TOTAL ENTERTAINMENT RESTAURANT CORP
Form 10-Q
May 03, 2002

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

FORM 10-Q

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

For the quarterly period ended MARCH 19, 2002	Commission file number 000-22753

TOTAL ENTERTAINMENT RESTAURANT CORP.
(Exact Name of Registrant as Specified in its Charter)

DELAWARE	52-2016614
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

9300 EAST CENTRAL AVENUE
SUITE 100
WICHITA, KANSAS 67206
(Address of principal executive offices) (Zip code)

(316) 634-0505
(Registrant's telephone number, including area code)

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.

[X] YES [ ] NO

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

CLASS	Outstanding at April 26, 2002
COMMON STOCK, $.01 PAR VALUE	8,837,493 SHARES

TOTAL ENTERTAINMENT RESTAURANT CORP.

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TOTAL ENTERTAINMENT RESTAURANT CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	March 19, 2002	Decemb
ASSETS		
Current assets:		
Cash and cash equivalents	$ 909,915	$ 1
Inventories	1,363,211	1
Deferred income taxes	238,770	
Other current assets	1,238,077	
Total current assets	3,749,973	3
Property and equipment:		
Land	600,000	
Buildings	670,629	
Leasehold improvements	28,938,323	26
Equipment	16,993,556	15

Furniture and fixtures	4,329,688	3
	51,532,196	46
Less accumulated depreciation and amortization	13,240,026	12
	38,292,170	34
Other assets:		
Goodwill, net of accumulated amortization	3,661,134	3
Deferred income taxes	945,897	
Other assets	664,012	
Total Other Assets	5,271,043	5
Total assets	$47,313,186	$43
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 3,279,294	$ 3
Sales tax payable	863,131	
Accrued payroll	740,973	
Accrued payroll taxes	464,520	
Accrued income taxes	1,490,086	2
Lease obligation for closed store	131,946	
Other accrued liabilities	1,374,939	1
Total current liabilities	8,344,889	8
	12,825,000	10
	96,952	
Stockholders' equity:		
Preferred stock	-	
Common stock	86,656	
Additional paid-in capital	17,134,953	17
Retained earnings	8,824,736	6
Total stockholders' equity	26,046,345	24
Total liabilities and stockholders' equity	$47,313,186	$43

See accompanying notes.

TOTAL ENTERTAINMENT RESTAURANT CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Twelve weeks ended March 19, 2002	Twelve week ended March 20, 20

Sales:		
Food and beverage	$20,117,978	$14,906,50
Entertainment and other	1,986,217	1,530,51
Total net sales	22,104,195	16,437,01
Costs and expenses:		
Costs of sales	5,803,724	4,450,82
Entertainment and restaurant operating expenses	10,555,263	8,024,97
Depreciation and amortization	1,009,618	816,39
Preopening costs	490,641	71,40
Entertainment and restaurant costs and expenses	17,859,246	13,363,61
Entertainment and restaurant operating income	4,244,949	3,073,40
General and administrative expenses	1,155,265	866,84
Goodwill amortization	-	56,34
Income from operations	3,089,684	2,150,21
Other income (expense):		
Loss on disposal of assets	(18,239)	(23,29
Other income, principally interest	6	4
Interest expense	(106,665)	(254,63
Income before provision for income taxes	2,964,786	1,872,32
Provision for income taxes	1,067,323	681,11
Net income	$ 1,897,463	$ 1,191,20
Basic earnings per share	$ 0.22	$ 0.1
Diluted earnings per share	$ 0.21	$ 0.1

See accompanying notes.

TOTAL ENTERTAINMENT RESTAURANT CORP.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

	Twelve weeks ended March 19, 2002
Cash flows from operating activities:	
Net income	$ 1,897,463
Adjustments to reconcile net income to net cash provided by operating activities:	
Loss on disposal of assets	18,239
Depreciation and amortization	1,024,193

Deferred income taxes	21,950
Net change in operating assets and liabilities:	
Change in operating assets	(870,521)
Change in operating liabilities	(332,899)
Net cash provided by operating activities	1,758,425
Cash flows from investing activities:	
Purchases of property and equipment	(4,676,400)
Proceeds from disposal of assets	6,395
Net cash used in investing activities	(4,670,005)
Cash flows from financing activities:	
Proceeds from revolving note payable to bank	7,860,000
Payments of revolving note payable to bank	(5,385,000)
Purchases of common stock	-
Net cash provided by financing activities	2,475,000
Net (decrease) increase in cash and cash equivalents	(436,580)
Cash and cash equivalents at beginning of period	1,346,495
Cash and cash equivalents at end of period	$ 909,915
Supplemental disclosure of cash flow information:	
Cash paid for interest	$ 114,717
Cash paid for income taxes	1,710,457
Supplemental disclosure of non cash activity:	
Additions to property and equipment in accounts payable	123,463

See accompanying notes.

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TOTAL ENTERTAINMENT RESTAURANT CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND DESCRIPTION OF BUSINESS

The unaudited condensed consolidated financial statements have been prepared by the Company, pursuant to the rules and regulations of the Securities and Exchange Commission. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments) which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally presented in annual financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. These financial statements should be read in conjunction with the Company's audited consolidated financial statements in its 2001 Form 10-K. The results of the twelve weeks ended March 19, 2002 are not necessarily indicative of the results to be expected for the full year ending December 31, 2002.

2. STOCK OPTIONS

During the twelve week period ended March 19, 2002, the Company granted to certain non-employee Directors stock options for 60,000 shares of Common Stock at an exercise price of $5.00 per share pursuant to its 1997 Directors Stock Option Plan.

3. EARNINGS PER SHARE

Basic earnings per share amounts are computed based on the weighted average number of shares actually outstanding. The number of weighted averaged shares outstanding for the twelve week periods ended March 19, 2002 and March 20, 2001 were 8,665,611 and 8,682,868, respectively.

For purposes of diluted computations, the number of shares that would be issued from the exercise of stock options has been reduced by the number of shares which could have been purchased from the proceeds at the average market price of the Company's stock or the price of the Company's stock on the exercise date if options were exercised during the period presented. The number of shares resulting from this computation of diluted earnings per share for the twelve weeks ended March 19, 2002 and March 20, 2001 were 9,025,477 and 8,698,594, respectively.

4. GOODWILL

The Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets", effective December 26, 2001. SFAS No. 142 requires that an intangible asset that is acquired shall be initially recognized and measured based on its fair value. SFAS No. 142 also provides that goodwill shall not be amortized, but shall be tested for impairment annually, or more frequently if circumstances indicate potential impairment through a comparison of fair value to its carrying value. No impairment losses were recorded upon the initial adoption of SFAS No. 142.

The effect of the adoption of SFAS No. 142 on net income and earnings per share is as follows:

	Twelve Weeks Ended March 19, 2002	Twelve Weeks Ended March 20, 2001
Net income, as reported	$1,897,463	$1,191,209
Goodwill amortization (net of income taxes)	0	42,135
Net income, as adjusted	$1,897,463	$1,233,344
Basic earnings per share, as reported	$ .22	$ .14
Goodwill amortization (net of income taxes)	--	--
Basic earnings per share, as adjusted	$ .22	$ .14
Diluted earnings per share, as reported	$ .21	$ .14
Goodwill amortization (net of income taxes)	--	--

Diluted earnings per share, as adjusted	$ .21	$ .14
	==========	==========

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

GENERAL

The following discussion and analysis should be read in conjunction with the Financial Statements and Notes thereto included elsewhere in this Form 10-Q.

As of March 19, 2002, the Company owned and operated 47 entertainment and restaurant locations under the Fox and Hound Smokehouse & Tavern and Fox and Hound English Pub & Grille ("Fox and Hound"), Bailey's Smokehouse & Tavern, Bailey's Sports Grille and Bailey's Pub & Grille ("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 and music entertainment, traditional games of skill such as pocket billiards and a late-night dining alternative, all in a single location. As of March 19, 2002, the Company owned and operated 33 Fox and Hound units and 14 Bailey's units located in Alabama, Arizona, Arkansas, Colorado, Georgia, Illinois, Indiana, Kansas, Louisiana, Michigan, Missouri, Nebraska, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee and Texas. As of March 20, 2001, the Company owned and operated 25 Fox and Hound units and 13 Bailey's units.

The components of the Company's net sales are food and non-alcoholic beverages, alcoholic beverages, and entertainment and other. For the twelve weeks ended March 19, 2002, food and non-alcoholic beverages were 31.9% of total sales, alcoholic beverages were 59.1% of total sales and entertainment and other were 9.0% of total sales. For the twelve weeks ended March 20, 2001, food and non-alcoholic beverages were 31.1% of total sales, alcoholic beverages were 59.6% of total sales and entertainment and other were 9.3% of total sales.

Components of restaurant operating expenses include operating payroll and fringe benefits, occupancy, advertising and promotion. These costs are generally variable and will fluctuate with changes in sales volume and sales mix. All but one of the Company's locations are leased and provide for a minimum annual rent, with some leases calling for additional rent based on sales volume at the particular location in excess of specified minimum levels.

General and administrative expenses include all corporate and administrative functions that support existing operations and provide an infrastructure to support future growth. Management, supervisory and staff salaries, employee benefits, travel, information systems, training, rent and office supplies as well as accounting services fees are major items of costs in this category.

RESULTS OF OPERATIONS

The following table sets forth for the periods indicated (i) the percentages which certain items included in the Condensed Consolidated Statement of Operations bear to net sales, and (ii) other selected operating data:

	TWELVE WEEKS ENDED(1)	
	MARCH 19, 2002	MARCH 20 2001
OPERATING STATEMENT DATA:		
Net sales	100.0%	100.0%
Costs and expenses:		
Costs of sales	26.3	27.1
Entertainment and restaurant operating expenses	47.7	48.8
Depreciation and amortization	4.6	5.0
Preopening costs	2.2	0.4
Entertainment and restaurant costs and expenses	80.8	81.3
Entertainment and restaurant operating income	19.2	18.7
General and administrative expenses	5.2	5.3
Goodwill amortization	--	0.3
Income from operations	14.0	13.1
Loss on disposal of assets	(0.1)	(0.1)
Interest expense	(0.5)	(1.6)
Income before provision for income taxes	13.4	11.4
Provision for income tax expense	4.8	4.2
Net income	8.6%	7.2%
RESTAURANT OPERATING DATA (DOLLARS IN THOUSANDS):		
Annualized average weekly sales per location (2)	$2,131	$1,874
Number of restaurants at end of the period	47	38

(1) The Company operates on a fifty-two or fifty-three week fiscal year ending the last Tuesday in December. The fiscal quarters for the Company consist of accounting periods of twelve, twelve, twelve and sixteen or seventeen weeks, respectively.

(2) Annualized average weekly sales per location are computed by dividing net sales for weeks open during the period by the number of weeks open and multiplying the result by fifty-two.

TWELVE WEEKS ENDED MARCH 19, 2002 COMPARED TO TWELVE WEEKS ENDED MARCH 20, 2001

Net sales increased $5,667,000 (34.5%) for the twelve weeks ended March 19, 2002 to $22,104,000 from $16,437,000 for the twelve weeks ended March 20, 2001. This increase is due to an 18.3% increase in store weeks as a result of 9 units added since March 20, 2001 and a 13.7% increase in average unit volumes. Same store sales for units open more than 18 months increased 9.3% for the quarter.

Costs of sales, primarily food and beverages, increased $1,353,000 (30.4%) for the twelve weeks ended March 19, 2002 to $5,804,000 from $4,451,000 in the twelve weeks ended March 20, 2001, and decreased as a percentage of sales to 26.3% from 27.1%. This decrease as a percentage of sales is principally attributable to lower food costs associated with a new menu implemented in the fourth quarter of 2001.

Entertainment and restaurant operating expenses increased $2,530,000 (31.5%) for the twelve weeks ended March 19, 2002 to $10,555,000 from $8,025,000 in the twelve weeks ended March

20, 2001, and decreased as a percentage of net sales to 47.7% from 48.8%. This decrease is attributable to leveraging fixed costs against higher average unit volumes.

Depreciation and amortization increased $193,000 (23.7%) for the twelve weeks ended March 19, 2002 to $1,010,000 from $816,000 in the twelve weeks ended March 20, 2001, and decreased as a percentage of sales to 4.6% from 5.0%. This increase in expense is due to depreciation on units added since March 20, 2001.

Preopening costs increased $420,000 for the twelve weeks ended March 19, 2002 to $491,000 from $71,000 in the twelve weeks ended March 20, 2001 and increased as a percentage of net sales to 2.2% from 0.4%. This increase is attributable to the costs incurred for four units which opened during the quarter and units which have yet to open.

General and administrative expenses increased $288,000 (33.3%) for the twelve weeks ended March 19, 2002 to $1,155,000 from $867,000 in the twelve weeks ended March 20, 2001, and decreased as a percentage of sales to 5.2% from 5.3%. This increase is due to an increase in corporate infrastucture necessary for executing the Company's development plans.

Loss on disposal of assets was $18,000 for the twelve weeks ended March 19, 2002 and $23,000 for the twelve weeks ended March 20, 2001. The losses reflect the disposal of certain video games in both years.

Interest expense was $107,000 for the twelve weeks ended March 19, 2002 and $255,000 for the twelve weeks ended March 20, 2001. This decrease is due to both a lower interest rate and lower average balance applicable to the revolving note payable in the current year compared with the prior year.

The effective income tax rate was 36.0% for the twelve weeks ended March 19, 2002 and 36.4% for the twelve weeks ended March 20, 2001.

QUARTERLY FLUCTUATIONS, SEASONALITY AND INFLATION

The timing of new unit openings will result in significant fluctuations in quarterly results. The Company expects seasonality to be a factor in the 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. A large number of the Company's restaurant personnel are tipped employees who are paid at the federal subminimum wage level; therefore, future subminimum wage changes will have a significant 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, improved operating procedures and menu price changes; however, short-term fluctuations in raw product pricing may have an impact on the Company's costs of food. To date, inflation has not had a material impact on operating margins.

LIQUIDITY AND CAPITAL RESOURCES

As is customary in the restaurant industry, the Company operates with negative working capital. Negative working capital decreased $565,000 to $4,595,000 as of March 19, 2002 from $5,160,000 as of December 25, 2001. This decrease is attributable primarily to a decrease in accrued income taxes as a result of federal and state income tax payments made during the twelve weeks ended March 19, 2002. Cash decreased $437,000 at March 19, 2002 compared to the balance at December 25, 2001. The Company does not have significant receivables or

inventory and receives trade credit based upon negotiated terms in purchasing food and supplies. Because funds available from cash sales are not needed immediately to pay for food and supplies, or to finance inventory, they may be considered as a source of financing for noncurrent capital expenditures.

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, 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 1/2% below the prime rate as published in THE WALL STREET JOURNAL. Proceeds from the Facility are being used for restaurant development. As of March 19, 2002 the Company had borrowed $12,825,000 under the Facility. The Company is in compliance with all debt covenants.

Cash flows from operations were $1,758,000 in the twelve weeks ended March 19, 2002 compared to $1,522,000 in the twelve weeks ended March 20, 2001. Purchases of property and equipment were $4,676,000 in the twelve weeks ended March 19, 2002 compared to $2,186,000 in the twelve weeks ended March 20, 2001. Net advances of the revolving note payable to bank was $2,475,000 for the twelve week period ending March 19, 2002 compared to $1,635,000 for the twelve week period ending March 20, 2001. At March 19, 2002, the Company had $910,000 in cash and cash equivalents.

The Company intends to open ten to twelve new locations in 2002 and between seven and ten locations in 2003. Five units have been opened in fiscal 2002, two units are currently under construction and an additional four 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 $15.0 million to open new locations over the next twelve 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 twelve months. There can be no assurance, however, that changes in the Company's operating plans, the acceleration or modification of the Company's expansion plans, lower than anticipated revenues, increased expenses, stock repurchases, 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 terms acceptable to the Company or at all.

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 1934, 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.

ITEM 3. 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 4.27% for the twelve weeks ended March 19, 2002. The interest rate at March 19, 2002 was 4.25%. The following table presents the quantitative interest rate risks at March 19, 2002:

	Principal Amount by Expected Maturity (In thousands)						
(dollars in thousands)	2002	2003	2004	2005	2006	There-after	
Variable rate debt	-	$492	$3,027	$3,158	$3,295	$2,853	$1
Average Interest Rate-- 1/2% below prime	-	4.25%	4.25%	4.25%	4.25%	4.25%	

PART II. OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

SECURITIES SOLD

(c) The following unregistered securities were issued by the Company during the twelve weeks ended March 19, 2002:

Date of Sale/issuance	Description of Securities Issued	Number of Shares Sold/Issued/Subject to Options or Warrants	Off Pr
January 4, 2002	Common Stock Options	60,000	

All of the above options were granted to non-employee directors pursuant to the Directors Stock Option Plan. 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. EXHIBITS AND REPORTS ON FORM 8-K

Exhibits
None

Reports on Form 8-K
None

TOTAL ENTERTAINMENT RESTAURANT CORP.

SIGNATURES

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

TOTAL ENTERTAINMENT RESTAURANT CORP.
(Registrant)

Date May 3, 2002

/s/ James K. Zielke

James K. Zielke
Chief Financial Officer,
Secretary and Treasurer
(Duly Authorized Officer)