

MORTONS RESTAURANT GROUP INC
Form 10-Q
May 02, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 30, 2008

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)

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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)

60610
(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 .

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 April 23, 2008, the registrant had 16,786,804 shares of its Common Stock, \$0.01 par value, outstanding.

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MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES

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MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(amounts in thousands)

	March 30, 2008	December 30, 2007 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,296	\$ 7,016
Accounts receivable	6,412	5,102
Inventories	12,647	13,394
Prepaid expenses and other current assets	7,021	6,560
Income taxes receivable		1,102
Deferred income taxes, net	5,215	5,578
Total current assets	34,591	38,752
Property and equipment, at cost:		
Furniture, fixtures and equipment	34,985	33,752
Buildings and leasehold improvements	111,316	106,476
Land	8,474	8,474
Construction in progress	3,753	4,191
	158,528	152,893
Less accumulated depreciation and amortization	40,969	38,157
Net property and equipment	117,559	114,736
Intangible asset	92,000	92,000
Goodwill	59,101	59,101
Other assets and deferred expenses, net	5,616	5,494
	\$ 308,867	\$ 310,083

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MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets, Continued

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

	March 30, 2008	December 30, 2007
	(unaudited)	
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 9,441	\$ 13,426
Accrued expenses, including deferred revenue from gift certificates of \$19,999 and \$22,667	47,393	49,919
Current portion of obligation to financial institution	139	136
Accrued income taxes	149	1,031
Total current liabilities	57,122	64,512
Borrowings under senior revolving credit facility	52,800	44,300
Obligation to financial institution, less current maturities	3,170	3,206
Deferred income taxes, net	8,336	8,336
Other liabilities	32,105	31,341
Total liabilities	153,533	151,695
Commitments and contingencies		
Stockholders equity:		
Preferred stock, \$0.01 par value per share. 30,000,000 shares authorized, none issued at March 30, 2008 and December 30, 2007, respectively		
Common stock, \$0.01 par value per share. 100,000,000 shares authorized, 17,010,314 and 16,938,155 issued and 16,246,614 and 16,938,155 outstanding at March 30, 2008 and December 30, 2007, respectively	170	169
Additional paid-in capital	166,292	165,979
Treasury stock, 763,700 shares at a weighted average cost of \$7.69 per share at March 30, 2008 and none at December 30, 2007	(5,876)	
Accumulated other comprehensive income	364	218
Accumulated deficit	(5,616)	(7,978)
Total stockholders equity	155,334	158,388
	\$ 308,867	\$ 310,083

See accompanying notes to unaudited consolidated financial statements.

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MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Income

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

	Three month periods ended	
	March 30, 2008	April 1, 2007
	(unaudited)	
Revenues	\$ 94,439	\$ 88,887
Food and beverage costs	31,320	30,109
Restaurant operating expenses	45,844	40,717
Pre-opening costs	970	986
Depreciation and amortization	3,254	2,333
General and administrative expenses	6,958	5,288
Marketing and promotional expenses	1,894	1,458
Operating income	4,199	7,996
Interest expense, net	749	881
Income before income taxes	3,450	7,115
Income tax expense	1,088	2,117
Net income	\$ 2,362	\$ 4,998
Net income per share		
Basic	\$ 0.14	\$ 0.30
Diluted	\$ 0.14	\$ 0.29
Shares used in computing net income per share		
Basic	16,614,873	16,917,158
Diluted	16,614,873	16,960,664

See accompanying notes to unaudited consolidated financial statements.

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MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(amounts in thousands)

	Three month periods ended	
	March 30, 2008	April 1, 2007
	(unaudited)	
Cash flows from operating activities:		
Net income	\$ 2,362	\$ 4,998
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation, amortization and other non-cash charges	3,985	2,885
Deferred income taxes	363	1,393
Change in assets and liabilities:		
Accounts receivable	(1,309)	786
Inventories	743	101
Prepaid expenses and other assets	(489)	(1,160)
Income taxes receivable	1,102	
Accounts payable	(3,987)	(464)
Accrued expenses	(2,823)	(5,040)
Other liabilities	612	(943)
Accrued income taxes	(887)	32
Net cash (used in) provided by operating activities	(328)	2,588
Cash flows from investing activities:		
Purchases of property and equipment	(5,822)	(10,709)
Net cash used in investing activities	(5,822)	(10,709)
Cash flows from financing activities:		
Borrowings under senior revolving credit facility	12,500	6,500
Payments made on senior revolving credit facility	(4,000)	
Shares vested and forfeited by employees in lieu of paying minimum income taxes	(145)	(201)
Tax benefit related to restricted shares vested during the period	(58)	58
Principal reduction on obligation to financial institution	(33)	(30)
Payment of deferred financing costs	(144)	
Purchase of treasury stock	(5,876)	
Net cash provided by financing activities	2,244	6,327
Effect of exchange rate changes on cash	186	12
Net decrease in cash and cash equivalents	(3,720)	(1,782)
Cash and cash equivalents at beginning of period	7,016	6,261
Cash and cash equivalents at end of period	\$ 3,296	\$ 4,479

See accompanying notes to unaudited consolidated financial statements.

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MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

March 30, 2008 and April 1, 2007

1) Basis of Presentation

The accompanying unaudited consolidated financial statements of Morton s Restaurant Group, Inc. and its subsidiaries (the Company, we, us and our) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the Company s Annual Report on Form 10-K for the fiscal year ended December 30, 2007.

The accompanying consolidated financial statements are unaudited and include all adjustments (consisting of normal recurring adjustments and accruals) that management considers necessary for a fair presentation of the Company s financial position and results of operations for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year.

The preparation of financial statements in accordance with GAAP requires management of the Company to make estimates and assumptions relating to the amounts of assets, liabilities, revenues and expenses reported during the period. Actual results could differ from those estimates.

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

The Company uses a 52/53 week fiscal year which ends on the Sunday closest to January 1. Approximately every six or seven years, a 53rd week is added. Fiscal 2008 is a 53 week year. The 53rd week will be included in the fourth quarter of fiscal 2008.

Morton s Restaurant Group, Inc. (MRG) was incorporated as a Delaware corporation on October 3, 1988 and until February 14, 2006 was a wholly-owned subsidiary of Morton s Holding Company, Inc. (MHCI), which was incorporated as a Delaware corporation on March 10, 2004 and became the direct parent of the Company on June 4, 2004. MHCI was a wholly-owned subsidiary of Morton s Holdings, LLC (MHLLC), a Delaware limited liability company which was formed on April 4, 2002. On February 14, 2006, MHCI was merged with and into MRG, with MRG as the surviving corporation. In accordance with the Financial Accounting Standards Board s (FASB) Statement of Financial Accounting Standard (SFAS) No. 141, *Business Combinations*, this transaction represented a merger of entities under common control and accordingly MRG recognized the assets and liabilities transferred at their carrying amounts. MHCI was a holding company with no independent operations. MHCI s only significant assets, other than its investment in MRG, were a deferred tax asset and deferred financing fees associated with its 14.0% senior secured notes, which were MHCI s only significant liability. In February 2006, the Company and certain selling stockholders completed an initial public offering (IPO) of 6,000,000 and 3,465,000 shares of common stock, respectively, at \$17.00 per share. In March 2006, the underwriters exercised the over-allotment option to purchase 801,950 additional shares of common stock from the Company at \$17.00 per share.

2) Statements of Cash Flows

For the purposes of the consolidated statements of cash flows, the Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. In addition, accrued purchases of property and equipment are reflected as non-cash transactions in the

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consolidated statements of cash flows. The Company paid interest of approximately \$801,000 (which includes capitalized interest of approximately \$38,000) and \$864,000 (which includes capitalized interest of approximately \$89,000), and income taxes, net of refunds, of approximately \$489,000 and \$636,000, for the three month periods ended March 30, 2008 and April 1, 2007, respectively.

3) Income Taxes

The Company's effective income tax rate was 31.5% for the three month period ended March 30, 2008 compared with 29.8% for the three month period ended April 1, 2007. During the three month period ended March 30, 2008, the Company's tax rate was negatively impacted by a non-cash charge of approximately \$279,000 related to the tax impact of the vesting of certain restricted stock awards as a result of SFAS No. 123(R), *Share-Based Payments* and other miscellaneous charges. Excluding the effect of these charges, the Company's effective tax rate for the three month period ended March 30, 2008 approximates 26%. This rate differs from the statutory rate due to the deferred tax assets relating to FICA and other tax credits, and foreign, state and local taxes.

4) Net Income per Share

The Company computes net income per common share in accordance with SFAS No. 128, *Earnings per Share*. Basic and diluted net income per share have been computed by dividing net income by the shares outstanding. In accordance with SFAS No. 128, diluted net income per common share reflects the potential dilution that would occur if unvested restricted stock awards were vested. In periods where losses are recorded, potentially dilutive securities would decrease the loss per common share and therefore are not added to the weighted average number of common shares outstanding. Restricted stock of approximately 642,000 shares and approximately 421,000 shares for the three month periods ended March 30, 2008 and April 1, 2007, respectively, were not included in the net income per share calculation because their effect would have been anti-dilutive. The following table sets forth the computation of basic and diluted net income per share (amounts in thousands, except share and per share amounts):

	Three month periods ended	
	March 30, 2008	April 1, 2007
Net income available to common stockholders	\$ 2,362	\$ 4,998
Shares:		
Weighted average number of basic common shares outstanding	16,614,873	16,917,158
Dilutive potential common shares		43,506
Weighted average number of diluted common shares outstanding	16,614,873	16,960,664
Basic net income per share	\$ 0.14	\$ 0.30
Diluted net income per share	\$ 0.14	\$ 0.29

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The components of comprehensive income for the three month periods ended March 30, 2008 and April 1, 2007 are as follows (amounts in thousands):

	Three month periods ended	
	March 30, 2008	April 1, 2007
Net income	\$ 2,362	\$ 4,998
Other comprehensive income:		
Foreign currency translation	146	23
Total comprehensive income	\$ 2,508	\$ 5,021

6) Stock Based Compensation*Equity Incentive Plan*

Prior to the IPO, the Company adopted the 2006 Morton's Restaurant Group, Inc. Stock Incentive Plan (the equity incentive plan). The equity incentive plan provides for the grant of stock options and stock appreciation rights and for awards of shares, restricted shares, restricted stock units and other equity-based awards to employees, officers, directors or consultants. As of March 30, 2008, the aggregate number of shares of the Company's common stock that was approved under the equity incentive plan was 1,789,000 shares. If an award granted under the equity incentive plan terminates, lapses or is forfeited before the vesting of the related shares, those shares will again be available to be granted. During fiscal 2006, the Company granted and issued an aggregate of 251,950 shares of restricted stock to certain of its employees and directors pursuant to the equity incentive plan at a weighted average grant date price of \$16.96 per share. During fiscal 2007, the Company granted and issued an aggregate of 261,050 shares of restricted stock to certain of its employees and directors pursuant to the equity incentive plan at a weighted average grant date price of \$18.48 per share. On February 5, 2008, the Company granted and issued 252,350 shares of restricted stock to certain of its employees and directors pursuant to the equity incentive plan at a grant date price of \$8.64 per share.

Activity relating to the equity incentive plan during the three month period ended March 30, 2008 was as follows:

Unvested restricted stock outstanding as of December 30, 2007	440,790
Granted	252,350
Vested	(91,080)
Forfeited by termination	(11,370)
Unvested restricted stock outstanding as of March 30, 2008	590,690

As of March 30, 2008, there were 1,058,890 shares available for grant. In connection with the vesting of shares on January 31, 2008 and February 9, 2008, 18,921 shares of the 91,080 shares vested were forfeited at the election of certain employees in lieu of paying employee minimum income taxes in cash. Such forfeited shares were cancelled by the Company.

The Company recognized stock-based compensation for awards issued under the equity incentive plan in the following line items in the consolidated statements of income (amounts in thousands):

	Three month periods ended	
	March 30, 2008	April 1, 2007

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Restaurant operating expenses	\$	97	\$	74
General and administrative expenses		405		