

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

TOTAL ENTERTAINMENT RESTAURANT CORP
Form 10-Q
August 01, 2003

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 JUNE 17, 2003 -----	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 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 ----- COMMON STOCK, \$.01 PAR VALUE	Outstanding at July 25, 2003 9,751,548 SHARES
-------------------------------------------------	--------------------------------------------------

TOTAL ENTERTAINMENT RESTAURANT CORP.

INDEX

PAGE
NUMBER

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

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

CONDENSED CONSOLIDATED BALANCE SHEETS AT JUNE 17, 2003 AND DECEMBER 31, 2002	2
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE TWELVE WEEKS ENDED JUNE 17, 2003 AND JUNE 11, 2002	3
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE TWENTY-FOUR WEEKS ENDED JUNE 17, 2003 AND JUNE 11, 2002	4
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE TWENTY-FOUR WEEKS ENDED JUNE 17, 2003 AND JUNE 11, 2002	5
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	6
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	8
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	14
ITEM 4. PROCEDURES AND CONTROLS	14
PART II. OTHER INFORMATION	
ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K	15

-1-

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

	June 17, 2003	December 31, 2002
ASSETS	-----	-----
Current assets:		
Cash and cash equivalents	\$ 612,020	\$ 1,116,094
Inventories	1,560,992	1,603,672
Deferred income taxes	210,874	212,367
Other current assets	1,556,901	1,034,151
	-----	-----

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

Total current assets	3,940,787	3,966,284
Property and equipment:		
Land	600,000	600,000
Buildings	702,886	702,739
Leasehold improvements	40,819,706	36,653,603
Equipment	22,493,826	20,802,285
Furniture and fixtures	6,679,457	5,845,627
	-----	-----
	71,295,875	64,604,254
Less accumulated depreciation and amortization	20,146,243	17,391,742
	-----	-----
	51,149,632	47,212,512
Other assets:		
Goodwill, net of accumulated amortization	3,661,134	3,661,134
Advances to developer	1,102,000	570,000
Other assets	930,854	485,354
	-----	-----
Total other assets	5,693,988	4,716,488
	-----	-----
Total assets	\$60,784,407	\$55,895,284
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of notes payable	\$ 804,894	\$ 98,413
Accounts payable	2,785,318	4,043,123
Sales tax payable	1,135,078	1,032,184
Accrued payroll	1,219,317	1,148,677
Accrued payroll taxes	520,065	751,920
Accrued income taxes	1,569,832	960,645
Lease obligation for closed store	-	42,606
Other accrued liabilities	2,089,415	1,506,847
	-----	-----
Total current liabilities	10,123,919	9,584,415
Notes payable		
Notes payable	4,340,106	2,441,587
Deferred taxes	162,276	98,633
Deferred revenue	60,029	73,875
Accrued rent	483,378	413,167
Stockholders' equity:		
Preferred stock	-	-
Common stock	97,345	98,663
Additional paid-in capital	27,883,804	29,054,438
Retained earnings	17,633,550	14,130,506
	-----	-----
Total stockholders' equity	45,614,699	43,283,607
	-----	-----
Total liabilities and stockholders' equity	\$60,784,407	\$55,895,284
	=====	=====

See accompanying notes.

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

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

	Twelve weeks ended June 17, 2003	Twelve weeks ended June 11, 2002
	-----	-----
Sales:		
Food and beverage	\$23,264,177	\$19,500,517
Entertainment and other	1,984,812	1,908,331
	-----	-----
Total net sales	25,248,989	21,408,848
Costs and expenses:		
Costs of sales	6,565,241	5,596,385
Restaurant operating expenses	13,504,360	11,272,784
Depreciation and amortization	1,403,025	1,054,611
Preopening costs	372,012	361,180
	-----	-----
Restaurant costs and expenses	21,844,638	18,284,960
	-----	-----
Restaurant operating income	3,404,351	3,123,888
General and administrative expenses	1,429,109	1,170,409
Loss on disposal of assets	16,726	-
	-----	-----
Income from operations	1,958,516	1,953,479
Other income (expense):		
Other income/(expense)	-	4
Interest expense	(45,161)	(118,745)
	-----	-----
Income from continuing operations before income taxes	1,913,355	1,834,738
Provision for income taxes	677,896	689,831
	-----	-----
Income from continuing operations	1,235,459	1,144,907
Income(loss) from discontinued operations	-	(19,279)
	-----	-----
Net income	\$ 1,235,459	\$ 1,125,628
	=====	=====
Basic earnings per share:		
Income from continuing operations	\$ 0.13	\$ 0.13
Loss on discontinued operations	-	-
	-----	-----
Basic earnings per share	\$ 0.13	\$ 0.13
	=====	=====
Diluted earnings per share		
Income from continuing operations	\$ 0.12	\$ 0.12
Loss on discontinued operations	-	-
	-----	-----
Diluted earnings per share	\$ 0.12	\$ 0.12
	=====	=====

See accompanying notes.

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

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

	Twenty-four weeks ended June 17, 2003	Twenty-four weeks ended June 11, 2002
	-----	-----
Sales:		
Food and beverage	\$48,130,388	\$39,376,430
Entertainment and other	4,159,512	3,857,152
	-----	-----
Total net sales	52,289,900	43,233,582
Costs and expenses:		
Costs of sales	13,514,268	11,327,872
Restaurant operating expenses	27,019,097	21,672,858
Depreciation and amortization	2,758,693	2,064,229
Preopening costs	658,855	851,821
	-----	-----
Restaurant costs and expenses	43,950,913	35,916,780
	-----	-----
Restaurant operating income	8,338,987	7,316,802
General and administrative expenses	2,796,067	2,325,674
Loss on disposal of assets	16,726	18,239
	-----	-----
Income from operations	5,526,194	4,972,889
Other income (expense):		
Other income/(expense)	304	10
Interest expense	(70,042)	(225,410)
	-----	-----
Income from continuing operations		
before income taxes	5,456,456	4,747,489
Provision for income taxes	1,953,412	1,737,230
	-----	-----
Income from continuing operations	3,503,044	3,010,259
Income(loss) from discontinued operations	-	12,832
	-----	-----
Net income	\$ 3,503,044	\$ 3,023,091
	=====	=====
Basic earnings per share:		
Income from continuing operations	\$ 0.36	\$ 0.35
Loss on discontinued operations	-	-
	-----	-----
Basic earnings per share	\$ 0.36	\$ 0.35
	=====	=====
Diluted earnings per share		
Income from continuing operations	\$ 0.34	\$ 0.33
Loss on discontinued operations	-	-
	-----	-----
Diluted earnings per share	\$ 0.34	\$ 0.33
	=====	=====

See accompanying notes.

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

- 4 -

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

	Twenty-four weeks ended June 17, 2003 -----	Twenty-four ended June 1 -----
Cash flows from operating activities:		
Net income	\$ 3,503,044	\$ 3,023,
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on disposal of assets	16,726	15,
Depreciation and amortization	2,790,644	2,093,
Deferred income taxes	65,136	45,
Net change in operating assets and liabilities:		
Change in operating assets	(952,924)	(911,
Change in operating liabilities	(223,194)	702,
	-----	-----
Net cash provided by operating activities	5,199,432	4,968,
Cash flows from investing activities:		
Purchases of property and equipment	(6,604,554)	(8,069,
Advances to developer	(532,000)	
Proceeds from disposal of assets	-	8,
	-----	-----
Net cash used in investing activities	(7,136,554)	(8,060,
Cash flows from financing activities:		
Proceeds from revolving note payable to bank	15,610,000	12,825,
Payments of revolving note payable to bank	(13,005,000)	(12,045,
Proceeds from exercise of stock options	94,438	1,695,
Purchase of common stock	(1,266,390)	
	-----	-----
Net cash provided by financing activities	1,433,048	2,475,
	-----	-----
Net decrease in cash and cash equivalents	(504,074)	(617,
Cash and cash equivalents at beginning of period	1,116,094	1,346,
	-----	-----
Cash and cash equivalents at end of period	\$ 612,020	\$ 729,
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 77,207	\$ 243,
Cash paid for income taxes	1,279,089	1,726,
Supplemental disclosure of non cash activity:		
Additions to property and equipment in accounts payable	112,582	893,
Tax benefit related to stock options exercised	-	243,

See accompanying notes.

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 2002 Form 10-K. The results of the twelve weeks ended June 17, 2003 are not necessarily indicative of the results to be expected for the full year ending December 30, 2003.

2. ACCOUNTING FOR STOCK-BASED COMPENSATION

In accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, 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.

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 2.9% to 5.3%; no dividend yields; volatility factor ranging from 0.281 to 0.853; 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.

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:

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

- 6 -

	TWELVE WEEKS ENDED		TWENTY-FOUR WEEK
	JUNE 17, 2003	JUNE 11, 2002	JUNE 17, 2003
Net income, as reported	\$1,235,459	\$1,125,628	\$3,503,044
Pro forma stock-based employee compensation cost, net of tax	137,912	118,611	227,770
Pro forma net income	\$1,097,547	\$1,007,017	\$3,275,274
Earnings per share:			
Basic, as reported	\$ 0.13	\$ 0.13	\$ 0.36
Basic, pro forma	0.11	0.11	0.33
Diluted, as reported	0.12	0.12	0.34
Diluted, pro forma	0.11	0.11	0.32
Weighted average fair value of options granted during the period	\$ 5.21	\$ 6.09	\$ 5.34

3. STOCK OPTIONS

During the twelve week period ended June 17, 2003, the Company granted to certain key employees stock options for 112,130 shares of Common Stock at an exercise price of \$7.75 per share and options to purchase 19,000 shares were exercised at a weighted-average exercise price of \$3.00 per share pursuant to its 1997 Incentive and Nonqualified Stock Option Plan. Options to purchase 70,968 shares were granted at an exercise price of \$7.75 per share pursuant to its 1997 Directors Stock Option Plan.

4. 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 June 17, 2003 and June 11, 2002 were 9,736,841 and 8,787,019, respectively; the number of weighted average shares outstanding for the twenty-four week periods ended June 17, 2003 and June 11, 2002 were 9,800,749 and 8,726,315, respectively.

Diluted earnings per share are computed similar to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and the proceeds from such exercises were used to acquire common shares at an average price during the reporting period. The number of shares resulting from this computation of diluted earnings per share for the twelve weeks ended June 17, 2003 and June 11, 2002 were 10,088,751 and 9,366,333, respectively, and for the twenty-four week periods ended June 17, 2003 and June 11, 2002 were 10,168,216 and 9,180,649, respectively.

- 7 -

5. NEW ACCOUNTING STANDARDS

In August 2001, the FASB issued SFAS No. 144, ACCOUNTING FOR THE IMPAIRMENT

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

OR DISPOSAL OF LONG-LIVED ASSETS. 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. The Company adopted the provisions of SFAS No. 144 effective December 26, 2001. The Company closed and abandoned one restaurant on March 31, 2002. Pursuant to SFAS No. 144, each restaurant is a component of the entity, and the operations of the closed restaurant can be distinguished from the rest of the entity and will be eliminated from the ongoing operations of the Company. Accordingly, the operations of the closed restaurant, net of applicable income tax effect, have been presented as discontinued operations.

6. LEGAL PROCEEDINGS

Certain former employees have filed a complaint on their own behalf and on the behalf of similarly situated persons alleging the Company violated certain provisions of the Fair Labor Standards Act. 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 will not have a material adverse effect on the Company's financial statements.

ITEM 2. 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 Financial Statements and Notes thereto included elsewhere in this Form 10-Q.

As of June 17, 2003, the Company owned and operated 58 restaurants 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 restaurants offer a broad menu of mid-priced appetizers, entrees, and desserts served in generous portions. In addition, each location features a full-service bar and offers a wide selection of major domestic, imported and specialty beers. Each restaurant emphasizes a high energy environment with multiple billiard tables and satellite and cable coverage of a variety of sporting events and music videos. In addition to its food, the Company believes that customers are attracted to the elegant yet comfortable atmosphere of polished brass, embroidered chairs and booths, hunter green and burgundy walls, and etched glass. The Fox and Hound and Bailey's restaurants share identical design and operational principles and menus. As of June 17, 2003, the Company owned and operated 44 Fox and Hound restaurants and 14 Bailey's restaurants located in Alabama, Arizona, Arkansas, Colorado, Georgia, Illinois, Indiana, Kansas, Louisiana, Michigan, Missouri, Nebraska, North Carolina, Ohio, Pennsylvania, South

- 8 -

Carolina, Tennessee, Texas and Virginia. As of June 11, 2002, the Company owned and operated 34 Fox and Hound restaurants and 14 Bailey's restaurants.

The components of the Company's net sales are food and non-alcoholic beverages, alcoholic beverages, and entertainment and other (principally billiard table rental fees). For the twelve weeks ended June 17, 2003, food and

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

non-alcoholic beverages were 33.0% of total sales, alcoholic beverages were 59.1% of total sales and entertainment and other were 7.9% of total sales. For the twelve weeks ended June 11, 2002, food and non-alcoholic beverages were 33.2% of total sales, alcoholic beverages were 57.9% of total sales and entertainment and other were 8.9% of total sales.

The components of the Company's cost of sales primarily include direct costs of food, non-alcoholic beverages and alcoholic beverages. These costs are generally variable and will fluctuate with changes in sales volume and sales mix.

Components of restaurant operating expenses include operating payroll and fringe benefits, and occupancy, maintenance and utilities. 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 sales levels.

Depreciation and amortization costs primarily include depreciation and amortization of capital expenditures for restaurants.

Preopening costs include labor costs, costs of hiring and training personnel and certain other costs relating to opening new restaurants.

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.

In calculating comparable restaurant sales, the Company includes a restaurant in the comparable restaurant base after it has been in operation for 18 full months. As of June 17, 2003, there were 41 restaurants in the comparable restaurant base. Annualized average weekly sales are computed by dividing net sales during the period by the number of store operating weeks and multiplying the result by 52. These calculations include sales and store operating weeks for the one unit included in discontinued operations.

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. The Company operates on a 52 or 53 week fiscal year ending the last Tuesday in December. Fiscal year 2002 consisted of 53 weeks and fiscal year 2003 consists of 52 weeks. Fiscal quarters consist of three accounting periods of 12 weeks each and a final period of 16 or 17 weeks.

- 9 -

	TWELVE WEEKS ENDED		TWE
	JUNE 17, 2003	JUNE 11, 2002	JUN 2
OPERATING STATEMENT DATA:			
Net sales	100.0%	100.0%	10
Costs and expenses:			

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

Costs of sales.....	26.0	26.1	2
Restaurant operating expenses.....	53.5	52.7	5
Depreciation and amortization.....	5.5	4.8	
Preopening costs.....	1.5	1.7	
	-----	-----	---
Restaurant costs and expenses.....	86.5	85.3	8
	-----	-----	---
Restaurant operating income.....	13.5	14.7	1
General and administrative expenses.....	5.6	5.5	
Loss on disposal of assets.....	0.1	--	
	-----	-----	---
Income from operations.....	7.8	9.2	1
Interest expense	0.2	0.5	
	-----	-----	---
Income from continuing operations before income taxes....	7.6	8.7	1
Provision for income taxes	2.7	3.3	
	-----	-----	---
Income from continuing operations.....	4.9	5.4	
Loss from discontinued operations	--	(0.1)	
	-----	-----	---
Net income.....	4.9%	5.3%	==
	=====	=====	==

RESTAURANT OPERATING DATA (DOLLARS IN THOUSANDS):

Annualized average weekly sales per location	\$1,928	\$1,976	\$2,
Number of restaurants at end of the period	58	48	

TWELVE WEEKS ENDED JUNE 17, 2003 COMPARED TO TWELVE WEEKS ENDED JUNE 11, 2002

Net sales increased \$3,840,000 (17.9%) for the twelve weeks ended June 17, 2003 to \$25,249,000 from \$21,409,000 for the twelve weeks ended June 11, 2002. This increase was due to a 20.7% increase in store weeks (681 versus 564) as a result of eleven restaurants opened since June 11, 2002 and a 2.4% decrease in annualized average weekly sales per location. Comparable restaurant sales decreased 0.4% for the quarter ended June 17, 2003.

Costs of sales increased \$969,000 (17.3%) for the twelve weeks ended June 17, 2003 to \$6,565,000 from \$5,596,000 in the twelve weeks ended June 11, 2002, and decreased as a percentage of sales to 26.0% from 26.1%. This decrease as a percentage of sales is principally attributable to price increases implemented in the first quarter of fiscal year 2003.

Restaurant operating expenses increased \$2,231,000 (19.8%) for the twelve weeks ended June 17, 2003 to \$13,504,000 from \$11,273,000 in the twelve weeks ended June 11, 2002, and increased as a percentage of net sales to 53.5% from 52.7%. This increase as a percentage of sales is principally attributable to higher occupancy costs on new units, higher utility costs, and higher liability insurance and claims expense offset by lower advertising and premium TV costs.

Depreciation and amortization increased \$348,000 (33.0%) for the twelve weeks ended June 17, 2003 to \$1,403,000 from \$1,055,000 in the twelve weeks ended June 11, 2002, and increased as a percentage of sales to 5.5% from 4.8%. This increase in expense is due to additional depreciation on eleven restaurants opened since June 11, 2002.

Preopening costs increased \$11,000 (3.0%) for the twelve weeks ended June 17, 2003 to \$372,000 from \$361,000 in the twelve weeks ended June 11, 2002.

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

These costs are attributable to two units that opened during the twelve weeks ended June 17, 2003 and partial preopening expenses for three restaurants which have yet to open. Two restaurants were opened in the twelve weeks ended June 11, 2002.

- 10 -

General and administrative expenses increased \$259,000 (22.1%) for the twelve weeks ended June 17, 2003 to \$1,429,000 from \$1,170,000 in the twelve weeks ended June 11, 2002, due to an increase in corporate infrastructure to support the Company's expansion. General and administrative expenses increased as a percentage of net sales to 5.6% from 5.5%.

Loss on disposal of assets was \$17,000 for the twelve weeks ended June 17, 2003. The losses reflect the disposal of certain point of sale equipment.

Interest expense was \$45,000 for the twelve weeks ended June 17, 2003 and \$119,000 for the twelve weeks ended June 11, 2002. This decrease is due mainly to a lower average balance applicable to the revolving note payable in the current fiscal year compared with the prior fiscal year as well as a lower interest rate.

The effective income tax rate was 35.4% for the twelve weeks ended June 17, 2003 and 37.6% for the twelve weeks ended June 11, 2002. This decrease is due primarily 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.

Loss from discontinued operations was \$19,000 for the twelve weeks ended June 11, 2002 applicable to the restaurant closed on March 31, 2002.

TWENTY-FOUR WEEKS ENDED JUNE 17, 2003 COMPARED TO TWENTY-FOUR WEEKS ENDED JUNE 11, 2002

Net sales increased \$9,056,000 (20.9%) for the twenty-four weeks ended June 17, 2003 to \$52,290,000 from \$43,234,000 for the twenty-four weeks ended June 11, 2002. This increase was due to a 21.3% increase in store weeks (1,339 versus 1,103) as a result of eleven restaurants opened since June 11, 2002 and a 1.0% decrease in annualized average weekly sales per location. Comparable restaurant sales decreased 1.4% for the twenty-four weeks ended June 17, 2003.

Costs of sales increased \$2,186,000 (19.3%) for the twenty-four weeks ended June 17, 2003 to \$13,514,000 from \$11,328,000 in the twenty-four weeks ended June 11, 2002, and decreased as a percentage of sales to 25.8% from 26.2%. This decrease as a percentage of sales is principally attributable to price increases implemented in the first quarter of fiscal year 2003.

Restaurant operating expenses increased \$5,346,000 (24.7%) for the twenty-four weeks ended June 17, 2003 to \$27,019,000 from \$21,673,000 in the twenty-four weeks ended June 11, 2002, and increased as a percentage of net sales to 51.7% from 50.1%. This increase as a percentage of sales is principally attributable to higher occupancy costs on new units, higher utility costs, and higher liability insurance and claims.

Depreciation and amortization increased \$695,000 (33.7%) for the twenty-four weeks ended June 17, 2003 to \$2,759,000 from \$2,064,000 in the twenty-four weeks ended June 11, 2002, and increased as a percentage of sales to 5.3% from 4.8%. This increase in expense is due to additional depreciation on eleven restaurants opened since June 11, 2002.

Preopening costs decreased \$193,000 (22.7%) for the twenty-four weeks ended June 17, 2003 to \$659,000 from \$852,000 in the twenty-four weeks ended June 11,

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

2002. These costs are attributable to four units that opened during the twenty-four weeks ended June 17, 2003 and partial preopening expenses for three restaurants which have yet to open. Six restaurants were opened in the twenty-four weeks ended June 11, 2002.

General and administrative expenses increased \$470,000 (20.2%) for the twenty-four weeks ended June 17, 2003 to \$2,796,000 from \$2,326,000 in the twenty-four weeks ended June 11, 2002 and remained at 5.4% as a percentage of sales. This increase is a result of additional corporate infrastructure to support the Company's expansion.

- 11 -

Loss on disposal of assets was \$17,000 for the twenty-four weeks ended June 17, 2003 and \$18,000 for the twenty-four weeks ended June 11, 2002. The losses reflect the disposal of certain point of sale equipment in the current fiscal year and video games in the prior fiscal year.

Interest expense was \$70,000 for the twenty-four weeks ended June 17, 2003 and \$225,000 for the twenty-four weeks ended June 11, 2002. This decrease is due mainly to a lower average balance applicable to the revolving note payable in the current fiscal year compared with the prior fiscal year as well as a lower interest rate.

The effective income tax rate was 35.8% for the twenty-four weeks ended June 17, 2003 and 36.6% for the twenty-four weeks ended June 11, 2002. This decrease is due primarily 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.

Income from discontinued operations was \$13,000 for the twenty-four weeks ended June 11, 2002 applicable to the restaurant closed on March 31, 2002.

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 increased \$565,000 to \$6,183,000 as of June 17, 2003 from \$5,618,000 as of December 31, 2002. This increase is attributable primarily to the increase in current portion of notes payable of \$706,000 offset by the excess of working capital provided by operations and net proceeds from the line of credit in excess of the cost of purchases of property and equipment and repurchases of common. Cash decreased \$504,000 to \$612,000 at June 17, 2003 compared to the balance of \$1,116,000 at December 31, 2002. The Company does not have significant receivables or inventory and receives trade credit based upon negotiated terms in purchasing

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

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 "Line of Credit") 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 and the amount of capital lease obligations on personal property. The Line of Credit is secured by substantially all of the Company's assets. The Line of Credit 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

- 12 -

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 Line of Credit are being used for restaurant development. As of June 17, 2003 the Company had borrowed \$5,145,000 under the Line of Credit. The Company is in compliance with all debt covenants.

Cash flows from operations were \$5,199,000 in the twenty-four weeks ended June 17, 2003 compared to \$4,968,000 in the twenty-four weeks ended June 11, 2002. Purchases of property and equipment were \$6,605,000 in the twenty-four weeks ended June 17, 2003 compared to \$8,070,000 in the twenty-four weeks ended June 11, 2002. Advances made to the developer of two build-to-suit locations were \$532,000 in the twenty-four weeks ended June 17, 2003. Net proceeds from the revolving note payable to bank was \$2,605,000 for the twenty-four week period ending June 17, 2003 compared to \$780,000 for the twenty-four weeks ending June 11, 2002. At June 17, 2003, the Company had \$612,000 in cash and cash equivalents.

The Company intends to open ten to twelve new locations in fiscal year 2003 and twelve to fifteen new locations in fiscal year 2004. At June 17, 2003, four units had been opened in fiscal 2003, four units were under construction, leases had been executed on four additional sites, and lease negotiations had begun on two additional sites. 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 \$15.0 to \$20.0 million to open new locations over the next twelve months.

The Company believes the funds available from the Line of Credit 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

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

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. Our actual results may differ materially from the forward-looking statements contained herein. 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, alcohol, labor, and other operating costs, changes in competition, the inability to find suitable new locations, changes in consumer preferences or spending patterns, changes in demographic trends, the effectiveness of our operating and growth initiatives and promotional efforts, and changes in government regulation. Further information about the factors that might affect the Company's financial and other results are included in the Company's 10-K, filed with the Securities and Exchange Commission. In light of the significant uncertainties inherent in the forward-looking

- 13 -

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 Line of Credit has a variable rate which is directly affected by changes in U.S. interest rates. The average interest rate of the Line of Credit was 3.75% for the twelve weeks ended June 17, 2003. The interest rate at June 17, 2003 was 3.75%. The following table presents the quantitative interest rate risks at June 17, 2003:

	Principal Amount by Expected Maturity					
(dollars in thousands)	(In thousands)					There-
-----	2003	2004	2005	2006	2007	after
-----	----	----	----	----	----	-----
Variable rate debt	\$199	\$1,223	\$1,269	\$1,318	\$1,136	\$ -
Average Interest Rate--						\$5
1/2% below prime	-	3.75%	3.75%	3.75%	3.75%	3.75%

ITEM 4. PROCEDURES AND CONTROLS

Within the 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and

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

procedures are effective. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

- 14 -

PART II. OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF STOCKHOLDERS

On May 14, 2003, the Company held its Annual Meeting of Stockholders (the "Meeting"). At the Meeting, the stockholders elected James K. Zielke, C. Wells Hall III and E. Gene Street to the Board of Directors to serve until the 2006 Annual Meeting of Stockholders and until their successors have been duly elected and qualified. As to the new elected Directors, there were 5,483,662 votes "For" and 411,040 votes "Withheld" for James K. Zielke, 5,861,584 votes "For" and 33,118 votes "Withheld" for C. Wells Hall III, and 5,483,862 votes "For" and 410,840 votes "Withheld" for E. Gene Street. The continuing directors and the expiration of their current terms as directors are as follows:

Dennis L. Thompson.....	2004
Stephen P. Hartnett.....	2004
Thomas A. Hager.....	2004
Steven M. Johnson.....	2005
Gary M. Judd.....	2005
John D. Harkey, Jr.....	2005

The stockholders also ratified the appointment of KPMG LLP as the Company's independent auditors for the year ending December 30, 2003. As to the ratification of auditors, there were 5,893,602 votes "For," 900 votes "Against," and 200 votes "Abstained."

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Exhibits

Exhibit 99.1 - Certification by Steven M. Johnson pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 99.2 - Certification by James K. Zielke pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Reports on Form 8-K

A Current Report on Form 8-K (Item 5) dated April 11, 2003, reporting the filing of Exhibit 99.1-Press release of Total Entertainment Restaurant Corp.

- 15 -

TOTAL ENTERTAINMENT RESTAURANT CORP.

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

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 July 25, 2003

/s/ James K. Zielke

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

- 16 -

TOTAL ENTERTAINMENT RESTAURANT CORP.

CERTIFICATIONS

I, James K. Zielke, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Total Entertainment Restaurant Corp.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

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

- b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date July 25, 2003

/s/ James K. Zielke

James K. Zielke
Chief Financial Officer,
Secretary and Treasurer

- 17 -

TOTAL ENTERTAINMENT RESTAURANT CORP.

CERTIFICATIONS

I, Steven M. Johnson, certify that:

- 1. I have reviewed this quarterly report on Form 10-Q of Total Entertainment Restaurant Corp.;
- 2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- 3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
- a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date July 25, 2003

/s/ Steven M. Johnson

Steven M. Johnson
Chief Executive Officer