

MORTONS RESTAURANT GROUP INC  
Form 10-Q  
August 17, 2004

## FORM 10-Q

# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

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

For the quarterly period ended July 4, 2004

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.)

**3333 New Hyde Park Road, Suite 210, New Hyde Park,  
New York**  
(Address of principal executive offices)

**11042**  
(Zip code)

**516-627-1515**  
(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 .

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

As of August 17, 2004, the registrant had 1,000 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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Part I - Financial Information

## Item 1. Financial Statements

## MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES

## Consolidated Balance Sheets

(amounts in thousands)

	July 4, 2004 (unaudited)	January 4, 2004
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 2,278	\$ 17,997
Restricted cash	1,021	1,100
Marketable securities	1,741	
Accounts receivable	3,042	3,829
Inventories	9,483	9,094
Prepaid expenses and other current assets	5,887	5,069
Deferred income taxes	6,523	7,076
Total current assets	29,975	44,165
Property and equipment, at cost:		
Furniture, fixtures and equipment	15,133	14,131
Buildings and leasehold improvements	39,088	38,667
Land	8,474	8,474
Construction in progress	2,294	338
	64,989	61,610
Less accumulated depreciation and amortization	10,352	7,500
Net property and equipment	54,637	54,110
Intangible asset		
Goodwill	92,000	92,000
Other assets and deferred expenses, net	61,552	61,552
	9,791	10,360
	\$ 247,955	\$ 262,187

## MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES

## Consolidated Balance Sheets, Continued

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

	July 4, 2004 (unaudited)	January 4, 2004
<u>Liabilities and Stockholder s Equity</u>		
Current liabilities:		
Accounts payable	\$ 5,980	\$ 6,111
Accrued expenses	23,393	27,955
Current portion of obligations to financial institutions	497	658
Accrued income taxes	47	296
Total current liabilities	29,917	35,020
7.5% senior secured notes, net of unamortized discount of \$14,157 and \$14,987 at July 4, 2004 and January 4, 2004	90,843	90,013
Obligations to financial institutions, less current maturities	6,903	12,274
Deferred income taxes	20,471	20,471
Other liabilities	2,957	2,087
Total liabilities	151,091	159,865
Commitments and contingencies		
Stockholder s equity:		
Common stock, \$0.01 par value per share. Authorized, issued and outstanding 1,000 shares at July 4, 2004 and January 4, 2004		
Additional paid-in capital	97,076	97,075
Accumulated other comprehensive income	70	128
(Accumulated deficit) retained earnings	(282)	5,119
Total stockholder s equity	96,864	102,322
	\$ 247,955	\$ 262,187

See accompanying notes to unaudited consolidated financial statements.

## MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES

## Consolidated Statements of Operations

(amounts in thousands)

	Three month periods ended		Six month periods ended	
	July 4, 2004	June 29, 2003	July 4, 2004	June 29, 2003 Restated (see Note 2)
	(unaudited)			
Revenues	\$ 64,911	\$ 59,746	\$ 137,892	\$ 124,862
Food and beverage costs	21,988	19,865	46,462	41,860
Restaurant operating expenses	31,042	29,226	63,242	59,351
Pre-opening costs, depreciation, amortization and non-cash charges	2,157	1,858	4,187	4,296
General and administrative expenses	4,662	3,781	9,548	7,817
Marketing and promotional expenses	2,240	1,108	4,869	2,575
Costs associated with the repayment of certain debt			264	
Interest expense, net	2,866	1,435	5,937	3,076
Management fee paid to related party	700	700	1,400	1,400
(Loss) income before income taxes	(744)	1,773	1,983	4,487
Income tax (benefit) expense	(223)	532	595	1,334
Net (loss) income	\$ (521)	\$ 1,241	\$ 1,388	\$ 3,153

See accompanying notes to unaudited consolidated financial statements.

## MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

(amounts in thousands)

	Six month periods ended	
	July 4, 2004	June 29, 2003
	Restated (see Note 2)	
	(unaudited)	
Cash flows from operating activities:		
Net income	\$ 1,388	\$ 3,153
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other non-cash charges	5,338	3,426
Deferred income taxes	553	1,108
Change in assets and liabilities:		
Accounts receivable	784	2,679
Income taxes receivable		251
Inventories	(399)	216
Prepaid expenses and other assets	(792)	1,548
Accounts payable, accrued expenses and other liabilities	(4,158)	(7,718)
Accrued income taxes	(254)	(103)
Net cash provided by operating activities	2,460	4,560
Cash flows from investing activities:		
Purchases of property and equipment	(3,638)	(2,360)
Increase in marketable securities	(1,741)	
Net cash used in investing activities	(5,379)	(2,360)
Cash flows from financing activities:		
Principal reduction on obligations to financial institutions and capital leases	(5,532)	(7,853)
Proceeds from obligations to financial institutions		5,900
Payment of deferred financing costs	(550)	
Dividends paid	(6,789)	
Decrease in restricted cash	79	
Net cash used in financing activities	(12,792)	(1,953)
Effect of exchange rate changes on cash	(8)	42
Net (decrease) increase in cash and cash equivalents	(15,719)	289
Cash and cash equivalents at beginning of period	17,997	1,703
Cash and cash equivalents at end of period	\$ 2,278	\$ 1,992

See accompanying notes to unaudited consolidated financial statements.





MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

July 4, 2004 and June 29, 2003

**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 for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements and should be read in conjunction with the Annual Report on Form 10-K for the fiscal year ended January 4, 2004.

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 its 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 conformity with generally accepted accounting principles requires management of the Company to make estimates and assumptions relating to the reported amount of assets, liabilities, revenues and expenses reported during the period. Actual results could differ from those estimates.

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 will be added. Fiscal 2003 was a 53 week year.

**2) Restatement of Consolidated Financial Statements**

The effect of the restatement discussed herein on the Company s results as of and for the fiscal year ended January 4, 2004 was reflected in the Company s Annual Report on Form 10-K. The Company has restated its consolidated financial statements for the three month period ended March 30, 2003 and six month period ended June 29, 2003 as a result of having incorrectly provided estimates for expirations and non-redemption of gift certificates that it had sold. The effect of the restatement was to reduce revenues for the three month period ended March 30, 2003 in the amount of \$137,000 and accordingly reduce revenues for the six month period ended June 29, 2003 in the amount of \$137,000. The restatement had no effect on the Company s net operating cash position. The impact of the above-mentioned restatement on the consolidated statement of operations for the six month period ended June 29, 2003 is as follows (amounts in thousands):

**Six month period ended  
June 29, 2003**

	<b>Reported</b>	<b>Restated</b>
Revenues	\$ 124,999	\$ 124,862
Income before income taxes	4,624	4,487
Income tax expense	1,387	1,334
Net income	3,237	3,153

### 3) **Recent Events**

On June 3, 2004, the Company paid a dividend of \$6,789,000 to its parent, Morton s Holdings, LLC ( MHLLC ).

On June 4, 2004, Morton's Holding Company, Inc. ( MHCI ), a newly formed wholly-owned subsidiary of MHLCC, became an intermediate holding company and the direct parent of the Company. Subsequently, MHCI completed a \$40,000,000 14% senior secured notes offering. The notes are secured by the assets of MHCI, which include the stock of the Company. The notes are not secured by the assets of, nor are they guaranteed by, the Company or any of its subsidiaries. MHCI used the proceeds of the offering to make a distribution to MHLCC's equity holders and to pay fees and expenses related to the issuance.

#### 4) **Statements of Cash Flows**

For the purposes of the consolidated statements of cash flows, the Company considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. The Company paid cash interest, net of amounts capitalized, of approximately \$4,811,000 and \$3,455,000, and income taxes of approximately \$318,000 and \$202,000, for the six month periods ended July 4, 2004 and June 29, 2003, respectively.

#### 5) **Restricted Cash**

Restricted cash of \$1,021,000 and \$1,100,000 as of July 4, 2004 and January 4, 2004, respectively, represents cash collateral relating to two interest rate swap agreements with Bank of America, formerly Fleet National Bank ( B of A ). See Note 8.

#### 6) **Marketable Securities**

The Company accounts for its marketable securities in accordance with Statement of Financial Accounting Standard ( SFAS ) No. 115, Accounting for Certain Investments in Debt and Equity Securities. In accordance with SFAS No. 115, marketable securities of approximately \$1,741,000 as of July 4, 2004 are accounted for as trading securities. Securities held by the Company are bought and held principally for the purpose of selling them in the near term and are recorded at fair value. Unrealized gains and losses on such securities have been recognized in interest expense, net in the consolidated statements of operations.

#### 7) **Intangible Asset and Goodwill**