

TOTAL ENTERTAINMENT RESTAURANT CORP  
Form 10-Q  
July 30, 2001

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549  
-----

FORM 10-Q

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

For the quarterly period ended	Commission file number
JUNE 12, 2001	000-22753
-----	-----

TOTAL ENTERTAINMENT RESTAURANT CORP.  
(Exact Name of Registrant as Specified in its Charter)

DELAWARE	52-2016614
-----	-----
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

9300 EAST CENTRAL AVENUE  
SUITE 100  
WICHITA, KANSAS 67206  
(Address of principal executive offices) (Zip code)

(316) 634-0505  
(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.

[X] YES [ ] NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

CLASS	Outstanding at July 23, 2001
COMMON STOCK, \$.01 PAR VALUE	8,666,111 SHARES

TOTAL ENTERTAINMENT RESTAURANT CORP.

INDEX

PAGE  
NUMBER

# Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-Q

PART I. FINANCIAL INFORMATION -----

ITEM 1. CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

CONDENSED CONSOLIDATED BALANCE SHEETS AT JUNE 12, 2001 AND DECEMBER 26, 2000	2
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE TWELVE WEEKS ENDED JUNE 12, 2001 AND JUNE 13, 2000	3
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE TWENTY-FOUR WEEKS ENDED JUNE 12, 2001 AND JUNE 13, 2000	4
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE TWENTY-FOUR WEEKS ENDED JUNE 12, 2001 AND JUNE 13, 2000	5
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	6
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	7
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	12

PART II. OTHER INFORMATION -----

ITEM 2. CHANGES IN SECURITIES	13
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF STOCKHOLDERS	13
ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K	13

-1-

TOTAL ENTERTAINMENT RESTAURANT CORP.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

	June 12, 2001	Decem
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,851,394	
Inventories	1,110,311	
Deferred income taxes	158,422	
Other current assets	744,309	
Total current assets	4,864,436	
Property and equipment:		

Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-Q

Land	600,000
Buildings	670,629
Leasehold improvements	23,292,832
Equipment	14,095,869
Furniture and fixtures	3,396,670
	-----
	42,056,000
Less accumulated depreciation and amortization	10,661,134
	-----
	31,394,866
Other assets:	
Goodwill, net of accumulated amortization	3,792,606
Deferred income taxes	1,012,337
Other assets	558,597
	-----
Total other assets	5,363,540
	-----
Total assets	\$41,622,842
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Current portion of notes payable	\$ 1,976,791
Accounts payable	1,779,345
Sales tax payable	648,803
Accrued payroll	620,285
Accrued payroll taxes	308,239
Accrued income taxes	1,074,413
Lease obligation for closed store	211,133
Other accrued liabilities	1,227,343
	-----
Total current liabilities	7,846,352
Notes payable	11,273,209
Deferred revenue	130,291
Stockholders' equity:	
Preferred stock	-
Common stock	86,661
Additional paid-in capital	17,134,948
Retained earnings	5,151,381
	-----
Total stockholders' equity	22,372,990
	-----
Total liabilities and stockholders' equity	\$41,622,842
	=====

See accompanying notes.

- 2 -

TOTAL ENTERTAINMENT RESTAURANT CORP.  
Condensed Consolidated Statements of Operations  
(UNAUDITED)

Twelve weeks  
ended

Twelve weeks  
ended

Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-Q

	June 12, 2001	June 13, 2001
	-----	-----
Sales:		
Food and beverage	\$ 13,351,523	\$ 10,78
Entertainment and other	1,373,505	1,21
	-----	-----
Total net sales	14,725,028	12,00
Costs and expenses:		
Costs of sales	4,039,824	3,15
Entertainment and restaurant operating expenses	7,746,643	6,33
Depreciation and amortization	850,348	82
Preopening costs	299,064	
	-----	-----
Entertainment and restaurant costs and expenses	12,935,879	10,32
	-----	-----
Entertainment and restaurant operating income	1,789,149	1,67
General and administrative expenses	910,645	90
Goodwill amortization	56,345	5
	-----	-----
Income from operations	822,159	71
Other income (expense):		
Loss on disposal of assets	(28,538)	(
Other income, principally interest	154	
Interest expense	(223,199)	(24
	-----	-----
Income before provision for income taxes	570,576	46
Provision for income taxes	208,525	17
	-----	-----
Net income	\$ 362,051	\$ 29
	=====	=====
Basic and diluted earnings per share	\$ 0.04	\$
	=====	=====

See accompanying notes.

- 3 -

TOTAL ENTERTAINMENT RESTAURANT CORP.  
Condensed Consolidated Statements of Operations  
(UNAUDITED)

	Twenty-four weeks ended June 12, 2001	Twenty-four weeks ended June 13, 2001
	-----	-----
Sales:		
Food and beverage	\$ 28,258,028	\$ 23,05
Entertainment and other	2,904,017	2,59
	-----	-----
Total net sales	31,162,045	25,65
Costs and expenses:		
Costs of sales	8,490,651	6,70
Entertainment and restaurant operating expenses	15,771,621	12,76
Depreciation and amortization	1,666,747	1,66

Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-Q

Preopening costs	370,471	1
Entertainment and restaurant costs and expenses	26,299,490	21,14
Entertainment and restaurant operating income	4,862,555	4,50
General and administrative expenses	1,777,493	1,86
Goodwill amortization	112,690	11
Income from operations	2,972,372	2,53
Other income (expense):		
Loss on disposal of assets	(51,828)	(3
Other income, principally interest	194	
Interest expense	(477,838)	(49
Income before provision for income taxes	2,442,900	2,00
Provision for income taxes	889,640	74
Net income	\$ 1,553,260	\$ 1,26
Basic and diluted earnings per share	\$ 0.18	\$

See accompanying notes.

- 4 -

TOTAL ENTERTAINMENT RESTAURANT CORP.  
Condensed Consolidated Statement of Cash Flows  
(UNAUDITED)

	Twenty-four weeks ended June 12, 2000
Cash flows from operating activities:	
Net income	\$ 1,553,260
Adjustments to reconcile net income to net cash provided by operating activities:	
Loss on disposal of assets	51,828
Depreciation and amortization	1,803,091
Deferred income taxes	50,286
Net change in operating assets and liabilities:	
Change in operating assets	(433,930)
Change in operating liabilities	(1,296,589)
Net cash provided by operating activities	1,727,946
Cash flows from investing activities:	
Purchases of property and equipment	(2,243,942)
Proceeds from disposal of assets	20,100
Net cash used in investing activities	(2,223,842)
Cash flows from financing activities:	
Proceeds from revolving note payable to bank	25,385,000

## Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-Q

Payments of revolving note payable to bank	(24,115,000)
Purchases of common stock	(167,316)
	-----
Net cash provided by (used in) financing activities	1,102,684
	-----
Net increase (decrease) in cash and cash equivalents	606,788
Cash and cash equivalents at beginning of period	2,244,606
	-----
Cash and cash equivalents at end of period	\$ 2,851,394
	=====
Supplemental disclosure of cash flow information:	
Cash paid for interest	\$ 433,703
Cash paid for income taxes	773,993
Supplemental disclosure of non cash activity:	
Additions to property and equipment in accounts payable	135,887

See accompanying notes.

- 5 -

### TOTAL ENTERTAINMENT RESTAURANT CORP. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### 1. BASIS OF PRESENTATION AND DESCRIPTION OF BUSINESS

-----

The unaudited condensed consolidated financial statements have been prepared by the Company, pursuant to the rules and regulations of the Securities and Exchange Commission. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments) which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally presented in annual financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. These financial statements should be read in conjunction with the Company's audited consolidated financial statements in its 2000 Form 10-K. The results of the twelve weeks ended June 12, 2001 are not necessarily indicative of the results to be expected for the full year ending December 25, 2001.

#### 2. STOCK OPTIONS

-----

During the twelve week period ended June 12, 2001, the Company granted to certain key employees stock options for 7,500 shares of Common Stock at an exercise price of \$2.125 per share and cancelled options for 10,526 shares with an exercise price of \$4.75 per share pursuant to its 1997 Incentive and Nonqualified Stock Option Plan

#### 3. EARNINGS PER SHARE

-----

Basic earnings per share amounts are computed based on the weighted

## Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-Q

average number of shares actually outstanding. The number of weighted averaged shares outstanding for the twelve week periods ended June 12, 2001 and June 13, 2000 were 8,666,111 and 9,451,591, respectively; the number of weighted averaged shares outstanding for the twenty-four week periods ended June 12, 2001 and June 13, 2000 were 8,674,490 and 9,523,425, respectively.

For purposes of diluted computations, the number of shares that would be issued from the exercise of stock options has been reduced by the number of shares which could have been purchased from the proceeds at the average market price of the Company's stock or the price of the Company's stock on the exercise date if options were exercised during the period presented. The number of shares resulting from this computation of diluted earnings per share for the twelve weeks ended June 12, 2001 and June 13, 2000 were 8,693,211 and 9,456,731, and for the twenty-four week periods ended June 12, 2001 and June 13, 2000 were 8,696,009 and 9,525,916, respectively.

-6-

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### GENERAL

The following discussion and analysis should be read in conjunction with the Financial Statements and Notes thereto included elsewhere in this Form 10-Q.

As of June 12, 2001, the Company owned and operated 40 entertainment and restaurant locations under the Fox and Hound English Pub & Grille ("Fox and Hound"), Bailey's Sports Grille and Bailey's Pub & Grille ("Bailey's") brand names. The Company's entertainment restaurant locations combine a comfortable and inviting social gathering place, full menu and full-service bar, state-of-the-art audio and video systems for sports and music entertainment, traditional games of skill such as pocket billiards and a late-night dining alternative, all in a single location. As of June 12, 2001, the Company owned and operated 26 Fox and Hound units and 14 Bailey's units located in Alabama, Arkansas, Georgia, Illinois, Indiana, Kansas, Louisiana, Michigan, Missouri, Nebraska, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee and Texas. As of June 13, 2000, the Company owned and operated 23 Fox and Hound units and 12 Bailey's units.

The components of the Company's net sales are food and non-alcoholic beverages, alcoholic beverages, and entertainment and other. For the twelve weeks ended June 12, 2001, food and non-alcoholic beverages were 31.7% of total sales, alcoholic beverages were 59.0% of total sales and entertainment and other were 9.3% of total sales. For the twelve weeks ended June 13, 2000, food and non-alcoholic beverages were 31.7% of total sales, alcoholic beverages were 58.2% of total sales and entertainment and other were 10.1% of total sales.

Components of restaurant operating expenses include operating payroll and fringe benefits, occupancy, advertising and promotion. These costs are generally variable and will fluctuate with changes in sales volume and sales mix. All but one of the Company's locations are leased and provide for a minimum annual rent, with some leases calling for additional rent based on sales volume at the particular location in excess of specified minimum levels.

General and administrative expenses include all corporate and administrative functions that support existing operations and provide an infrastructure to support future growth. Management, supervisory and staff salaries, employee benefits, travel, information systems, training, rent and

## Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-Q

office supplies as well as accounting services fees are major items of costs in this category.

-7-

### RESULTS OF OPERATIONS

The following table sets forth for the periods indicated (i) the percentages which certain items included in the Condensed Consolidated Statement of Operations bear to net sales, and (ii) other selected operating data:

	TWELVE WEEKS ENDED (1)		TWENTY-
	JUNE 12, 2001	JUNE 13, 2000	JUNE 20
<b>OPERATING STATEMENT DATA:</b>			
Net sales .....	100.0%	100.0%	10
Costs and expenses:			
Costs of sales.....	27.4	26.3	2
Restaurant operating expenses.....	52.6	52.7	5
Depreciation and amortization.....	5.8	6.9	
Preopening costs.....	2.0	0.1	
	-----	-----	---
Restaurant costs and expenses.....	87.8	86.0	8
	-----	-----	---
Restaurant operating income.....	12.2	14.0	1
General and administrative expenses.....	6.2	7.5	
Goodwill amortization.....	0.4	0.5	
	-----	-----	---
Income from operations.....	5.6	6.0	
Loss on disposal of assets.....	0.2	0.1	
Interest expense .....	1.5	2.0	
	-----	-----	---
Income before provision for income taxes.....	3.9	3.9	
Provision for income taxes .....	1.4	1.4	
	-----	-----	---
Net income.....	2.5%	2.5%	==
	=====	=====	==
<b>RESTAURANT OPERATING DATA (DOLLARS IN THOUSANDS):</b>			
Annualized average weekly sales per location (2) .....	\$ 1,626	\$ 1,486	\$1,
Number of restaurants at end of the period .....	40	35	

(1) The Company operates on a fifty-two or fifty-three week fiscal year ending the last Tuesday in December. The fiscal quarters for the Company consist of accounting periods of twelve, twelve, twelve and sixteen or seventeen weeks, respectively.

(2) Annualized average weekly sales per location are computed by dividing net



## Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-Q

sales for full weeks open during the period by the number of full weeks open and multiplying the result by fifty-two.

TWELVE WEEKS ENDED JUNE 12, 2001 COMPARED TO TWELVE WEEKS ENDED JUNE 13, 2000

Net sales increased \$2,719,000 (22.6%) for the twelve weeks ended June 12, 2001 to \$14,725,000 from \$12,006,000 for the twelve weeks ended June 13, 2000. This increase is due to an increase in same store sales for units open more than 18 months of 5.5% and sales resulting from the five units opened since June 13, 2000.

Costs of sales, primarily food and beverages, increased \$881,000 (27.9%) for the twelve weeks ended June 12, 2001 to \$4,040,000 from \$3,159,000 in the twelve weeks ended June 13, 2000, and increased as a percentage of sales to 27.4% from 26.3%. This increase as a percentage of sales is principally attributable to higher food costs associated with a new menu implemented in the first quarter of 2001 and an increase in certain raw product costs.

Entertainment and restaurant operating expenses increased \$1,409,000 (22.2%) for the twelve weeks ended June 12, 2001 to \$7,747,000 from \$6,337,000 in the twelve weeks ended June 13, 2000, and decreased as a percentage of net sales to 52.6% from 52.7%. This decrease is

-8-

attributable to leveraging fixed expenses against higher unit volumes offset by higher hourly labor costs in the five new units opened since June 13, 2000, higher hourly labor costs associated with a new menu implemented in the first quarter of 2001 and higher utility costs.

Depreciation and amortization decreased \$25,000 (3.0%) for the twelve weeks ended June 12, 2001 to \$850,000 from \$825,000 in the twelve weeks ended June 13, 2000, and decreased as a percentage of sales to 5.8% from 6.9%. This net decrease is due principally to depreciation in 2000 on assets in two units for which an impairment charge was taken in the fourth quarter of 2000 and depreciation in 2000 on certain assets with a two-year life which were added in 1998. No depreciation charge was incurred on these assets in 2001. This decrease was offset by depreciation incurred during 2001 on five units which opened since June 13, 2000.

Preopening costs increased to \$291,000 for the twelve weeks ended June 12, 2001 to \$299,000 from \$8,000 in the twelve weeks ended June 13, 2000 and increased as a percentage of net sales to 2.0% from 0.1%. This increase is attributable to the costs incurred for units opened during the twelve weeks ended June 12, 2001 and for units which have yet to open.

General and administrative expenses increased \$7,000 (0.8%) for the twelve weeks ended June 12, 2001 to \$911,000 from \$904,000 in the twelve weeks ended June 13, 2000, and decreased as a percentage of sales to 6.2% from 7.5%.

Loss on disposal of assets was \$29,000 for the twelve weeks ended June 12, 2001 and \$6,000 for the twelve weeks ended June 13, 2000. The losses reflect the disposal of certain video games for several units in both years.

Interest expense was \$223,000 for the twelve weeks ended June 12, 2001 and \$242,000 for the twelve weeks ended June 13, 2000. This decrease is due to a lower interest rate applicable to the revolving note payable in the current year compared with the prior year offset by a higher average balance on the revolving note payable during the current year compared with the prior year.

## Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-Q

The effective income tax rate was 36.5% for the twelve weeks ended June 12, 2001 and 37.0% for the twelve weeks ended June 13, 2000.

TWENTY-FOUR WEEKS ENDED JUNE 12, 2001 COMPARED TO TWENTY-FOUR WEEKS ENDED JUNE 13, 2000

Net sales increased \$5,506,000 (21.5%) for the twenty-four weeks ended June 12, 2001 to \$31,162,000 from \$25,656,000 for the twenty-four weeks ended June 13, 2000. This increase is due to an increase in same store sales for units open more than 18 months of 5.8% and sales resulting from the five units opened since June 13, 2000.

Costs of sales, primarily food and beverages, increased \$1,788,000 (26.7%) for the twenty-four weeks ended June 12, 2001 to \$8,491,000 from \$6,703,000 in the twenty-four weeks ended June 13, 2000, and increased as a percentage of sales to 27.2% from 26.1%. This increase as a percentage of sales is principally attributable to higher food costs associated with a new menu implemented in the first quarter of 2001 and an increase in certain raw product costs.

Entertainment and restaurant operating expenses increased \$3,003,000 (23.5%) for the twenty-four weeks ended June 12, 2001 to \$15,772,000 from \$12,769,000 in the twenty-four weeks ended June 13, 2000, and increased as a percentage of net sales to 50.6% from 49.8%. This increase is attributable to higher hourly labor costs in the five new units opened since June 13, 2000, higher hourly labor costs associated with a new menu implemented in the first quarter of 2001 and higher utility costs offset by leveraging fixed expenses against higher unit volumes.

-9-

Depreciation and amortization increased \$4,000 (0.2%) for the twenty-four weeks ended June 12, 2001 to \$1,667,000 from \$1,663,000 in the twenty-four weeks ended June 13, 2000, and decreased as a percentage of sales to 5.4% from 6.5%. This increase is due to depreciation incurred during 2001 on five units opened since June 13, 2000 offset by depreciation in 2000 on assets in two units for which an impairment charge was taken in the fourth quarter of 2000 and depreciation in 2000 on certain assets with a two-year life which were added in 1998. No depreciation charge was incurred on these assets in 2001.

Preopening costs increased \$356,000 for the twenty-four weeks ended June 12, 2001 to \$370,000 from \$14,000 in the twenty-four weeks ended June 13, 2000 and increased as a percentage of net sales to 1.2% from 0.1%. This increase is attributable to the costs incurred for units opened during the twenty-four weeks ended June 12, 2001 and for units which have yet to open.

General and administrative expenses decreased \$84,000 (4.5%) for the twenty-four weeks ended June 12, 2001 to \$1,778,000 from \$1,862,000 in the twenty-four weeks ended June 13, 2000, and decreased as a percentage of sales to 5.7% from 7.3%. This decrease is attributable primarily to the realignment of certain executive office positions during 2000.

Loss on disposal of assets was \$52,000 for the twenty-four weeks ended June 12, 2001 and \$32,000 for the twenty-four weeks ended June 13, 2000. The losses reflect the disposal of certain video games for several units in both years.

Interest expense was \$478,000 for the twenty-four weeks ended June 12, 2001 and \$492,000 for the twenty-four weeks ended June 13, 2000. This decrease is due to a lower interest rate applicable to the revolving note payable in the current year compared with the prior year offset by a higher average balance on the revolving note payable during the current year compared with the prior year.

## Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-Q

The effective income tax rate was 36.4% for the twenty-four weeks ended June 12, 2001 and 37.0% for the twenty-four weeks ended June 13, 2000.

### QUARTERLY FLUCTUATIONS, SEASONALITY AND INFLATION

The timing of new unit openings will result in significant fluctuations in quarterly results. The Company expects seasonality to be a factor in the results of its business in the future due to expected lower second and third quarter revenues due to the summer season. The primary inflationary factors affecting the Company's operations include food, liquor and labor costs. A large number of the Company's restaurant personnel are tipped employees who are paid at the federal subminimum wage level; therefore, future subminimum wage changes will have a significant effect on labor costs. As costs of food and labor have increased, the Company has historically been able to offset these increases through economies of scale, improved operating procedures and menu price changes; however, short-term fluctuations in raw product pricing may have an impact on the Company's costs of food. To date, inflation has not had a material impact on operating margins.

### LIQUIDITY AND CAPITAL RESOURCES

As is customary in the restaurant industry, the Company operates with negative working capital. Negative working capital decreased \$453,000 to \$2,982,000 as of June 12, 2001 from \$3,435,000 as of December 26, 2000. This decrease is attributable to a decrease in accounts

-10-

payable related to new unit expansion including a decrease of \$1,410,000 in property and equipment additions included in accounts payable at June 12, 2001 compared to December 26, 2000. Cash increased \$607,000 offset by an increase of \$1,559,000 related to current portion of notes payable at June 12, 2001 compared to the balance at December 26, 2000. The Company does not have significant receivables or inventory and receives trade credit based upon negotiated terms in purchasing food and supplies. Because funds available from cash sales are not needed immediately to pay for food and supplies, or to finance inventory, they may be considered as a source of financing for noncurrent capital expenditures.

On September 1, 1998 the Company entered into a loan agreement with Intrust Bank, N.A. (the "Facility") which provides for a line of credit of \$20,000,000 subject to certain limitations based on earnings before interest, taxes, depreciation and amortization of the past fifty-two weeks. The Facility requires monthly payments of interest only until November 1, 2001, at which time equal monthly installments of principal and interest are required as necessary to fully amortize the outstanding indebtedness plus future interest over a period of four years. Interest is accrued at 1/2% below the prime rate as published in THE WALL STREET JOURNAL. Proceeds from the Facility are being used for restaurant development and stock repurchases. As of June 12, 2001 the Company had borrowed \$13,250,000 under the Facility. The Company is in compliance with all debt covenants. The Company is currently in negotiations with Intrust Bank, N.A. to extend the requirement to begin monthly installments of principal and interest from November 1, 2001 until November 1, 2003. However, no binding extension has been reached to date.

Cash flows from operations were \$1,728,000 in the twenty-four weeks ended June 12, 2001 compared to \$3,068,000 in the twenty-four weeks ended June 13, 2000. Purchases of property and equipment were \$2,244,000 in 2001 compared to \$260,000 in 2000. Net advances of the revolving note payable to bank was \$1,270,000 for the twenty-four week period ending June 12, 2001 compared to net payments of \$2,555,000 for the twenty-four week period ending June 13, 2000. The Company spent \$167,000 to repurchase 75,300 shares of common stock in 2001

## Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-Q

compared to \$660,000 of common stock repurchases in 2000. At June 12, 2001, the Company had \$2,851,000 in cash and cash equivalents.

The Company intends to open up to seven new locations in 2001 and between seven and ten locations in 2002. Two units have been opened since March 20, 2001, one unit is currently under construction and an additional seven leases have been executed. The Company is currently evaluating locations in markets familiar to its management team. However, the number of locations actually opened and the timing thereof may vary depending upon the ability of the Company to locate suitable sites and negotiate favorable leases. The Company expects to expend approximately \$10.0 to \$13.0 million to open new locations over the next twelve months.

Assuming the requirement to begin principal and interest payments on the Facility is deferred until November 1, 2003, the Company believes the funds available from the Facility and its cash flow from operations will be sufficient to satisfy its working capital and capital expenditure requirements for at least the next twelve months. There can be no assurance, however, that the Company will successfully defer the principal payment requirements of its Facility or that changes in the Company's operating plans, the acceleration or modification of the Company's expansion plans, lower than anticipated revenues, increased expenses, stock repurchases, potential acquisitions or other events will not cause the Company to seek additional financing sooner than anticipated, prevent the Company from achieving the goals of its expansion strategy or prevent any newly opened locations from operating profitably. There can be no assurance that additional financing will be available on terms acceptable to the Company or at all.

-11-

### NEW ACCOUNTING PRONOUNCEMENT

In July, 2001, the Financial Accounting Standards Board (FASB) issued Statement No. 142, Goodwill and Other Intangible Assets.

Statement No. 142 requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment. The amortization of goodwill ceases upon adoption of the Statement, which for most companies, will be January 1, 2002. The Company is currently recording goodwill amortization expense of \$244,163 per year. Such amortization expense will no longer be recorded upon adoption of this statement.

### FORWARD LOOKING STATEMENTS

This report contains certain 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, which are intended to be covered by the safe harbors created thereby. Although the Company believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and, therefore, there can be no assurance that the forward-looking statements included in this report will prove to be accurate. Factors that could cause actual results to differ from the results discussed in the forward-looking statements include, but are not limited to, potential increases in food and liquor costs, competition and the inability to find suitable new locations. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives and plans of the Company will be achieved.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-Q

INTEREST RATE RISK

The Company's Facility has a variable rate which is directly affected by changes in U.S. interest rates. The average interest rate of the Facility was 7.24% for the twelve weeks ended June 12, 2001. The interest rate at June 12, 2001 was 6.50%. The following table presents the quantitative interest rate risks at June 12, 2001:

(dollars in thousands)	Principal Amount by Expected Maturity						There- after
	2001	2002	2003	2004	2005		
Variable rate debt	\$486	\$3,030	\$3,233	\$3,450	\$3,051	\$--	\$13
Average Interest Rate-- 1/2% below prime	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	

-12-

PART II. OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Securities Sold

- (c) The following unregistered securities were issued by the Company during the twelve weeks ended June 12, 2001:

Date of Sale/Issuance	Description of Securities Issued	Number of Shares Sold/Issued/Subject to Options or Warrants
April 3, 2001	Common Stock Options	7,500

All of the above options were granted to certain key employees pursuant to the 1997 Incentive and Nonqualified Stock Option Plan. The options for employees have a vesting period of five years and a life of ten years.

The issuance of these securities is claimed to be exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended, as transactions by an issuer not involving a public offering. There were no underwriting discounts or commissions paid in connection with the issuance of any of these securities.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF STOCKHOLDERS

Edgar Filing: TOTAL ENTERTAINMENT RESTAURANT CORP - Form 10-Q

-----  
On May 16, 2001, the Company held its Annual Meeting of Stockholders (the "Meeting"). At the Meeting, the stockholders elected Dennis L. Thompson, Stephen P. Hartnett, and Thomas A. Hager to the Board of Directors to serve until the 2004 Annual Meeting of Stockholders and until their successors have been duly elected and qualified. As to the new elected Directors, there were 7,331,189 votes "For" and 3,100 votes "Withheld" for Dennis L. Thompson and 7,331,189 votes "For" and 3,100 votes "Withheld" for Stephen P. Hartnett and 7,331,189 votes "For" and 3,100 votes "Withheld" for Thomas A. Hager.

In addition, the stockholders ratified the appointment of KPMG LLP as the Company's independent auditors for the year ending December 25, 2001. As to the ratification of auditors, there were 7,333,939 votes "For" and 100 votes "Against"; 250 votes "Abstained."

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K  
-----

Exhibits

None

Reports on Form 8-K

None

-13-

TOTAL ENTERTAINMENT RESTAURANT CORP.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed in its behalf by the undersigned thereunto duly authorized.

TOTAL ENTERTAINMENT RESTAURANT CORP.  
(Registrant)

Date July 26, 2001  
-----

/s/ James K. Zielke  
-----

James K. Zielke  
Chief Financial Officer,  
Secretary and Treasurer  
(Duly Authorized Officer)

-14-