

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

TOTAL ENTERTAINMENT RESTAURANT CORP
Form 10-Q
May 09, 2003

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
March 25, 2003

COMMISSION FILE NUMBER
000-22753

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

DELAWARE

(State or Other Jurisdiction of
Incorporation or Organization)

52-2016614

(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 April 30, 2003
COMMON STOCK, \$.01 PAR VALUE	9,727,523 SHARES

TOTAL ENTERTAINMENT RESTAURANT CORP.

INDEX

PAGE
NUMBER

PART I. FINANCIAL INFORMATION

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

Item 1. Condensed Financial Statements (unaudited)

Condensed Consolidated Balance Sheets at March 25, 2003 and December 31, 2002	2
Condensed Consolidated Statements of Operations for the twelve weeks ended March 25, 2003 and March 19, 2002	3
Condensed Consolidated Statements of Cash Flows for the thirty-six weeks ended March 25, 2003 and March 19, 2002	4
Notes to Condensed Consolidated Financial Statements	5
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	7
Item 3. Quantitative and Qualitative Disclosures About Market Risk	11
Item 4. Procedures and Controls	12
PART II. OTHER INFORMATION -----	
Item 6. Exhibits and Reports on Form 8-K	12

-1-

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

	March 25, 2003	December 31,
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 792,446	\$ 1,1
Inventories	1,589,608	1,6
Deferred income taxes	211,620	2
Other current assets	2,376,429	1,0
Total current assets	4,970,103	3,9
Property and equipment:		
Land	600,000	6
Buildings	702,739	7
Leasehold improvements	39,133,728	36,6
Equipment	21,667,434	20,8
Furniture and fixtures	6,332,329	5,8

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

	68,436,230	64,6
Less accumulated depreciation and amortization	18,754,812	17,3
	-----	-----
	49,681,418	47,2
Other assets:		
Goodwill, net of accumulated amortization	3,661,134	3,6
Advances to developer	1,102,000	5
Other assets	622,245	4
	-----	-----
Total other assets	5,385,379	4,7
	-----	-----
Total assets	\$ 60,036,900	\$ 55,8
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of notes payable	\$ 336,721	\$
Accounts payable	5,308,524	4,0
Sales tax payable	873,476	1,0
Accrued payroll	969,616	1,1
Accrued payroll taxes	666,414	7
Accrued income taxes	880,172	9
Lease obligation for closed store	15,872	
Other accrued liabilities	1,882,616	1,5
	-----	-----
Total current liabilities	10,933,411	9,5
Notes payable	3,123,279	2,4
Deferred taxes	190,275	
Deferred revenue	66,952	
Accrued rent	461,869	4
Stockholders' equity:		
Preferred stock	-	
Common stock	98,326	
Additional paid-in capital	28,764,697	29,0
Retained earnings	16,398,091	14,1
	-----	-----
Total stockholders' equity	45,261,114	43,2
	-----	-----
Total liabilities and stockholders' equity	\$ 60,036,900	\$ 55,8
	=====	=====

See accompanying notes.

-2-

TOTAL ENTERTAINMENT RESTAURANT CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

Twelve weeks
ended
March 25, 2003

Twelve weeks
ended
March 19, 2002

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

Sales:		
Food and beverage	\$ 24,866,211	\$ 19,875,911
Entertainment and other	2,174,700	1,948,821
	-----	-----
Total net sales	27,040,911	21,824,732
Costs and expenses:		
Costs of sales	6,949,027	5,731,481
Restaurant operating expenses	13,514,737	10,400,071
Depreciation and amortization	1,355,668	1,009,611
Preopening costs	286,843	490,641
	-----	-----
Restaurant costs and expenses	22,106,275	17,631,821
	-----	-----
Restaurant operating income	4,934,636	4,192,911
General and administrative expenses	1,366,958	1,155,261
Loss on disposal of assets	-	18,231
	-----	-----
Income from operations	3,567,678	3,019,411
Other income (expense):		
Other income/(expense)	304	
Interest expense	(24,881)	(106,661)
	-----	-----
Income from continuing operations before income taxes	3,543,101	2,912,751
Provision for income taxes	1,275,516	1,047,391
	-----	-----
Income from continuing operations	2,267,585	1,865,351
Income from discontinued operations	-	32,111
	-----	-----
Net income	\$ 2,267,585	\$ 1,897,461
	=====	=====
Basic earnings per share:		
Income from continuing operations	\$ 0.23	\$ 0.23
Income from discontinued operations	-	-
	-----	-----
Basic earnings per share	\$ 0.23	\$ 0.23
	=====	=====
Diluted earnings per share		
Income from continuing operations	\$ 0.22	\$ 0.22
Income from discontinued operations	-	-
	-----	-----
Diluted earnings per share	\$ 0.22	\$ 0.22
	=====	=====

See accompanying notes.

-3-

TOTAL ENTERTAINMENT RESTAURANT CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

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

	Twelve weeks ended March 25, 2003	Twelve en March
	-----	-----
Cash flows from operating activities:		
Net income	\$ 2,267,585	\$ 1,
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on disposal of assets	-	
Depreciation and amortization	1,372,589	1,
Deferred income taxes	92,389	
Net change in operating assets and liabilities:		
Change in operating assets	(1,474,624)	(
Change in operating liabilities	(243,434)	(
	-----	-----
Net cash provided by operating activities	2,014,505	1,
Cash flows from investing activities:		
Purchases of property and equipment	(2,436,075)	(4,
Advances to developer	(532,000)	
Proceeds from disposal of assets	-	
	-----	-----
Net cash used in investing activities	(2,968,075)	(4,
Cash flows from financing activities:		
Proceeds from revolving note payable to bank	7,935,000	7,
Payments of revolving note payable to bank	(7,015,000)	(5,
Proceeds from exercise of stock options	37,501	
Purchase of common stock	(327,579)	
	-----	-----
Net cash provided by financing activities	629,922	2,
	-----	-----
Net (decrease) increase in cash and cash equivalents	(323,648)	(
Cash and cash equivalents at beginning of period	1,116,094	1,
	-----	-----
Cash and cash equivalents at end of period	\$ 792,446	\$
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 25,432	\$
Cash paid for income taxes	1,263,601	1,
Supplemental disclosure of non cash activity:		
Additions to property and equipment in accounts payable	1,395,901	

See accompanying notes.

-4-

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

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

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 2002 Form 10-K. The results of the twelve weeks ended March 25, 2003 are not necessarily indicative of the results to be expected for the full year ending December 30 2003.

2. ACCOUNTING FOR STOCK-BASED COMPENSATION

In accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, the Company uses the intrinsic value-based method for measuring stock-based compensation cost which measures compensation cost as the excess, if any, of the quoted market price of Company's common stock at the grant date over the amount the employee must pay for the stock. The Company's policy is to grant stock options with grant prices equal to the fair value of the Company's common stock at the date of grant. Proceeds from the exercise of common stock options issued to officers, directors and key employees under the Company's stock option plans are credited to common stock to the extent of par value and to additional paid-in capital for the excess.

Pro forma information regarding net income and earnings per share is required by Statement No. 123, which also requires the information be determined as if the Company has accounted for its employee stock options granted under the fair value of that Statement. The fair value method for these options were estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions: risk-free interest rate ranging from 2.9% to 5.3%; no dividend yields; volatility factor ranging from 0.281 to 0.853; and a weighted-average expected life of the option of 5 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the option's vesting period. The Company's pro forma information is as follows:

-5-

	12 weeks ended March 25, 2003	12 weeks ended March 19, 2002
	-----	-----
Net income, as reported	\$2,267,585	\$1,897,463

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

Pro forma stock-based employee compensation cost, net of tax	89,858	60,043
Pro forma net income	\$2,177,727	\$1,837,420
Earnings per share:		
Basic, as reported	\$ 0.23	\$ 0.22
Basic, pro forma	\$ 0.22	\$ 0.21
Diluted, as reported	\$ 0.22	\$ 0.21
Diluted, pro forma	\$ 0.21	\$ 0.20
Weighted average fair value of options granted during the quarter	\$ 5.66	N/A

3. STOCK OPTIONS

During the twelve week period ended March 25, 2003, the Company granted to certain key employees stock options for 69,500 shares of Common Stock at a weighted-average exercise price of \$8.24 per share and options to purchase 7,143 shares were exercised at a weighted-average exercise price of \$5.25 per share pursuant to its 1997 Incentive and Nonqualified Stock Option Plan.

4. EARNINGS PER SHARE

Basic earnings per share amounts are computed based on the weighted average number of shares actually outstanding. The number of weighted averaged shares outstanding for the twelve week periods ended March 25, 2003 and March 19, 2002 were 9,864,658 and 8,665,611, respectively.

Diluted earnings per share are computed similar to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and the proceeds from such exercises were used to acquire common shares at an average price during the reporting period. The number of shares resulting from this computation of diluted earnings per share for the twelve weeks ended March 25, 2003 and March 19, 2002 were 10,247,682 and 9,025,477, respectively.

5. NEW ACCOUNTING STANDARDS

In August 2001, the FASB issued SFAS No. 144, ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS. SFAS No. 144 addresses significant issues relating to the implementation of SFAS No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF, and develops a single accounting method under which long-lived assets that are to be disposed of by sale are measured at the lower of book value or fair value less cost to sell. Additionally, SFAS No. 144 expands the scope of discontinued operations to include all components of an entity with operations that (1) can be distinguished from the rest of the entity and (2) will be eliminated from the ongoing operations of the entity in a disposal transaction. The Company adopted the provisions of SFAS No. 144 effective December 26, 2001. The Company closed

and abandoned one restaurant on March 31, 2002. Pursuant to SFAS No. 144, each restaurant is a component of the entity, and the operations of the closed

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

restaurant can be distinguished from the rest of the entity and will be eliminated from the ongoing operations of the Company. Accordingly, the operations of the closed restaurant, net of applicable income tax effect, have been presented as discontinued operations and prior period statements of income have been reclassified accordingly.

6. LEGAL PROCEEDINGS

Certain former employees have filed a complaint on their own behalf and on the behalf of similarly situated persons alleging the Company violated certain provisions of the Fair Labor Standards Act. Although it is not possible at this time for the Company to evaluate the merits of this claim, nor their likelihood of success, management of the Company is of the opinion that any resulting liability will not have a material adverse effect on the Company's financial statements.

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 March 25, 2003, the Company owned and operated 56 restaurants under the Fox and Hound Smokehouse & Tavern and Fox and Hound English Pub & Grille ("Fox and Hound"), Bailey's Smokehouse & Tavern, Bailey's Sports Grille and Bailey's Pub & Grille ("Bailey's") brand names. The Company's restaurants offer a broad menu of mid-priced appetizers, entrees, and desserts served in generous portions. In addition, each location features a full-service bar and offers a wide selection of major domestic, imported and specialty beers. Each restaurant emphasizes a high energy environment with multiple billiard tables and satellite and cable coverage of a variety of sporting events and music videos. In addition to our food, the Company believes that customers are attracted to the elegant yet comfortable atmosphere of polished brass, embroidered chairs and booths, hunter green and burgundy walls, and etched glass. The Fox and Hound and Bailey's restaurants share identical design and operational principles and menus. As of March 25, 2003, the Company owned and operated 42 Fox and Hound restaurants and 14 Bailey's restaurants located in Alabama, Arizona, Arkansas, Colorado, Georgia, Illinois, Indiana, Kansas, Louisiana, Michigan, Missouri, Nebraska, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Texas and Virginia. As of March 19, 2002, the Company owned and operated 33 Fox and Hound restaurants and 14 Bailey's restaurants.

The components of the Company's net sales are food and non-alcoholic beverages, alcoholic beverages, and entertainment and other (principally billiard table rental fees). For the twelve weeks ended March 25, 2003, food and non-alcoholic beverages were 32.4% of total sales, alcoholic beverages were 59.6% of total sales and entertainment and other were 8.0% of total sales. For the twelve weeks ended March 19, 2002, food and non-alcoholic beverages were 31.9% of total sales, alcoholic beverages were 59.1% of total sales and entertainment and other were 9.0% of total sales.

The components of the Company's cost of sales primarily include direct costs of food, non-alcoholic beverages and alcoholic beverages. These costs are generally variable and will fluctuate with changes in sales volume and sales mix.

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

Components of restaurant operating expenses include operating payroll and fringe benefits, and occupancy, maintenance and utilities. 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 sales levels.

Depreciation and amortization costs primarily include depreciation and amortization of capital expenditures for restaurants.

Preopening costs include labor costs, costs of hiring and training personnel and certain other costs relating to opening new restaurants.

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

In calculating comparable restaurant sales, the Company includes a restaurant in the comparable restaurant base after it has been in operation for 18 full months. As of March 25, 2003, there were 40 restaurants in the comparable restaurant base. Annualized average weekly sales are computed by dividing net sales during the period by the number of store operating weeks and multiplying the result by 52. These calculations include sales and store operating weeks for the one unit included in discontinued operations.

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. The Company operates on a 52 or 53 week fiscal year ending the last Tuesday in December. Fiscal year 2002 consisted of 53 weeks and fiscal year 2003 consists of 52 weeks. Fiscal quarters consist of three accounting periods of 12 weeks each and a final period of 16 or 17 weeks.

	TWELVE WEEKS ENDED	
	MARCH 25, 2003	MARCH 19, 2002
OPERATING STATEMENT DATA:		
Net sales	100.0%	100.0%
Costs and expenses:		
Costs of sales.....	25.7	26.3
Restaurant operating expenses.....	50.0	47.7
Depreciation and amortization.....	5.0	4.6
Preopening costs.....	1.1	2.2
	81.8	80.8
Restaurant operating income.....	18.2	19.2
General and administrative expenses.....	5.0	5.3
Loss on disposal of assets.....	--	0.1
	13.2	13.8
Income from operations.....	13.2	13.8

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

Interest expense	0.1	0.5
	-----	-----
Income from continuing operations before income taxes....	13.1	13.3
Provision for income taxes	4.7	4.8
	-----	-----
Income from continuing operations.....	8.4	8.5
Income from discontinued operations	--	0.2
	-----	-----
Net income.....	8.4%	8.7%
	=====	=====

RESTAURANT OPERATING DATA (DOLLARS IN THOUSANDS):

Annualized average weekly sales per location.....	\$ 2,137	\$ 2,131
Number of restaurants at end of the period.....	56	47

-8-

TWELVE WEEKS ENDED MARCH 25, 2003 COMPARED TO TWELVE WEEKS ENDED MARCH 19, 2002

Net sales increased \$5,216,000 (23.9%) for the twelve weeks ended March 25, 2003 to \$27,041,000 from \$21,825,000 for the twelve weeks ended March 19, 2002. This increase was due to a 21.9% increase in store weeks (658 versus 540) as a result of ten restaurants opened and one restaurant closed since March 19, 2002 and a 2.8% increase in annualized average weekly sales for units open during the entire period primarily as a result of increased customer traffic. Comparable restaurant sales decreased 2.3% for the quarter ended March 25, 2003.

Costs of sales increased \$1,218,000 (21.3%) for the twelve weeks ended March 25, 2003 to \$6,949,000 from \$5,731,000 in the twelve weeks ended March 19, 2002, and decreased as a percentage of sales to 25.7% from 26.3%. This decrease as a percentage of sales is principally attributable to price increases implemented in the first quarter of fiscal year 2003.

Restaurant operating expenses increased \$3,115,000 (30.0%) for the twelve weeks ended March 25, 2003 to \$13,515,000 from \$10,400,000 in the twelve weeks ended March 19, 2002, and increased as a percentage of net sales to 50.0% from 47.7%. This increase as a percentage of sales is principally attributable to higher occupancy costs on new units, higher employee benefits, higher utility costs, and higher liability insurance and claims expense.

Depreciation and amortization increased \$346,000 (34.3%) for the twelve weeks ended March 25, 2003 to \$1,356,000 from \$1,010,000 in the twelve weeks ended March 19, 2002, and increased as a percentage of sales to 5.0% from 4.6%. This increase in expense is due to additional depreciation on ten restaurants opened net of one restaurant closed since March 19, 2002.

Preopening costs decreased \$204,000 (41.5%) for the twelve weeks ended March 25, 2003 to \$287,000 from \$491,000 in the twelve weeks ended March 19, 2002. These costs are attributable to two units that opened during the twelve weeks ended March 25, 2003 and partial preopening expenses for four restaurants which have yet to open. Four restaurants were opened in the twelve weeks ended March 19, 2002.

General and administrative expenses increased \$212,000 (18.4%) for the twelve weeks ended March 25, 2003 to \$1,367,000 from \$1,155,000 in the twelve weeks ended March 19, 2002, due to an increase in corporate infrastructure to support the Company's expansion. General and administrative expenses decreased as a percentage of net sales to 5.0% from 5.3%, due to the leverage of infrastructure expense against a higher sales volume.

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

Loss on disposal of assets was \$18,000 for the twelve weeks ended March 19, 2002. The losses reflect the disposal of certain video games.

Interest expense was \$25,000 for the twelve weeks ended March 25, 2003 and \$107,000 for the twelve weeks ended March 19, 2002. This decrease is due to both a lower interest rate and lower average balance applicable to the revolving note payable in the current fiscal year compared with the prior fiscal year.

The effective income tax rate was 36.0% for the twelve weeks ended March 25, 2003 and 36.0% for the twelve weeks ended March 19, 2002.

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

-9-

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 increased \$345,000 to \$5,963,000 as of March 25, 2003 from \$5,618,000 as of December 31, 2002. This increase is attributable primarily to the excess of cost of purchases of property and equipment and repurchases of common stock in excess of working capital provided by operations and net proceeds from the line of credit. Cash decreased \$324,000 at March 25, 2003 compared to the balance of \$1,116,000 at December 31, 2002. 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 "Line of Credit") 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 and the amount of capital lease obligations on personal property. The Line of Credit is secured by substantially all of the Company's assets. The Line of Credit requires monthly payments of interest only until November 1, 2003, 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 Line of Credit are being used for restaurant development. As of March 25, 2003 the Company had borrowed \$3,460,000 under the Line of Credit. The Company is in compliance with all debt covenants.

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

Cash flows from operations were \$2,015,000 in the 12 weeks ended March 25, 2003 compared to \$1,758,000 in the 12 weeks ended March 19, 2002. Purchases of property and equipment were \$2,436,000 in the 12 weeks ended March 25, 2003 compared to \$4,676,000 in the 12 weeks ended March 19, 2002. Advances made to the developer of two build-to-suit locations were \$532,000 in the 12 weeks ended March 25, 2003. Net proceeds from the revolving note payable to bank was \$920,000 for the 12 week period ending March 25, 2003 compared to \$2,475,000 for the 12 weeks ending March 19, 2002. At March 25, 2003, the Company had \$792,000 in cash and cash equivalents.

The Company intends to open ten to twelve new locations in fiscal year 2003 and twelve to fifteen new locations in fiscal year 2004. At March 25, 2003, two units had been opened in fiscal 2003, three units were under construction, leases had been executed on six additional sites, and lease negotiations had begun on three additional sites. 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 \$15.0 to \$20.0 million to open new locations over the next twelve months.

-10-

The Company believes the funds available from the Line of Credit 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 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.

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. Our actual results may differ materially from the forward-looking statements contained herein. 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, alcohol, labor, and other operating costs, changes in competition, the inability to find suitable new locations, changes in consumer preferences or spending patterns, changes in demographic trends, the effectiveness of our operating and growth initiatives and promotional efforts, and changes in government regulation. Further information about the factors that might affect the Company's financial and other results are included in the Company's 10-K, filed with the Securities and Exchange Commission. 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 Line of Credit has a variable rate which is directly affected by changes in U.S. interest rates. The average interest rate of the Facility was 3.75% for the twelve weeks ended March 25, 2003. The interest rate at March 25, 2003 was 3.75%. The following table presents the quantitative interest rate risks at March 25, 2003:

(dollars in thousands) -----	Principal Amount by Expected Maturity						There- after -----	Tota -----
	(In thousands)							
	2003 ----	2004 ----	2005 ----	2006 ----	2007 ----	-----		
Variable rate debt	\$134	\$822	\$854	\$886	\$764	\$ -	\$3,4	
Average Interest Rate-- 1/2% below prime	-	3.75%	3.75%	3.75%	3.75%	3.75%		

-11-

ITEM 4. PROCEDURES AND CONTROLS

Within the 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

PART II. OTHER INFORMATION

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

Exhibits

Exhibit 99.1 - Certification by Steven M. Johnson pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 99.2 - Certification by James K. Zielke pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Reports on Form 8-K

A Current Report on Form 8-K (Item 5) dated January 8, 2003, reporting the filing of Exhibit 99.1-Press release of Total Entertainment Restaurant Corp.

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

A Current Report on Form 8-K (Item 5) dated February 14, 2003, reporting the filing of Exhibit 99.1-Press release of Total Entertainment Restaurant Corp.

-12-

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	/s/ James K. Zielke
May 8, 2003	-----
-----	James K. Zielke Chief Financial Officer, Secretary and Treasurer (Duly Authorized Officer)

-13-

TOTAL ENTERTAINMENT RESTAURANT CORP.

CERTIFICATIONS

I, James K. Zielke, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Total Entertainment Restaurant Corp.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

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

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date May 8, 2003

/s/ James K. Zielke

James K. Zielke
Chief Financial Officer,
Secretary and Treasurer

-14-

TOTAL ENTERTAINMENT RESTAURANT CORP.

CERTIFICATIONS

I, Steven M. Johnson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Total Entertainment Restaurant Corp.;

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

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date May 8, 2003

/s/ Steven M. Johnson

Steven M. Johnson
Chief Executive Officer

-15-

TOTAL ENTERTAINMENT RESTAURANT CORP.
REPORT ON FORM 10Q MARCH 25, 2003

CERTIFICATION BY STEVEN M. JOHNSON PURSUANT TO

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

18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, Chief Executive Officer of Total Entertainment Restaurant Corp. (the "Company"), hereby certifies, to the best of my knowledge, that the Form 10-Q of the Company for the quarter ended March 25, 2003 (the "Periodic Report") accompanying this certification fully complies with the requirements of the Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and that the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company. The foregoing certification is incorporated solely for purposes of complying with the provisions of Section 906 of the Sarbanes-Oxley Act and is not intended to be used for any other purpose.

Date May 8, 2003

/s/ Steven M. Johnson

Steven M. Johnson
Chief Executive Officer

EXHIBIT 99.1

-16-

TOTAL ENTERTAINMENT RESTAURANT CORP.
REPORT ON FORM 10Q MARCH 25, 2003

CERTIFICATION BY JAMES K. ZIELKE PURSUANT TO
18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, Chief Financial Officer of Total Entertainment Restaurant Corp. (the "Company"), hereby certifies, to the best of my knowledge, that the Form 10-Q of the Company for the quarter ended March 25, 2003 (the "Periodic Report") accompanying this certification fully complies with the requirements of the Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and that the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company. The foregoing certification is incorporated solely for purposes of complying with the provisions of Section 906 of the Sarbanes-Oxley Act and is not intended to be used for any other purpose.

Date May 8, 2003

/s/ James K. Zielke

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

James K. Zielke
Chief Financial Officer,
Secretary and Treasurer

EXHIBIT 99.2

-17-