

MORTONS RESTAURANT GROUP INC
Form 10-Q
November 03, 2010
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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 October 3, 2010

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 1-12692

MORTON S RESTAURANT GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

13-3490149
(I.R.S. employer identification no.)

325 North LaSalle Street, Suite 500, Chicago, Illinois
(Address of principal executive offices)

60654
(Zip code)

312-923-0030

(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. Yes or No .

Edgar Filing: MORTONS RESTAURANT GROUP INC - Form 10-Q

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes or No .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes or No .

As of October 29, 2010, the registrant had 16,713,211 shares of its Common Stock, \$0.01 par value, outstanding.

Table of Contents

MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES

INDEX

	Page
<u>Forward-Looking Statements</u>	3
<u>Part I - Financial Information</u>	
<u>Item 1. Financial Statements</u>	4
<u>Consolidated Balance Sheets as of October 3, 2010 and January 3, 2010 - unaudited</u>	4
<u>Consolidated Statements of Operations for the three and nine month periods ended October 3, 2010 and October 4, 2009 - unaudited</u>	6
<u>Consolidated Statements of Cash Flows for the nine month periods ended October 3, 2010 and October 4, 2009 - unaudited</u>	7
<u>Notes to Unaudited Consolidated Financial Statements</u>	8
<u>Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations</u>	17
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	23
<u>Item 4. Controls and Procedures</u>	23
<u>Part II - Other Information</u>	
<u>Item 1. Legal Proceedings</u>	25
<u>Item 1A. Risk Factors</u>	25
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	25
<u>Item 6. Exhibits</u>	25
<u>Signatures</u>	26

Table of Contents

Forward-Looking Statements

This Form 10-Q contains various 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 (the Exchange Act). Forward-looking statements, written, oral or otherwise made, represent the Company's expectations or beliefs concerning future events. Without limiting the foregoing, the words believes, thinks, anticipates, estimates, plans, expects and similar expressions are intended to identify forward-looking statements.

The Company cautions that these statements are subject to risks, uncertainties, assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements, including, without limitation:

- (i) a reduction in consumer and/or business spending in one or more of the Company's markets due to business layoffs, budget reductions, negative consumer sentiment, access to consumer credit, commodity and other prices, events or occurrences affecting the securities and/or financial markets, occurrences affecting the Company's common stock, housing values, changes in federal, state, foreign and/or local tax levels or other factors;
- (ii) risks relating to the restaurant industry and the Company's business, including competition, changes in consumer tastes and preferences, risks associated with opening new locations, increases in food and other raw materials costs, increases in energy costs, demographic trends, traffic patterns, weather conditions, employee availability, benefits and cost increases, perceived product safety issues, supply interruptions, litigation, judgments or settlements in pending litigation, government regulation, the Company's ability to maintain adequate financing facilities, the Company's liquidity and capital resources, prevailing interest rates and legal and regulatory matters;
- (iii) public health issues, including, without limitation risks relating to the spread of pandemic diseases; and
- (iv) other risks detailed in the Company's most recent Form 10-K, under Item 1A. Risk Factors herein and in the Company's other reports filed from time to time with the Securities and Exchange Commission.

In addition, the Company's ability to open new restaurants is dependent upon various factors, such as the availability of attractive sites for new restaurants, the ability to negotiate suitable lease terms, the ability to generate or borrow funds to develop new restaurants, the ability to obtain various government permits and licenses, limitations on permitted capital expenditures under the Company's senior revolving credit facility and the recruitment and training of skilled management and restaurant employees. Other unknown or unpredictable factors also could harm the Company's business, financial condition and results. Consequently, there can be no assurance that actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent required by applicable securities laws.

Table of Contents**Part I-Financial Information****Item 1. Financial Statements**

MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(amounts in thousands)

	October 3, 2010	January 3, 2010
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 927	\$ 1,141
Restricted cash	1,372	132
Accounts receivable	5,466	5,958
Inventories	10,083	10,556
Prepaid expenses and other current assets	3,406	3,663
Income taxes receivable	119	608
Total current assets	21,373	22,058
Property and equipment, at cost:		
Furniture, fixtures and equipment	28,522	27,232
Buildings and leasehold improvements	96,160	92,843
Land	7,300	7,300
Construction in progress	2,580	932
	134,562	128,307
Less: accumulated depreciation and amortization	43,428	35,864
Net property and equipment	91,134	92,443
Intangible asset	73,000	73,000
Goodwill	6,912	6,843
Other assets and deferred expenses, net	4,377	4,542
	\$ 196,796	\$ 198,886

Table of Contents

MORTONS RESTAURANT GROUP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets, Continued

(amounts in thousands, except share and per share amounts)

	October 3, 2010	January 3, 2010
	(unaudited)	
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 10,423	\$ 11,313
Accrued expenses, including deferred revenue from gift certificates and gift cards of \$11,357 and \$16,934 at October 3, 2010 and January 3, 2010, respectively	29,576	43,239
Current portion of borrowings under senior revolving credit facility	63,800	
Current portion of obligation to financial institution	175	164
Accrued income taxes	474	643
Total current liabilities	104,448	55,359
Borrowings under senior revolving credit facility, less current maturities		60,000
Obligation to financial institution, less current maturities	2,761	2,893
Joint venture loans payable	7,374	2,924
Non-recourse loan	1,638	1,550
Deferred income taxes, net	25,464	26,437
Deferred rent and landlord allowances	42,572	39,997
Other liabilities	4,494	4,445
Total liabilities	188,751	193,605
Commitments and contingencies		
Stockholders' equity:		
Series A Convertible Preferred stock, \$0.01 par value per share. 30,000,000 shares authorized, 1,200,000 issued at October 3, 2010 and none issued at January 3, 2010	12	
Common stock, \$0.01 par value per share. 100,000,000 shares authorized, 17,265,263 and 17,126,676 issued and 16,033,263 and 15,894,676 outstanding at October 3, 2010 and January 3, 2010, respectively	173	171
Additional paid-in capital - Preferred stock	3,120	
Additional paid-in capital - Common stock	171,200	169,834
Treasury stock, 1,232,000 shares at a weighted average cost of \$7.63 per share at October 3, 2010 and January 3, 2010	(9,395)	(9,395)
Accumulated other comprehensive income	252	256
Accumulated deficit	(156,821)	(155,323)
Total stockholders' equity of controlling interest	8,541	5,543
Noncontrolling interest, net of taxes	(496)	(262)
Total equity	8,045	5,281
	\$ 196,796	\$ 198,886

See the accompanying notes to unaudited consolidated financial statements.

Table of Contents

MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

(amounts in thousands, except share and per share amounts)

	Three month periods ended		Nine month periods ended	
	October 3, 2010	October 4, 2009	October 3, 2010	October 4, 2009
			(unaudited)	
Revenues	\$ 66,247	\$ 63,733	\$ 212,026	\$ 201,932
Food and beverage costs	20,445	19,669	64,587	62,334
Restaurant operating expenses	38,888	38,181	119,447	115,728
Pre-opening costs	789	600	1,218	1,787
Depreciation and amortization	2,454	2,794	7,496	8,783
General and administrative expenses	4,250	3,642	12,338	12,191
Marketing and promotional expenses	1,276	1,411	4,561	4,766
Charge related to legal settlements		1,129	540	11,696
Operating (loss) income	(1,855)	(3,693)	1,839	(15,353)
Write-off of deferred financing costs				206
Interest expense, net	956	1,051	2,831	2,716
Loss before income taxes from continuing operations	(2,811)	(4,744)	(992)	(18,275)
Income tax (benefit) expense	(395)	(1,584)	43	(7,387)
Loss from continuing operations, net of taxes	(2,416)	(3,160)	(1,035)	(10,888)
Discontinued operations, net of taxes	(66)	(109)	(869)	(970)
Net loss	(2,482)	(3,269)	(1,904)	(11,858)
Net (loss) income attributable to noncontrolling interest	(293)	31	(406)	(272)
Net loss attributable to controlling interest	\$ (2,189)	\$ (3,300)	\$ (1,498)	\$ (11,586)
Amounts attributable to controlling interest:				
Loss from continuing operations, net of taxes	\$ (2,123)	\$ (3,191)	\$ (629)	\$ (10,616)
Discontinued operations, net of taxes	(66)	(109)	(869)	(970)
Net loss	\$ (2,189)	\$ (3,300)	\$ (1,498)	\$ (11,586)
Basic net loss per share:				
Continuing operations	\$ (0.13)	\$ (0.20)	\$ (0.04)	\$ (0.67)
Discontinued operations	\$ (0.01)	\$ (0.01)	\$ (0.05)	\$ (0.06)
Basic loss per share	\$ (0.14)	\$ (0.21)	\$ (0.09)	\$ (0.73)
Diluted net loss per share:				
Continuing operations	\$ (0.13)	\$ (0.20)	\$ (0.04)	\$ (0.67)
Discontinued operations	\$ (0.01)	\$ (0.01)		