

KONA GRILL INC  
Form 10-Q  
August 02, 2013

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

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**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 30, 2013**

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 001-34082

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**Kona Grill, Inc.**  
*(Exact Name of Registrant as Specified in Its Charter)*

**Delaware**

**20-0216690**

*(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)*

**7150 East Camelback Road, Suite 220  
Scottsdale, Arizona 85251  
(480) 922-8100**

*(Address, including zip code, and telephone number, including area code, of principal executive offices)*

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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 the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer  
Non-accelerated filer (Do not check if a smaller reporting company) 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 No

As of July 31, 2013, there were 8,581,249 shares of the registrant’s common stock outstanding.



**KONA GRILL, INC.**

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**PART I – FINANCIAL INFORMATION****Item 1. Consolidated Financial Statements****KONA GRILL, INC.****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share data)

	<b>June 30,</b>	<b>December</b>
	<b>2013</b>	<b>31,</b>
	(Unaudited)	<b>2012</b>
		(Note 1)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 10,162	\$ 7,989
Investments	177	177
Receivables	12	286
Other current assets	1,479	1,134
Total current assets	11,830	9,586
Other assets	1,068	812
Property and equipment, net	27,531	28,927
Total assets	\$ 40,429	\$ 39,325
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,958	\$ 1,851
Accrued expenses	5,934	6,526
Current portion of notes payable	—	165
Total current liabilities	7,892	8,542
Notes payable	—	205
Deferred rent	10,752	11,710
Total liabilities	18,644	20,457
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 2,000,000 shares authorized, none issued	—	—

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Common stock, \$0.01 par value, 15,000,000 shares authorized, 8,697,449 shares issued and 8,581,249 shares outstanding at June 30, 2013; 8,663,069 shares issued and 8,546,869 shares outstanding at December 31, 2012	87	87
Additional paid-in capital	53,661	53,305
Accumulated deficit	(30,963 )	(33,524 )
Treasury stock, at cost, 116,200 shares at June 30, 2013 and December 31, 2012	(1,000 )	(1,000 )
Total stockholders' equity	21,785	18,868
Total liabilities and stockholders' equity	\$ 40,429	\$ 39,325

See accompanying notes to the unaudited consolidated financial statements.

**KONA GRILL, INC.****UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(in thousands, except per share data)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Restaurant sales	\$25,796	\$24,992	\$49,292	\$49,147
Costs and expenses:				
Cost of sales	6,968	6,814	13,421	13,309
Labor	8,408	8,211	16,274	16,159
Occupancy	1,697	1,548	3,312	3,081
Restaurant operating expenses	3,401	3,562	6,572	6,938
General and administrative	2,010	1,521	3,885	3,605
Preopening expense	41	—	41	—
Depreciation and amortization	1,412	1,455	2,841	2,918
Total costs and expenses	23,937	23,111	46,346	46,010
Income from operations	1,859	1,881	2,946	3,137
Nonoperating income (expense):				
Write off of deferred financing costs	(66 )	—	(66 )	—
Interest expense, net	(41 )	(7 )	(44 )	(19 )
Income from continuing operations before provision for income taxes	1,752	1,874	2,836	3,118
Provision for income taxes	195	60	275	120
Income from continuing operations	1,557	1,814	2,561	2,998
Loss from discontinued operations, net of tax	—	(47 )	—	(47 )
Net income	\$1,557	\$1,767	\$2,561	\$2,951
Net income per share – Basic and Diluted:				
Income from continuing operations	\$0.18	\$0.21	\$0.30	\$0.34
Loss from discontinued operations, net of tax	—	(0.01 )	—	(0.01 )
Net income	\$0.18	\$0.20	\$0.30	\$0.33
Weighted average shares used in computation:				
Basic	8,567	8,815	8,555	8,809
Diluted	8,692	8,903	8,672	8,937
Comprehensive income	\$1,557	\$1,767	\$2,561	\$2,951

See accompanying notes to the unaudited consolidated financial statements.





**KONA GRILL, INC.****UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)**

	<b>Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Operating activities</b>		
Net income	\$ 2,561	\$ 2,951
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,841	2,918
Stock-based compensation expense	288	197
Excess income tax benefits from stock option exercises	(75 )	—
Loss on disposal of assets	—	1
Amortization of deferred financing costs	26	7
Write off of deferred financing costs	66	—
Change in operating assets and liabilities:		
Receivables	274	(147 )
Other current assets	(345 )	75
Accounts payable	(126 )	307
Accrued expenses	(466 )	(1,288 )
Deferred rent	(958 )	(827 )
Net cash provided by operating activities	4,086	4,194
<b>Investing activities</b>		
Purchase of property and equipment	(1,262 )	(667 )
Decrease in other assets	7	12
Net cash used in investing activities	(1,255 )	(655 )
<b>Financing activities</b>		
Borrowings on term loan	—	500
Debt repayments	(370 )	(184 )
Fees paid for credit facility	(356 )	(152 )
Proceeds from issuance of common stock under the Employee Stock Purchase Plan and exercise of stock options and warrants	196	1,461
Excess income tax benefits from stock option exercises	75	—
Purchase and retirement of common stock	(203 )	(3,334 )
Net cash used in financing activities	(658 )	(1,709 )
Net increase in cash and cash equivalents	2,173	1,830
Cash and cash equivalents at the beginning of the period	7,989	6,327
Cash and cash equivalents at the end of the period	\$ 10,162	\$ 8,157

**Supplemental disclosure of cash flow information**

Cash paid for interest	\$	6	\$	13
Cash paid for taxes, net of refunds	\$	70	\$	57

**Noncash investing activities**

Accounts payable and accruals related to property and equipment	\$	397	\$	61
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See accompanying notes to the unaudited consolidated financial statements.

**KONA GRILL, INC.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Basis of Presentation**

Kona Grill, Inc., including its wholly-owned subsidiaries, (referred to herein as the “Company” or “we,” “us,” and “our”) develops, owns and operates upscale casual dining restaurants under the name “Kona Grill.” Our restaurants feature a diverse selection of American favorites and award-winning sushi that are prepared fresh daily. We own and operate 23 restaurants in 16 states throughout the United States. We plan to open two new restaurants during 2013.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In our opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

The consolidated balance sheet at December 31, 2012 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and notes required by GAAP for complete financial statements. Accordingly, these financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2012.

For comparative purposes, certain prior year amounts have been reclassified to conform to the current year presentation.

**2. Fair Value Measurements**

Our short-term investments in certificates of deposit represent available-for-sale securities that are valued using market observable inputs.

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The following tables present information about our assets measured at fair value on a recurring basis at June 30, 2013 and December 31, 2012, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value (in thousands):

June 30, 2013	Level	Level	Level	Total
	1			
Certificates of deposit	\$ —	\$ 177	\$ —	\$ 177

December 31, 2012	Level	Level	Level	Total
	1			
Certificates of deposit	\$ —	\$ 177	\$ —	\$ 177

### 3. Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per share includes the dilutive effect of potential stock option exercises, calculated using the treasury stock method.

The following table sets forth the computation of basic and diluted net income per share:

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2013	2012	2013	2012
	(In thousands, except per share data)			
Numerator:				
Income from continuing operations	\$1,557	\$1,814	\$2,561	\$2,998
Loss from discontinued operations, net of tax	—	(47 )	—	(47 )
Net income	\$1,557	\$1,767	\$2,561	\$2,951
Denominator:				
Weighted average shares — Basic	8,567	8,815	8,555	8,809
Effect of dilutive stock options	125	88	117	128
Weighted average shares — Diluted	8,692	8,903		