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

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

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

For the quarterly period ended April 4, 2004

OR

o	**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	**13-3490149**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
3333 New Hyde Park Road, Suite 210, New Hyde Park, New York	**11042**
(Address of principal executive offices)	(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 ý or No o.

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

As of May 17, 2004, the registrant had 1,000 shares of its Common Stock, $0.01 par value, outstanding.

MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES

INDEX

Part I - Financial Information

Item 1. Financial Statements

MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(amounts in thousands)

		April 4, 2004 (unaudited)		January 4, 2004
Assets				
Current assets:				
Cash and cash equivalents	$	14,884	$	17,997
Restricted cash		1,173		1,100
Accounts receivable		4,810		3,829
Inventories		8,991		9,094
Prepaid expenses and other current assets		4,645		5,069
Deferred income taxes		6,212		7,076
Total current assets		40,715		44,165
Property and equipment, at cost:				
Furniture, fixtures and equipment		14,578		14,131
Buildings and leasehold improvements		38,677		38,667
Land		8,474		8,474
Construction in progress		643		338
		62,372		61,610
Less accumulated depreciation and amortization		8,876		7,500
Net property and equipment		53,496		54,110
Intangible asset		92,000		92,000
Goodwill		61,552		61,552
Other assets and deferred expenses, net		10,619		10,360
	$	258,382	$	262,187

MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets, Continued

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

	April 4 2004 (unaudited)	January 4, 2004
Liabilities and Stockholder s Equity		
Current liabilities:		
Accounts payable	$ 5,507	$ 6,111
Accrued expenses	27,601	27,955
Current portion of obligations to financial institutions	485	658
Accrued income taxes	137	296
Total current liabilities	33,730	35,020
7.5% senior secured notes, net of unamortized discount of $14,572 and $14,987 at April 4, 2004 and January 4, 2004	90,428	90,013
Obligations to financial institutions, less current maturities	7,032	12,274
Deferred income taxes	20,471	20,471
Other liabilities	2,521	2,087
Total liabilities	154,182	159,865
Commitments and contingencies		
Stockholder s equity:		
Common stock, $0.01 par value per share. Authorized, issued and outstanding 1,000 shares at April 4, 2004 and January 4, 2004		
Additional paid-in capital	97,076	97,075
Accumulated other comprehensive income	96	128
Retained earnings	7,028	5,119
Total stockholder s equity	104,200	102,322
	$ 258,382	$ 262,187

See accompanying notes to unaudited consolidated financial statements.

MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Income

(amounts in thousands)

	Three month periods ended	
	April 4, 2004	**March 30, 2003 Restated (see Note 2)**
	(unaudited)	
Revenues	$ 72,981	$ 65,116
Food and beverage costs	24,472	21,995
Restaurant operating expenses	32,201	30,125
Pre-opening costs, depreciation, amortization and non-cash charges	2,031	2,438
General and administrative expenses	4,886	4,036
Marketing and promotional expenses	2,629	1,467
Costs associated with the repayment of certain debt	264	
Interest expense, net	3,071	1,641
Management fee paid to related party	700	700
Income before income taxes	2,727	2,714
Income tax expense	818	802
Net income	$ 1,909	$ 1,912

See accompanying notes to unaudited consolidated financial statements.

MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(amounts in thousands)

	Three month periods ended			
	April 4, 2004		March 30, 2003 Restated (see Note 2)	
	(unaudited)			
Cash flows from operating activities:				
Net income	$	1,909	$	1,912
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation, amortization and other non-cash charges		2,729		1,756
Deferred income taxes		864		1,317
Change in assets and liabilities:				
Accounts receivable		(982)		2,272
Income taxes receivable				250
Inventories		96		347
Prepaid expenses and other assets		467		1,007
Accounts payable, accrued expenses and other liabilities		(1,059)		(7,294)
Accrued income taxes		(163)		771
Net cash provided by operating activities		3,861		2,338
Cash flows from investing activities:				
Purchases of property and equipment		(1,011)		(1,689)
Net cash used in investing activities		(1,011)		(1,689)
Cash flows from financing activities:				
Principal reduction on obligations to financial institutions and capital leases		(5,415)		(2,337)
Proceeds from obligations to financial institutions				1,900
Payment of deferred financing costs		(468)		
Increase in restricted cash		(73)		
Net cash used in financing activities		(5,956)		(437)
Effect of exchange rate changes on cash		(7)		26
Net (decrease) increase in cash and cash equivalents		(3,113)		238
Cash and cash equivalents at beginning of period		17,997		1,703
Cash and cash equivalents at end of period	$	14,884	$	1,941

See accompanying notes to unaudited consolidated financial statements.

MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

April 4, 2004 and March 30, 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 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. 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 income for the three month period ended March 30, 2003 is as follows (amounts in thousands):

		Three month period ended March 30, 2003		
		Reported		Restated
Revenues	$	65,253	$	65,116
Income before income taxes		2,851		2,714
Income tax expense		855		802
Net income		1,996		1,912

3) 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 $495,000 and $1,795,000, and income taxes of approximately $120,000 and $85,000, for the three month periods ended April 4, 2004 and March 30, 2003, respectively.

4) **Restricted Cash**

Restricted cash of $1,173,000 and $1,100,000 as of April 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 6.

5) **Intangible Asset and Goodwill**

The identifiable intangible asset acquired represents the Company s trade name Morton s, which has an indefinite life and accordingly is not subject to amortization, but is subject to impairment testing. The trade name is used in the advertising and marketing of the restaurants and is widely recognized and accepted by consumers in its respective market as an indication of and recognition of service, value and quality. Goodwill represents the excess of costs over fair value of assets of the business acquired.

6) **Derivative Financial Instruments**

The Company accounts for its derivative financial instruments in accordance with Statement of Financial Accounting Standard (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 137 and SFAS No. 138. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measures those instruments at fair value. As of April 4, 2004, the Company s derivative financial instruments consist of two interest rate swap agreements with notional amounts of $20,000,000 each. Prior to the July 7, 2003 repayment of our prior credit facility with a portion of the proceeds from our 7.5% senior secured notes offering, the interest rate swap agreements were originally designated as cash flow hedges for purposes of SFAS No. 133. As a result of such repayment, these two interest rate swap agreements, which are due to expire on October 24, 2004 and October 24, 2005, are accounted for as speculative instruments and resulting changes in their fair market value have been charged or credited to the consolidated statement of income. As of April 4, 2004, and January 4, 2004, in accordance with SFAS No. 133, liabilities were approximately $689,000 and $723,000, respectively. The change in the fair market value has been recognized in interest expense, net in the consolidated statement of income for the three month period ended April 4, 2004.

7) **Comprehensive Income**

The components of comprehensive income for the three month periods ended April 4, 2004 and March 30, 2003 are as follows:

	Three month periods ended			
	April 4, 2004		March 30, 2003 Restated	
Net income	$	1,909	$	1,912
Other comprehensive income (loss):				

Foreign currency translation		(32)		(11)
Change in fair value of interest rate swap agreements				(79)
Total comprehensive income	$	1,877	$	1,822

8) Morton s 90 West Street, NY

As a result of the impact of the World Trade Center terrorist attacks on September 11, 2001, the Morton s steakhouse restaurant located at 90 West Street, New York, New York, two blocks from the World Trade Center was closed permanently due to structural damage. During the three month period ended March 30, 2003, the Company recorded a benefit in Restaurant operating expenses in the accompanying consolidated statement of income of approximately $514,000 representing business interruption insurance recovery related to costs incurred from the closing of that restaurant. There were no

8

comparable benefits recorded during the three month period ended April 4, 2004. During March 2004, the Company received $1,007,000 for such insurance. As of April 4, 2004, cumulative benefits recorded were $3,619,000 and cumulative amounts received were $3,619,000 for this insurance. Based on the insurance policy coverage, the Company believes that additional benefits will be recorded in fiscal 2004 and possibly in future periods relating to future insurance recoveries, although there is no assurance that any future recoveries will be received.

9) Employee Subscription Agreements

Certain of our executives and other employees have been granted common units of our parent (MHLLC), which represent an ownership interest in MHLLC, pursuant to employee subscription agreements. MHLLC s Board approved 1,711,344 units available for grant of which 1,497,585 were granted on August 26, 2003. On August 26, 2003, the fair value of each common unit granted was $0.01. Common units granted to an employee pursuant to employee subscription agreements are granted at no cost to the employee. These common units are subject to vesting. Fifty percent of the granted common units vest upon certain dates if the employee is employed as of such date. In addition, fifty percent of the common units will vest upon certain change of control or liquidation events if, upon the occurrence of such an event, Castle Harlan Partners III, L.P. achieves an internal rate of return of at least 30% and the employee is employed as of such date. Upon termination of employment, unvested common units will be forfeited and vested common units will be subject to repurchase pursuant to the terms of MHLLC s operating agreement. Stock-based employee compensation expense related to this plan will be charged to the Company based on the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Accordingly, the Company recognized compensation expense relating to the vesting of common units granted in our consolidated statement of income for the three month period ended April 4, 2004. The compensation expense recorded during the three month period ended April 4, 2004, represents the straight-line amortization of the difference between the fair value at the date of grant of $0.01 per common unit and the exercise price (which is zero) of the common units of the outstanding time-vesting common units for the period from January 5, 2004 to April 4, 2004. The remaining compensation expense that was measured at the date of grant will be amortized on a straight-line basis over the remaining vesting period. Compensation expense relating to the other 50% of common units granted, which vest upon certain change of control or liquidation events if, upon the occurrence of such an event, Castle Harlan Partners III, L.P. achieves an internal rate of return of at least 30%, will be measured and recognized if and when these events occur.

Activity relating to the common units granted pursuant to employee subscription agreements during the three month period ended April 4, 2004 is as follows:

Unvested common units outstanding as of January 4, 2004	1,482,385
Granted units	
Vested units	
Forfeited units	3,400
Unvested common units outstanding as of April 4, 2004	1,478,985

As of April 4, 2004, there were 232,359 common units available for grant.

In December 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation as originally provided by SFAS No. 123, Accounting for Stock-Based Compensation. Additionally, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosure in both the annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results. The

transitional requirements of SFAS No. 148 are effective for all financial statements for fiscal years ending after December 15, 2002. The application of the disclosure portion of this standard did not have any impact on our consolidated financial statements. The financial and accounting standards board recently indicated that it will require stock-based employee compensation to be recorded as a charge to earnings pursuant to a standard it is currently deliberating, which it believes will become effective during 2004. We will continue to monitor its progress on the issuance of this standard as well as evaluate our position with respect to current guidance.

10) Financial Information about Geographic Areas

Income before income taxes for the Company s domestic and foreign operations are as follows:

	Three month periods ended	
	April 4, 2004	March 30, 2003 Restated
Domestic	$ 2,344	$ 2,601
Foreign	383	113
Total	$ 2,727	$ 2,714

11) Restaurant Activity

In January 2003, the Company closed the Morton s steakhouse in Hong Kong Central. In August 2003, the Company closed the Morton s steakhouse in Addison, Texas. No restaurants were opened or closed during the three month period ended April 4, 2004.

(12) Legal Matters and Contingencies

Since August 2002, a number of the Company s current and former employees in New York and Florida have initiated arbitrations with the American Arbitration Association in their respective states alleging that the Company has violated state and federal (New York arbitrations) and federal (Florida arbitrations) wage and hour laws regarding the sharing of tips with other employees and failure to pay for all hours worked. In general, the complainants are seeking restitution of tips, the difference between the tip credit wage and the minimum wage, payment for hours worked off the clock, liquidated damages and attorneys fees and costs. The arbitrator in the New York arbitrations has permitted the complainants to consolidate their arbitrations into one action and proceed as a collective action. The Florida complainants are also seeking to consolidate their arbitrations, but there has been no determination to date. The Company believes that the allegations are without merit and intends to contest them vigorously.

The Company is involved in various other claims and legal actions arising in the ordinary course of business. Management does not believe that the ultimate resolution of these actions will have a material adverse effect on the Company s consolidated financial position, results of operations, liquidity and capital resources.

(13) Supplemental Condensed Consolidating Financial Information

The obligations of Morton s Restaurant Group, Inc. (the Issuer) related to the 7.5% senior secured notes are fully and unconditionally guaranteed on a joint and several basis and on a senior basis by certain of the Company s wholly-owned domestic subsidiaries (the Guarantors). These guarantees are senior secured obligations of the Guarantors, subject to liens permitted under the indenture governing the 7.5% senior secured notes, rank senior in right of payment to all subordinated indebtedness of the Guarantors and rank *pari passu* in right of payment with all existing and future senior indebtedness of the Guarantors. There are no restrictions on the Company s ability to obtain cash dividends or other distributions of funds from the Guarantors, except those imposed by applicable law and certain contractual restrictions, which do not exceed 25% of consolidated net assets of any Guarantor, that are permitted under the indenture governing the 7.5% senior secured notes. The following supplemental financial information sets forth, on a condensed consolidating basis, balance sheets, statements of income and statements of cash flows for the Issuer, domestic subsidiaries of the Company that are Guarantors and foreign subsidiaries and domestic subsidiaries of the Company that are not Guarantors (collectively, the Non-Guarantor Subsidiaries). The Company has not presented separate financial statements and other disclosures concerning the Guarantor Subsidiaries because management has determined that such information is not material to investors.

Supplemental Consolidating Balance Sheet

April 4, 2004

(unaudited)

(amounts in thousands)

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ 14,304	$ 37	$ 543	$	$ 14,884
Restricted cash	1,173				1,173
Accounts receivable	51	4,551	208		4,810
Inventories		8,464	527		8,991
Prepaid expenses and other current assets	224	4,353	68		4,645
Deferred income taxes	2,899	3,313			6,212
Total current assets	18,651	20,718	1,346		40,715
Property and equipment, net	117	52,017	1,362		53,496
Intangible asset		92,000			92,000
Goodwill		61,552			61,552
Other assets and deferred expenses, net	9,187	3,704	248	(2,520)	10,619
Amounts due from affiliates	141,551	23,256	4,710	(169,517)	
	$ 169,506	$ 253,247	$ 7,666	$ (172,037)	$ 258,382

Supplemental Consolidating Balance Sheet

April 4, 2004

(unaudited)

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

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Liabilities and Stockholder s Equity					
Current liabilities:					
Accounts payable and accrued expenses	$ 7,702	$ 24,415	$ 991	$	$ 33,108
Current portion of obligations to financial institutions		485			485
Accrued income taxes	(1,393)	204	1,326		137
Amounts due from affiliates		165,495	4,022	(169,517)	
Total current liabilities	6,309	190,599	6,339	(169,517)	33,730
7.5% senior secured notes, net of unamortized discount of $14,572	90,428				90,428
Obligations to financial institutions, less current maturities		7,032			7,032
Deferred income taxes		20,471			20,471
Other liabilities	(38)	2,485	74		2,521
Total liabilities	96,699	220,587	6,413	(169,517)	154,182
Commitments and contingencies					
Stockholder s equity:					
Common stock, $0.01 par value per share. Authorized, issued and outstanding 1,000 shares					
Additional paid-in capital	97,076	2,520		(2,520)	97,076
Accumulated other comprehensive income (loss)		257	(161)		96
(Accumulated deficit) retained earnings	(24,269)	29,883	1,414		7,028
Total stockholder s equity	72,807	32,660	1,253	(2,520)	104,200
	$ 169,506	$ 253,247	$ 7,666	$ (172,037)	$ 258,382

Supplemental Consolidating Balance Sheet

January 4, 2004

(amounts in thousands)

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ 17,911	$ (614)	$ 700	$	$ 17,997
Restricted cash	1,100				1,100
Accounts receivable	2	3,665	162		3,829
Inventories		8,511	583		9,094
Prepaid expenses and other current assets	382	4,649	38		5,069
Deferred income taxes	1,875	5,201			7,076
Total current assets	21,270	21,412	1,483		44,165
Property and equipment, net	91	52,537	1,482		54,110
Intangible asset		92,000			92,000
Goodwill		61,552			61,552
Other assets and deferred expenses, net	8,899	3,732	249	(2,520)	10,360
Amounts due from affiliates	150,482	14,325	4,710	(169,517)	
	$ 180,742	$ 245,558	$ 7,924	$ (172,037)	$ 262,187

Supplemental Consolidating Balance Sheet

January 4, 2004

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

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Liabilities and Stockholder s Equity					
Current liabilities:					
Accounts payable and accrued expenses	$ 6,090	$ 26,704	$ 1,272	$	$ 34,066
Current portion of obligations to financial institutions		658			658
Accrued income taxes	10,661	(11,774)	1,409		296
Amounts due from affiliates		165,206	4,311	(169,517)	
Total current liabilities	16,751	180,794	6,992	(169,517)	35,020
7.5% senior secured notes, net of unamortized discount of $14,987	90,013				90,013
Obligations to financial institutions, less current maturities		12,274			12,274
Deferred income taxes	(3,860)	24,331			20,471
Other liabilities	(56)	2,074	69		2,087
Total liabilities	102,848	219,473	7,061	(169,517)	159,865
Commitments and contingencies					
Stockholder s equity:					
Common stock, $0.01 par value per share. Authorized, issued and outstanding 1,000 shares					
Additional paid-in capital	97,075	2,520		(2,520)	97,075
Accumulated other comprehensive income (loss)		296	(168)		128
(Accumulated deficit) retained earnings	(19,181)	23,269	1,031		5,119
Total stockholder s equity	77,894	26,085	863	(2,520)	102,322
	$ 180,742	$ 245,558	$ 7,924	$ (172,037)	$ 262,187

Supplemental Consolidating Statement of Operations

Three month period ended April 4, 2004

(unaudited)

(amounts in thousands)

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$ 4,371	$ 69,704	$ 3,277	$ (4,371)	$ 72,981
Food and beverage costs		23,403	1,069		24,472
Restaurant operating expenses		30,561	1,640		32,201
Pre-opening costs, depreciation, amortization and non-cash charges	3	1,934	94		2,031
General and administrative expenses	4,886	4,371		(4,371)	4,886
Marketing and promotional expenses		2,538	91		2,629
Costs associated with the repayment of certain debt	264				264
Interest expense, net	2,788	283			3,071
Management fee paid to related party	700				700
(Loss) income before income taxes	(4,270)	6,614	383		2,727
Income tax expense	818				818
Net (loss) income	$ (5,088)	$ 6,614	$ 383	$	$ 1,909

Supplemental Consolidating Statement of Operations

Three month period ended March 30, 2003

(unaudited)

Restated

(amounts in thousands)

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$ 3,899	$ 62,211	$ 2,905	$ (3,899)	$ 65,116

Food and beverage costs		21,001	994		21,995
Restaurant operating expenses		28,534	1,591		30,125
Pre-opening costs, depreciation, amortization and non-cash charges	53	2,256	129		2,438
General and administrative expenses	4,036	3,899		(3,899)	4,036
Marketing and promotional expenses		1,400	67		1,467
Interest expense, net	1,152	478	11		1,641
Management fee paid to related party	700				700
(Loss) income before income taxes	(2,042)	4,643	113		2,714
Income tax expense	802				802
Net (loss) income	$ (2,844)	$ 4,643	$ 113	$	$ 1,912

Supplemental Consolidating Statement of Cash Flows

Three month period ended April 4, 2004

(unaudited)

(amounts in thousands)

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
Cash flows from operating activities:				
Net (loss) income	$ (5,088)	$ 6,614	$ 383	$ 1,909
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:				
Depreciation, amortization and other non-cash charges	700	1,903	126	2,729
Deferred income taxes	2,836	(1,972)		864
Change in assets and liabilities:				
Accounts receivable	(49)	(885)	(48)	(982)
Inventories		46	50	96
Prepaid expenses and other assets	9,089	(8,329)	(293)	467
Accounts payable, accrued expenses and other liabilities	1,529	(2,327)	(261)	(1,059)
Accrued income taxes	(12,054)	11,979	(88)	(163)
Net cash (used in) provided by operating activities	(3,037)	7,029	(131)	3,861
Cash flows from investing activities:				
Purchases of property and equipment	(29)	(963)	(19)	(1,011)
Net cash used in investing activities	(29)	(963)	(19)	(1,011)
Cash flows from financing activities:				
Principal reduction on obligations to financial institutions and capital leases		(5,415)		(5,415)
Payment of deferred financing costs	(468)			(468)
Increase in restricted cash	(73)			(73)
Net cash used in financing activities	(541)	(5,415)		(5,956)
Effect of exchange rate changes on cash			(7)	(7)
Net (decrease) increase in cash and cash equivalents	(3,607)	651	(157)	(3,113)
Cash and cash equivalents at beginning of period	17,911	(614)	700	17,997
Cash and cash equivalents at end of period	$ 14,304	$ 37	$ 543	$ 14,884

16

Supplemental Consolidating Statement of Cash Flows

Three month period ended March 30, 2003

(unaudited)

Restated

(amounts in thousands)

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
Cash flows from operating activities:				
Net (loss) income	$ (2,844)	$ 4,643	$ 113	$ 1,912
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:				
Depreciation, amortization and other non-cash charges	53	1,579	124	1,756
Deferred income taxes	3,915	(2,598)		1,317
Change in assets and liabilities:				
Accounts receivable	(1)	2,270	3	2,272
Income taxes receivable	250			250
Inventories		313	34	347
Prepaid expenses and other assets	1,071	(159)	95	1,007
Accounts payable, accrued expenses and other liabilities	(136)	(6,840)	(318)	(7,294)
Accrued income taxes	(2,862)	3,680	(47)	771
Net cash (used in) provided by operating activities	(554)	2,888	4	2,338
Cash flows from investing activities:				
Purchases of property and equipment	(9)	(1,664)	(16)	(1,689)
Net cash used in investing activities	(9)	(1,664)	(16)	(1,689)