MORTONS RESTAURANT GROUP INC
Form 10-Q
November 01, 2011
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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 October 2, 2011

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to 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.)**
325 North LaSalle Street, Suite 500, Chicago, Illinois	**60654**
(Address of principal executive offices)	**(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 þ or 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ 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 ¨ (Do not check if a smaller reporting company)	Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ or No þ.

As of October 27, 2011, the registrant had 16,901,867 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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Forward-Looking Statements

This Form 10-Q contains various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Forward-looking statements, written, oral or otherwise made, represent the Company s expectation or belief concerning future events. Without limiting the foregoing, the words believes, thinks, anticipates, estimates, plans, expects, and similar expressions are intended to identify forward-looking statements.

The Company cautions that these statements are subject to risks, uncertainties, assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements, including, without limitation:

(i) a reduction in consumer and/or business spending in one or more of the Company s markets due to business layoffs, budget reductions, negative consumer sentiment, events or occurrences affecting the securities and/or financial markets, changes in federal, state, foreign and/or local tax levels or other factors;

(ii) risks relating to the restaurant industry and the Company s business, including competition, changes in consumer tastes and preferences, risks associated with opening new locations, increases in costs, demographic trends, traffic patterns, weather conditions, employee availability, perceived product safety issues, supply interruptions, litigation judgments or settlements in pending litigation, government regulation, the Company s ability to maintain adequate financing facilities, the Company s liquidity and capital resources, prevailing interest rates and legal and regulatory matters;

(iii) risks regarding the timing or whether the Company will elect to pursue any of the strategic alternatives it may consider, or that any such alternatives will result in changes to the Company s business plan or a sale of the Company; and

(iv) other risks detailed in Item 1A. Risk Factors herein, in the Company s most recent Form 10-K and in the Company s other reports filed from time to time with the Securities and Exchange Commission.

In addition, the Company s ability to open new restaurants is dependent upon various factors, such as the availability of attractive sites for new restaurants, the ability to negotiate suitable lease terms, the ability to generate or borrow funds to develop new restaurants, the ability to obtain various government permits and licenses, limitations on permitted capital expenditures under the Company s Senior Credit Facility (as defined in Note 8 Long Term Debt in the Notes to Unaudited Consolidated Financial Statements in Part I, Item 1 of this report) and the recruitment and training of skilled management and restaurant employees. Other unknown or unpredictable factors also could harm the Company s business, financial condition and results. Consequently, there can be no assurance that actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent required by applicable securities laws.

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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)

	October 2, 2011 (unaudited)	January 2, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 1,073	$ 1,214
Restricted cash	2,215	1,435
Accounts receivable	5,430	6,407
Inventories	10,046	10,819
Prepaid expenses and other current assets	3,916	4,180
Income taxes receivable	64	96
Total current assets	22,744	24,151
Property and equipment, at cost:		
Furniture, fixtures and equipment	31,729	29,635
Buildings and leasehold improvements	103,961	99,330
Land	7,300	7,300
Construction in progress	332	1,320
	143,322	137,585
Less: accumulated depreciation and amortization	53,790	46,091
Property and equipment, net	89,532	91,494
Intangible asset	73,000	73,000
Goodwill	6,903	6,938
Other assets and deferred expenses, net	5,998	6,231
	$ 198,177	$ 201,814

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MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets, Continued

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

	October 2, 2011 (unaudited)	January 2, 2011
Liabilities and Equity		
Current liabilities:		
Accounts payable	$ 11,586	$ 11,703
Accrued expenses	21,222	20,959
Deferred revenue from gift certificates and gift cards	11,032	15,542
Current portion of long-term debt	3,884	3,871
Accrued income taxes	433	936
Total current liabilities	48,157	53,011
Long-term debt, net of current portion	65,355	63,631
Deferred income taxes, net	25,402	25,857
Deferred rent and landlord allowances	42,267	42,520
Other liabilities	2,536	3,671
Total liabilities	183,717	188,690
Commitments and contingencies		
Equity:		
Morton s Restaurant Group, Inc. and Subsidiaries:		
Preferred stock, $0.01 par value per share. 30,000,000 shares authorized, 1,200,000 issued and outstanding at October 2, 2011 and at January 2, 2011	12	12
Common stock, $0.01 par value per share. 100,000,000 shares authorized, 18,133,669 and 17,267,571 issued and 16,901,669 and 16,035,571 outstanding at October 2, 2011 and January 2, 2011, respectively	181	173
Additional paid-in capital	175,541	174,828
Treasury stock, 1,232,000 shares at a weighted average cost of $7.63 per share at October 2, 2011 and January 2, 2011	(9,395)	(9,395)
Accumulated other comprehensive income	890	961
Accumulated deficit	(152,272)	(152,790)
Total stockholders equity of controlling interest	14,957	13,789
Noncontrolling interest	(497)	(665)
Total equity	14,460	13,124
	$ 198,177	$ 201,814

See accompanying notes to unaudited consolidated financial statements.

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MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

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

	Three month periods ended		Nine month periods ended	
	October 2, 2011	**October 3, 2010**	**October 2, 2011**	**October 3, 2010**
		(unaudited)		
Revenues	$ 71,442	$ 66,247	$ 231,928	$ 212,026
Food and beverage costs	22,570	20,445	72,145	64,587
Restaurant operating expenses	41,195	38,888	126,446	119,447
Pre-opening costs	62	789	416	1,218
Depreciation and amortization	2,751	2,454	8,146	7,496
General and administrative expenses	4,425	4,250	14,053	12,338
Marketing and promotional expenses	1,515	1,276	4,744	4,561
Charge related to legal settlements	235		866	540
Operating (loss) income	(1,311)	(1,855)	5,112	1,839
Interest expense, net	1,369	956	4,055	2,831
(Loss) income before income taxes from continuing operations	(2,680)	(2,811)	1,057	(992)
Income tax (benefit) expense	(348)	(395)	476	43
(Loss) income from continuing operations	(2,332)	(2,416)	581	(1,035)
Discontinued operations	99	(66)	99	(869)
Net (loss) income	(2,233)	(2,482)	680	(1,904)
Net income (loss) attributable to noncontrolling interest	59	(293)	162	(406)
Net (loss) income attributable to controlling interest	$ (2,292)	$ (2,189)	$ 518	$ (1,498)
Amounts attributable to controlling interest:				
(Loss) income from continuing operations	$ (2,391)	$ (2,123)	$ 419	$ (629)
Discontinued operations	99	(66)	99	(869)
Net (loss) income	$ (2,292)	$ (2,189)	$ 518	$ (1,498)
Basic (loss) income per share:				
Continuing operations	$ (0.15)	$ (0.13)	$ 0.02	$ (0.04)
Discontinued operations	$ 0.01	$ (0.01)	$ 0.01	$ (0.05)
Net (loss) income per share	$ (0.14)	$ (0.14)	$ 0.03	$ (0.09)
Diluted (loss) income per share:				
Continuing operations	$ (0.15)	$ (0.13)	$ 0.02	$ (0.04)
Discontinued operations	$ 0.01	$ (0.01)	$ 0.01	$ (0.05)
Net (loss) income per share	$ (0.14)	$ (0.14)	$ 0.03	$ (0.09)
Shares used in computing net (loss) income per share:				
Basic	16,182,386	16,033,111	16,164,029	16,017,762
Diluted	16,182,386	16,033,111	17,557,961	16,017,762

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)

	Nine month periods ended October 2, 2011	Nine month periods ended October 3, 2010
	(unaudited)	
Cash flows from operating activities:		
Net income (loss)	$ 680	$ (1,904)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation, amortization and other non-cash charges	9,103	10,493
Non-cash portion of charge related to legal settlements		540
Deferred income taxes	(494)	(957)
Change in assets and liabilities:		
Accounts receivable	952	511
Inventories	745	501
Prepaid expenses and other assets	202	42
Income taxes receivable	32	489
Accounts payable	(117)	(922)
Accrued expenses and deferred revenue	(3,756)	(9,882)
Other liabilities	(996)	517
Accrued income taxes	(569)	(94)
Net cash provided by (used in) operating activities	5,782	(666)
Cash flows from investing activities:		
Purchases of property and equipment	(6,842)	(6,292)
Net cash used in investing activities	(6,842)	(6,292)
Cash flows from financing activities:		
Borrowings under senior credit facility	12,100	13,400
Payments made on senior credit facility	(9,893)	(9,600)
Principal reduction on obligation to financial institution	(132)	(120)
Borrowings under non-recourse loan		89
Shares vested and surrendered by employees in lieu of paying minimum income taxes	(244)	(221)
Increase in restricted cash	(774)	(1,240)
(Payments) proceeds from joint venture loan payable	(80)	4,273
JV partners investment in joint venture		78
Payments of deferred financing costs	(6)	(11)
Net cash provided by financing activities	971	6,648
Effect of exchange rate changes on cash	(52)	96
Net decrease in cash and cash equivalents	(141)	(214)
Cash and cash equivalents at beginning of period	1,214	1,141
Cash and cash equivalents at end of period	$ 1,073	$ 927

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

October 2, 2011 and October 3, 2010

1) Basis of Presentation

The accompanying unaudited consolidated financial statements of Morton s Restaurant Group, Inc. and its subsidiaries (MRG, the Company, the controlling interest, 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 January 2, 2011.

The preparation of financial statements in accordance with GAAP requires management of the Company to make estimates and assumptions relating to 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 is added. Fiscal 2011 and fiscal 2010 are each 52 week years.

MRG was incorporated as a Delaware corporation on October 3, 1988. In February 2006, the Company and certain selling stockholders completed an initial public offering (IPO) of shares of common stock. The first Morton s was opened in 1978 in downtown Chicago, where Morton s corporate office is still located. Since then, Morton s has grown to 77 restaurants (Morton s) and one Trevi restaurant (Trevi) as of October 2, 2011.

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 consolidated statements of cash flows. Furthermore, the issuance of Series A Convertible Preferred Stock (Preferred Stock) in connection with the settlement of certain wage and hour litigation during the nine month period ended October 3, 2010, is reflected as a non-cash transaction in the consolidated statements of cash flows.

The following table sets forth the amount of interest paid, including capitalized interest, and net income taxes paid for each period presented in the consolidated statements of cash flows (amounts in thousands):

	Nine month periods ended	
	October 2, 2011	October 3, 2010
Interest paid	$ 2,697	$ 2,152
Capitalized interest	20	7
Income taxes paid, net of refunds	1,512	608

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3) Income Taxes

The Company recognized income tax expense of $0.5 million on pre-tax income related to continuing operations of $1.1 million for the nine month period ended October 2, 2011. The Company s effective tax rate was 45.0% for the nine month period ended October 2, 2011 and was primarily attributable to non-U.S. and current state income taxes, an adjustment related to filing our tax returns for fiscal 2010 and a charge related to the non-cash effect of a local tax law change on our deferred tax liability. Based on management s evaluation of certain factors, in the fourth quarter of fiscal 2009, the Company established a valuation allowance for all U.S. federal and state deferred tax assets. Management continues to believe that a valuation allowance for all U.S. federal and state deferred tax assets is necessary based on the cumulative loss incurred in the past three years. Consideration is given to all available evidence, both positive and negative, in assessing the need for a valuation allowance. Due to the historical losses recorded in our U.S. operations and the uncertainty of the economic outlook, we continue to maintain a full valuation allowance against our U.S. deferred tax assets.

4) Net (Loss) Income per Share

The Company computes net (loss) income per common share in accordance with ASC Topic 260, *Earnings per Share*. Basic net (loss) income per share has been computed by dividing net (loss) income by the weighted average shares outstanding for the period. Diluted net (loss) income per share is calculated in the same manner, but adjusts shares outstanding to reflect the potential dilution that would occur if unvested restricted stock awards were vested and if the preferred shares outstanding had been converted to common shares. In periods where losses are recorded, inclusion of potentially dilutive securities in the calculation would decrease the loss per common share and, therefore, these securities are not added to the weighted average number of shares outstanding due to their anti-dilutive effect.

The following table sets forth the approximate number of shares that were not included in the calculation of diluted net (loss) income per share because their effect would have been anti-dilutive, if any, and the computation of basic and diluted net (loss) income per share attributable to controlling interest for the periods presented (amounts in thousands, except share and per share amounts):

	Three month periods ended		Nine month periods ended	
	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
Potentially dilutive shares that are considered anti-dilutive:				
Restricted stock	729,000	697,000	736,000	732,000
(Loss) income from continuing operations	$ (2,391)	$ (2,123)	$ 419	$ (629)
Discontinued operations	99	(66)	99	(869)
Net (loss) income attributable to controlling interest	$ (2,292)	$ (2,189)	$ 518	$ (1,498)
Shares:				
Weighted average number of basic common shares outstanding	16,182,386	16,033,111	16,164,029	16,017,762
Dilutive potential common shares			1,393,932	
Weighted average number of diluted common shares outstanding	16,182,386	16,033,111	17,557,961	16,017,762
Basic (loss) income per share:				
Continuing operations	$ (0.15)	$ (0.13)	$ 0.02	$ (0.04)
Discontinued operations	$ 0.01	$ (0.01)	$ 0.01	$ (0.05)
Net (loss) income per share	$ (0.14)	$ (0.14)	$ 0.03	$ (0.09)
Diluted (loss) income per share:				
Continuing operations	$ (0.15)	$ (0.13)	$ 0.02	$ (0.04)
Discontinued operations	$ 0.01	$ (0.01)	$ 0.01	$ (0.05)

Net (loss) income per share	$	(0.14)	$	(0.14)	$	0.03	$	(0.09)

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5) Comprehensive (Loss) Income

The components of comprehensive (loss) income were as follows for the periods presented (amounts in thousands):

	Three month periods ended		Nine month periods ended	
	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
Net (loss) income attributable to controlling interest	$ (2,292)	$ (2,189)	$ 518	$ (1,498)
Other comprehensive (loss) income:				
Foreign currency translation	(274)	24	(71)	(4)
Comprehensive (loss) income attributable to controlling interest	(2,566)	(2,165)	447	(1,502)
Comprehensive income (loss) attributable to noncontrolling interest	59	(293)	162	(406)
Comprehensive (loss) income	$ (2,507)	$ (2,458)	$ 609	$ (1,908)

6) Stock Based Compensation

Prior to the IPO, the Company adopted the 2006 MRG 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 October 2, 2011, the aggregate number of shares of the Company s common stock approved for grant 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 the nine month period ended October 2, 2011, the Company granted and issued the following restricted stock awards to certain of its employees and directors pursuant to the equity incentive plan:

Date of Grant	Number of Shares Granted	Stock Price on Grant Date
January 25, 2011	264,850	$ 6.62
May 19, 2011	1,500	$ 7.45
July 26, 2011	2,700	$ 7.60

Activity relating to the shares of restricted stock granted pursuant to the equity incentive plan during the nine month period ended October 2, 2011 was as follows:

	Number of Shares
Unvested restricted stock outstanding as of January 2, 2011	673,200
Granted at a weighted average price of $6.63 per share	269,050
Vested with 50,612 shares surrendered in lieu of paying taxes[a]	(197,660)
Forfeited by termination	(25,540)
Unvested restricted stock outstanding as of October 2, 2011	719,050

[a] In connection with the vesting of shares, certain employees elected to pay the employee minimum income taxes due by surrendering shares in lieu of paying the taxes in cash. Such surrendered shares were cancelled by the Company.

As of October 2, 2011, there were 402,790 shares available for grant pursuant to the equity incentive plan.

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In accordance with ASC Topic 718, *Compensation Stock Compensation*, stock-based compensation is measured at the grant date based on the calculated fair value of the award, and is recognized as an expense over the requisite service period (generally the vesting period of the grant). The Company recognized stock-based compensation for awards issued under the equity incentive plan in the following line items for the periods presented in the consolidated statements of operations (amounts in thousands):

	Three month periods ended		Nine month periods ended	
	October 2, 2011	**October 3, 2010**	**October 2, 2011**	**October 3, 2010**
Restaurant operating expenses	$ 81	$ 91	$ 271	$ 279
General and administrative expenses	273	397	731	1,196
Marketing and promotional expenses	17	17	58	50
Total stock-based compensation expense	$ 371	$ 505	$ 1,060	$ 1,525

As of October 2, 2011, total remaining unrecognized compensation expense related to unvested stock-based payment awards, net of estimated forfeitures, was approximately $2.9 million, which will be recognized over a weighted average period of approximately 3.3 years.

7) Financial Information about Geographic Areas

As of October 2, 2011, the Company owned and operated 77 Morton s steakhouses, including 71 domestic restaurants located in 64 cities across 26 states and San Juan, Puerto Rico, and 6 international locations (Toronto, Canada; Hong Kong, China; Macau, China; Shanghai, China; Mexico City, Mexico and Singapore), as well as Trevi, our Italian restaurant, which is located next to the Fountain of the Gods at The Forum Shops at Caesars Palace in Las Vegas, NV.

(Loss) income before income taxes from continuing operations for the Company s domestic and foreign operations were as follows for the periods presented (amounts in thousands):

	Three month periods ended		Nine month periods ended	
	October 2, 2011	**October 3, 2010**	**October 2, 2011**	**October 3, 2010**
Domestic (72 restaurants at October 2, 2011 and October 3, 2010)	$ (3,743)	$ (3,057)	$ (2,862)	$ (2,696)
Foreign (6 and 5 restaurants at October 2, 2011 and October 3, 2010, respectively)	1,063	246	3,919	1,704