include the accounts of Total Entertainment Restaurant Corp. and its wholly-owned subsidiaries. All significant intercompany accounts have been eliminated.

o CASH AND CASH EQUIVALENTS

The Company considers cash and cash equivalents to include currency on hand, demand deposits with banks or financial institutions, and short-term investments with maturities of three months or less when purchased. Cash and cash equivalents are carried at cost, which approximates fair value.

o CONCENTRATION OF CREDIT RISK

The Company's financial instruments exposed to credit risk consist primarily of cash. The Company places its cash with high credit financial institutions and, at times, such cash may be in excess of the Federal Depository insurance limit.

o INVENTORIES

Inventories consist of food and beverages and are stated at the lower of cost (first-in, first-out) or market.



## Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

### 1. BACKGROUND AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### o PRE-OPENING COSTS

In April 1998, the American Institute of Certified Public Accountants issued SOP 98-5, REPORTING ON THE COSTS OF START-UP ACTIVITIES, which requires costs related to pre-opening activities be expensed as incurred. Prior to fiscal year 1999, the Company capitalized substantially all costs incurred prior to the opening of new restaurants, excluding those costs capitalized as property and equipment, and amortized such pre-opening costs over a one-year period. The Company adopted the provisions of SOP 98-5 effective December 30, 1998. The effect of adoption of SOP 98-5 was to increase income from continuing operations in 1999 by \$1,064,401 (\$0.10 per share), net of tax expense of \$625,125, and to record a charge for the cumulative effect of an accounting change of \$1,127,536, net of tax benefits of \$662,204, to expense costs that had been capitalized prior to 1999.

#### o PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Maintenance repairs and renewals which do not enhance the value of or increase the life of the assets are expensed as incurred.

Buildings and leasehold improvements are amortized on the straight-line method over the lesser of the life of the lease, including renewal options, or the estimated useful lives of the assets, which range from 5 to 30 years. Equipment and furniture and fixtures are depreciated using the straight-line method over the estimated useful lives of the assets, which range from two to seven years.

#### o GOODWILL

Goodwill represents the excess of the cost of companies acquired over the fair value of the net assets at the date of acquisition and is being amortized over 20 years.

#### o IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets and certain intangibles, including goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company reviews applicable intangible assets and long-lived assets related to each restaurant on a periodic basis. When events or changes in circumstances indicate an asset may not be recoverable, the Company estimates the future cash flows expected to result from the use of the asset. If the sum of the expected undiscounted cash flows is less than the carrying value of the asset, an impairment loss is recognized. The impairment loss is recognized by measuring the difference between the carrying value of the assets and the

F-11

TOTAL ENTERTAINMENT RESTAURANT CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. BACKGROUND AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

fair value of the assets. The Company's estimates of fair values are based on the best information available and require the use of estimates, judgments and projections as considered necessary. The actual results may vary significantly. A provision for impairment amounting to \$575,098 and \$2,361,840 has been recorded for the years ended December 25, 2001 and December 26, 2000, respectively.

### o INCOME TAXES

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. Deferred tax assets and liabilities are measured using enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

### o ADVERTISING COSTS

Advertising costs are expensed as incurred. Advertising expense for the years ended December 25, 2001, December 26, 2000, and December 28, 1999 were \$536,342, \$696,364, and \$622,555, respectively.

### o ACCOUNTING FOR STOCK-BASED COMPENSATION

In accordance with APB Opinion No. 25, the Company uses the intrinsic value-based method for measuring stock-based compensation cost which measures compensation cost as the excess, if any, of the quoted market price of Company's common stock at the grant date over the amount the employee must pay for the stock. The Company's policy is to grant stock options with grant prices equal to the fair value of the Company's common stock at the date of grant. Proceeds from the exercise of common stock options issued to officers, directors and key employees under the Company's stock option plans are credited to common stock to the extent of par value and to additional paid-in capital for the excess. Required pro forma disclosures of compensation expense determined under the fair value method of Statement of Financial Accounting Standards (SFAS) No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION, are presented in Note 4.

### o USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from estimates.

F-12

## TOTAL ENTERTAINMENT RESTAURANT CORP. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. BACKGROUND AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### o EARNINGS PER SHARE

Basic earnings per common share is calculated by dividing net income by the average number of common shares outstanding during the year. Diluted earnings per common share is calculated by adjusting outstanding shares, assuming

## Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

conversion of all potentially dilutive stock options.

### 2. PREFERRED STOCK

The Company's Board of Directors has the authority to issue up to 2,000,000 shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, conversion rights, voting rights, terms of redemption, liquidation preference and the number of shares constituting any series or the designation of such series.

### 3. REVOLVING NOTE PAYABLE

On September 1, 1998 the Company entered into a loan agreement with Intrust Bank, N.A. (the "Facility") which provides for a line of credit of \$20,000,000 subject to certain limitations based on earnings before interest, income taxes, depreciation and amortization of the past fifty-two weeks. The note is secured by substantially all assets of the Company. The note restricts the ability of the Company to pay dividends. The Facility requires monthly payments of interest only until November 1, 2003, at which time equal monthly installments of principal and interest are required as necessary to fully amortize the outstanding indebtedness plus future interest over a period of four years. Interest is accrued at a rate of 1/2% below the prime rate as published in THE WALL STREET JOURNAL (4.50% and 9.00% at December 25, 2001 and December 26, 2000, respectively). Proceeds from the Facility were used for restaurant development and acquisition of treasury stock. As of December 25, 2001 and December 26, 2000, the Company had borrowed \$10,350,000 and \$11,980,000, respectively, under the Facility. The Company had additional borrowings available at December 25, 2001 under the Facility of \$9,650,000.

The following represents future maturities of the note:

|            |    |              |
|------------|----|--------------|
| 2002       | \$ | -            |
| 2003       |    | 395,147      |
| 2004       |    | 2,434,019    |
| 2005       |    | 2,545,838    |
| 2006       |    | 2,662,793    |
| Thereafter |    | 2,312,203    |
|            |    | -----        |
| Total      |    | \$10,350,000 |
|            |    | =====        |

F-13

TOTAL ENTERTAINMENT RESTAURANT CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 4. STOCK OPTIONS

The Company has elected to follow APB Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES and related interpretations in accounting for its employee stock options because, as described below, the alternative fair value accounting provided for under FASB Statement No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION, requires the use of option valuation models that were not developed for use in valuing employee stock options. Under APB Opinion No. 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation

## Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

expense is recognized.

o 1997 Incentive and Nonqualified Stock Option Plan

In March 1997, the Board of Directors adopted a stock option plan providing for incentive and nonqualified stock options pursuant to which up to 1,500,000 shares of common stock will be available for issuance. The Plan was amended in May 1999 to increase the number of authorized shares reserved for issuance to 1,600,000 shares from 1,500,000 shares. The Plan covers the former Chairman of the Board, certain officers and key employees. Options granted have a vesting period of three to five years and a life of ten years.

o Directors' Stock Option Plan

In March 1997, the Board of Directors adopted a stock option plan providing for nondiscretionary grants to nonemployee directors pursuant to which up to 150,000 shares of common stock will be available for issuance.

Pro forma information regarding net income and earnings per share is required by Statement No. 123, which also requires the information be determined as if the Company has accounted for its employee stock options granted under the fair value of that Statement. The fair value method for these options were estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions: risk-free interest rate ranging from 4.1% to 5.3%; no dividend yields; volatility factor ranging from 0.281 to 0.800; and a weighted-average expected life of the option of 5 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

F-14

TOTAL ENTERTAINMENT RESTAURANT CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. STOCK OPTIONS (CONTINUED)

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the option's vesting period. The Company's pro forma information is as follows:

|                             | DECEMBER 25,<br>2001 | DECEMBER 26,<br>2000 | DECEMBER 2<br>1999 |
|-----------------------------|----------------------|----------------------|--------------------|
| Pro forma net income (loss) | \$2,979,754          | \$645,479            | \$(524,26          |

## Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

|  |        |        |          |
|--|--------|--------|----------|
| Pro forma earnings (loss) per share--basic and diluted         | \$0.34 | \$0.07 | \$(0.00) |
| Weighted average fair value of options granted during the year | \$1.24 | \$1.23 | \$3.00   |

A summary of the Company's stock option activity and related information for the years ended December 25, 2001, December 26, 2000, and December 28, 1999 follows:

|                               | DECEMBER 25, 2001                        |           | DECEMBER 26, 2000                        |           | DECEMBER 28, 1999                        |           |
|-------------------------------|--|-----------|--|-----------|--|-----------|
|                               | WEIGHTED<br>AVERAGE<br>EXERCISE<br>PRICE | OPTIONS   | WEIGHTED<br>AVERAGE<br>EXERCISE<br>PRICE | OPTIONS   | WEIGHTED<br>AVERAGE<br>EXERCISE<br>PRICE | OPTIONS   |
| Outstanding beginning of year | \$ 5.60                                  | 980,069   | \$ 5.57                                  | 1,180,903 | \$ 7.19                                  | 1,180,903 |
| Granted                       | 2.49                                     | 278,000   | 1.92                                     | 58,000    | 4.02                                     | 58,000    |
| Exercised                     | -  | -         | -  | -         | -  | -         |
| Canceled                      | (3.71)                                   | (114,724) | (4.45)                                   | (258,834) | (6.05)                                   | (258,834) |
| Outstanding end of year       | \$ 5.10                                  | 1,143,345 | \$ 5.60                                  | 980,069   | \$ 5.57                                  | 1,180,903 |

As of December 25, 2001, the Company's outstanding options have a weighted average remaining contract life of 6.6 years and exercise prices ranging from \$1.63 to \$9.00. There were 546,379 options exercisable at December 25, 2001 and 417,113 options exercisable at December 26, 2000.

For options outstanding as of December 25, 2001, the number of options, weighted-average exercise price and weighted-average remaining contract life for each group of options are as follows:

| OPTIONS OUTSTANDING |  |   |  |
|---------------------|--|---|--|
| Range of<br>Prices  | Number<br>Outstanding at<br>December 25,<br>2001 | Weighted-<br>Average<br>Exercise<br>Price | Weighted-<br>Average<br>Remaining<br>Contract Life |
| \$1.63 to \$4.00    | 695,248  | 3.04                                      | 7.40 years   |
| \$4.13 to \$5.25    | 65,175   | 4.39                                      | 5.39 years   |
| \$7.00 to \$9.00    | 382,922  | 8.96                                      | 5.32 years   |
| Total               | 1,143,345  | 5.10                                      | 6.59 years   |

# Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

## TOTAL ENTERTAINMENT RESTAURANT CORP. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 4. STOCK OPTIONS (CONTINUED)

The number of shares and weighted-average exercise price of options exercisable at December 25, 2001 are as follows:

| OPTIONS EXERCISABLE |  |   |
|---------------------|--|---|
| Range of<br>PRICES  | Number<br>Exercisable at<br>December 25,<br>2001 | Weighted-<br>Average<br>Exercise<br>PRICE |
| \$1.63 to \$4.00    | 176,771  | 3.35                                      |
| \$4.13 to \$5.25    | 30,036   | 4.41                                      |
| \$7.00 to \$9.00    | 339,572  | 8.98                                      |
| Total               | 546,379  | 6.91                                      |

### 5. RELATED PARTY TRANSACTIONS

The Company utilized an affiliate to provide certain accounting, computer, and administrative services during 1999. The Company incurred fees of \$60,563 related to these services for the year ended December 28, 1999.

### 6. LEASES

The Company leases many of its facilities under noncancelable operating leases having terms expiring between 2002 and 2017. The leases have renewal clauses of 3 to 5 years, exercisable at the option of the lessee. In addition, certain leases contain escalation clauses based on a fixed percentage increase and provisions for contingent rentals based on a percentage of gross revenues, as defined by the lease. Total rental expense for the years ended December 25, 2001, December 26, 2000, and December 28, 1999 was \$3,898,642, \$3,246,774, and \$3,196,886, respectively, of which \$267,686, \$243,409, and \$241,892, respectively, was paid to a related party. Contingent rentals for the year ended December 25, 2001 were \$10,107. There were no contingent rentals during 2000 or 1999.

The following presents the future minimum lease payments under noncancelable operating leases with initial terms in excess of one year for each of the next five years and thereafter as of December 25, 2001:

|            |               |
|------------|---------------|
| 2002       | \$4,950,171   |
| 2003       | 4,648,272     |
| 2004       | 2,929,736     |
| 2005       | 2,713,873     |
| 2006       | 2,368,964     |
| Thereafter | 11,647,782    |
| Total      | \$ 29,258,798 |
|            | =====         |

It is expected in the normal course of business that leases will be renewed as they expire.

Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

F-16

TOTAL ENTERTAINMENT RESTAURANT CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

|  | 2001    | 2000    | 1999       |
|--|---------|---------|------------|
| <hr/>  |         |         |            |
| NUMERATOR  |         |         |            |
| Net income (loss)  | \$3,329 | \$ 848  | \$ (1,000) |
| <hr/>  |         |         |            |
| DENOMINATOR  |         |         |            |
| Denominator for basic earnings (loss) per share - weighted-average shares                                    | 8,670   | 9,323   | 10,000     |
| Effect of dilutive securities:   |         |         |            |
| Employee stock options   | 24      | 6       |            |
| <hr/>  |         |         |            |
| Dilutive potential common shares   |         |         |            |
| Denominator for diluted earnings (loss) per share - adjusted weighted-average shares and assumed conversions | 8,694   | 9,329   | 10,000     |
| <hr/>  |         |         |            |
| Basic earnings (loss) per common share   | \$ 0.38 | \$ 0.09 | \$ (0.10)  |
| <hr/>  |         |         |            |
| Diluted earnings (loss) per common share   | \$ 0.38 | \$ 0.09 | \$ (0.10)  |
| <hr/>  |         |         |            |

8. INCOME TAXES

The Company's provision for income taxes consists of the following:

|                | DECEMBER 25,<br>2001 | DECEMBER 26,<br>2000 | DECEMBER<br>1999 |
|----------------|----------------------|----------------------|------------------|
| <hr/>          |                      |                      |                  |
| Current:       |                      |                      |                  |
| Federal        | \$ 1,427,641         | \$ 786,663           | \$ 534,900       |
| State          | 496,126              | 148,742              | 49,900           |
| <hr/>          |                      |                      |                  |
| Total Current  | 1,923,767            | 935,405              | 584,800          |
| Deferred:      |                      |                      |                  |
| Federal        | 11,951               | (546,984)            | (777,400)        |
| State          | 2,477                | (46,775)             | (51,400)         |
| <hr/>          |                      |                      |                  |
| Total Deferred | 14,428               | (593,759)            | (828,800)        |
| <hr/>          |                      |                      |                  |

Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

|                                    |              |            |           |
|------------------------------------|--------------|------------|-----------|
| Total income tax expense (benefit) | \$ 1,938,195 | \$ 341,646 | \$ (243,9 |
|------------------------------------|--------------|------------|-----------|

F-17

TOTAL ENTERTAINMENT RESTAURANT CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. INCOME TAXES (CONTINUED)

The income tax effects of temporary differences that give rise to significant portions of deferred income tax assets and liabilities at December 25, 2001 and December 26, 2000 are as follows:

|                                   | DECEMBER 25,<br>2001 | DECEMBER 26,<br>2000 |
|-----------------------------------|----------------------|----------------------|
| Deferred tax assets:              |                      |                      |
| Preopening and organization costs | \$ 545,788           | \$ 527,423           |
| Store closure costs               | 289,370              | 387,452              |
| Asset impairment costs            | 1,023,695            | 956,545              |
| Deferred revenue                  | 33,847               | 52,467               |
| State income taxes                | 211,486              | 47,003               |
| Vacation                          | 39,809               | 43,403               |
| Federal tax credit carryovers     | 426,764              | 913,641              |
| Other                             | 2,101                | 3,253                |
|                                   | -----                | -----                |
| Total deferred tax assets         | 2,572,860            | 2,931,187            |
|                                   | -----                | -----                |
| Deferred tax liabilities:         |                      |                      |
| Property and equipment            | 1,209,568            | 1,486,054            |
| Goodwill                          | 154,621              | 167,442              |
| Other                             | 2,054                | 56,646               |
|                                   | -----                | -----                |
| Total deferred tax liabilities    | 1,366,243            | 1,710,142            |
|                                   | -----                | -----                |
| Net deferred tax asset            | \$1,206,617          | \$1,221,045          |
|                                   | =====                | =====                |

The federal tax credit carryovers consist of credits for social security taxes paid on tips in excess of minimum wage of \$171,242 and \$658,119 at December 25, 2001 and December 26, 2000, respectively, which expire in 2021 and credits for alternative minimum tax of \$255,522 and \$255,522 at December 25, 2001 and December 26, 2000, respectively, which have no expiration date. A valuation allowance for deferred tax assets was not considered necessary at December 25, 2001.

A reconciliation between the reported provision for income taxes and tax determined by applying the applicable U.S. Federal Statutory income tax rate to income before taxes follows:



Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

|  | DECEMBER 25,<br>2001 |       | DECEMBER 26,<br>2000 |        | DECEMBER 19  |
|--|----------------------|-------|----------------------|--------|--------------|
|  | AMOUNT               | RATE  | AMOUNT               | RATE   | AMOUNT       |
| Income tax (benefit) expense at federal statutory rate | \$1,790,898          | 34.0% | \$ 404,611           | 34.0%  | \$ (188,601) |
| State income taxes, net of federal (provision) benefit | 281,307              | 5.3   | 41,199               | 3.5    | (15,217)     |
| Tax credits  | (200,227)            | (3.8) | (177,591)            | (14.9) | (126,615)    |
| Other items, net                                       | 66,217               | 1.3   | 73,427               | 6.1    | 86,440       |
| Actual income tax expense (benefit)                    | \$1,938,195          | 36.8% | \$ 341,646           | 28.7%  | \$ (243,993) |

F-18

TOTAL ENTERTAINMENT RESTAURANT CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. FAIR VALUES OF FINANCIAL INSTRUMENTS

The carrying amount reported in the balance sheet for all financial instruments, including cash and cash equivalents, certain payables, and debt instruments, approximates its fair value.

10. QUARTERLY FINANCIAL SUMMARIES (UNAUDITED)

The following table summarizes the unaudited consolidated quarterly results of operations for fiscal 2001 and 2000:

|   | 1st<br>Quarter<br>(12 weeks) | 2nd<br>Quarter<br>(12 weeks) | 3rd<br>Quarter<br>(12 weeks) | 4th<br>Quarter<br>(12 weeks) |
|---|------------------------------|------------------------------|------------------------------|------------------------------|
| 2001  |                              |                              |                              |                              |
| Net sales   | \$16,437,017                 | \$14,725,028                 | \$14,550,685                 | \$25,000,000                 |
| Entertainment and restaurant operating income (a) | 3,073,406                    | 1,789,149                    | 1,508,109                    | 4,000,000                    |
| Net income (a)                                    | 1,191,209                    | 362,051                      | 219,984                      | 1,000,000                    |
| Basic and diluted earnings per share              | 0.14                         | 0.04                         | 0.03                         | 0.03                         |

(a) The fourth quarter of fiscal 2001 includes a charge to earnings of \$575,098 (\$354,430 net of income tax) related to the provision for asset impairment in the quarter.

1st 2nd 3rd

Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

|  | Quarter<br>(12 weeks) | Quarter<br>(12 weeks) | Quarter<br>(12 weeks) | Qu<br>(16 |
|--|-----------------------|-----------------------|-----------------------|-----------|
| 2000   |                       |                       |                       |           |
| Net sales  | \$13,649,790          | \$12,006,223          | \$11,282,667          | \$19,     |
| Entertainment and restaurant<br>operating income (a) | 2,831,044             | 1,676,877             | 1,213,162             | (         |
| Net income (loss) (a)                                | 971,316               | 294,971               | 20,221                | (         |
| Basic and diluted earnings (loss)<br>per share       | 0.10                  | 0.03                  | 0.00                  |           |

(a) The fourth quarter of fiscal 2000 includes a charge to earnings of \$2,361,840 (\$1,457,491 net of income tax) related to the provision for asset impairment in the quarter.

11. LEGAL PROCEEDINGS

On February 28, 2001, eight former employees filed a complaint on their own behalf and on behalf of other similarly situated persons against the Company, Fox & Hound of Indiana, Inc., a subsidiary of the Company, and several Company officers, in the United States District Court for the Southern District of Indiana.

The plaintiffs alleged that the Company and the other defendants willfully and in bad faith failed to pay the defendants overtime pay for hours worked in excess of forty hours per week in

F-19

TOTAL ENTERTAINMENT RESTAURANT CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

violation of the provisions of the Fair Labor Standards Act. The plaintiffs' complaint seeks (1) declaratory judgment that the Company and other defendants violated the plaintiffs' legal rights, (2) an accounting of compensation to which the defendants are owed, (3) monetary damages in the form of back pay compensation and benefits, unpaid entitlements, liquidated damages, and pre-judgment and post-judgment interest, and (4) attorneys' fees and costs. Defendants including the Company have filed their answer to the plaintiffs' complaint. The court has not yet entered its order establishing this case as a collective action. On June 27, 2001, the Magistrate Judge held an initial pre-trial conference and entered orders establishing deadlines in this action. A settlement conference is scheduled for June 27, 2002 and a five-day trial is scheduled for March 3, 2003.

Although it is not possible at this time for the Company to evaluate the merits of this claim, nor their likelihood of success, management of the Company is of the opinion that any resulting liability should not have a material adverse effect on the Company's financial statements.

On October 2, 2000, R&A Bailey & Company of Dublin, Ireland, filed a notice of opposition in the Trademark Trial and Appeal Board of the U.S. Patent and Trademark Office to certain of the Company's U.S. service mark applications. Additionally, on November 14, 2000, R&A Bailey & Company filed a petition in the Trademark Trial and Appeal Board of the U.S. Patent and Trademark Office to cancel certain of the Company's U.S. service mark registrations. In both instances, the service marks involved in the actions included the word "Bailey's".

## Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-K

On December 29, 2000, the Company through its trademark counsel filed an answer to R&A Bailey & Company's notice of opposition, denying its allegations. On February 16, 2001, the Company filed a Stipulated Motion to Extend Answer to Petition in response to the petition to cancel by R&A Bailey & Company. The actions have been suspended by the Trademark Trial & Appeal Board to allow the parties time to negotiate for possible settlement of these pending actions. The Company is actively pursuing settlement, and is of the opinion that any resulting liability should not have a material adverse effect on the Company's financial statements.

### NEW ACCOUNTING STANDARDS

In June 2001, the FASB issued SFAS No. 142, Goodwill and Other Intangible Assets (SFAS No. 142). SFAS No. 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. In addition, SFAS No. 142 requires the Company to perform an assessment of whether its recorded goodwill is impaired as of the date of adoption. SFAS No. 142 is effective for the Company's fiscal year 2002. The Company currently records annual goodwill amortization of approximately \$244,000.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144). SFAS No. 144 addresses significant issues relating to the implementation of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and develops a single accounting method under which long-lived assets that are to be disposed of by sale are measured at the lower of book value or fair value less cost to sell. Additionally, SFAS No. 144 expands the scope of discontinued operations to include all components of an entity with operations that (1) can be distinguished from the rest of the entity and (2) will be eliminated from the ongoing operations of the entity in a disposal transaction. SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001 and its provisions are to be applied prospectively. Management believes that the adoption of SFAS No. 144 will not have a significant impact on the financial statements.