TOTAL ENTERTAINMENT RESTAURANT CORP
Form 10-Q
October 17, 2002

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
September 3, 2002	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 October 1, 2002
Common Stock, $.01 par value	10,277,874 shares

TOTAL ENTERTAINMENT RESTAURANT CORP.

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TOTAL ENTERTAINMENT RESTAURANT CORP.
Condensed Consolidated Balance Sheets
(Unaudited)

	September 3, 2002	December 25, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,028,316	$ 1,346,495
Inventories	1,376,882	1,230,636
Deferred income taxes	203,528	223,742
Other current assets	1,471,477	586,967
Total current assets	4,080,203	3,387,840
Property and equipment:		
Land	600,000	600,000
Buildings	670,629	670,629
Leasehold improvements	34,036,169	26,336,678
Equipment	19,580,848	15,284,124
Furniture and fixtures	5,199,093	3,890,170
	60,086,739	46,781,601

Less accumulated depreciation and amortization	15,494,101	12,249,339
	44,592,638	34,532,262
Other assets:		
Goodwill, net of accumulated amortization	3,661,134	3,661,134
Deferred income taxes	474,241	982,875
Other assets	601,128	586,048
Total other assets	4,736,503	5,230,057
Total assets	$53,409,344	$43,150,159
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 3,841,330	$ 3,741,281
Sales tax payable	845,268	529,852
Accrued payroll	1,024,406	873,765
Accrued payroll taxes	470,605	23,258
Accrued income taxes	1,623,380	2,155,170
Lease obligation for closed store	105,551	158,342
Other accrued liabilities	1,874,455	1,065,734
Total current liabilities	9,784,995	8,547,402
Notes payable	835,000	10,350,000
Deferred revenue	83,106	103,875
Stockholders' equity:		
Preferred stock	--	--
Common stock	102,775	86,656
Additional paid-in capital	32,177,730	17,134,953
Retained earnings	10,425,738	6,927,273
Total stockholders' equity	42,706,243	24,148,882
Total liabilities and stockholders' equity	$53,409,344	$43,150,159

See accompanying notes.

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

	Twelve weeks ended September 3, 2002	Twelve weeks ended September 4, 2001
Sales:		
Food and beverage	$ 19,234,931	$ 12,986,753
Entertainment and other	1,776,977	1,409,001
Total net sales	21,011,908	14,395,754

Costs and expenses:		
Costs of sales	5,533,257	3,897,325
Restaurant operating expenses	11,824,762	7,777,479
Depreciation and amortization	1,188,059	857,836
Preopening costs	470,215	298,595
Restaurant costs and expenses	19,016,293	12,831,235
Restaurant operating income	1,995,615	1,564,519
General and administrative expenses	1,169,462	897,368
Goodwill amortization	--	56,346
Income from operations	826,153	610,805
Other income (expense):		
Loss on disposal of assets	--	(38,768)
Other income, principally interest	23	1,263
Interest expense	(61,770)	(186,870)
Income from continuing operations before income taxes	764,406	386,430
Provision for income taxes	289,032	131,636
Income from continuing operations	475,374	254,794
Income(loss) from discontinued operations	--	(34,811)
Net income	$ 475,374	$ 219,983
Basic earnings per share:		
Income from continuing operations	$ 0.05	$ 0.03
Loss on discontinued operations	--	--
Basic earnings per share	$ 0.05	$ 0.03
Diluted earnings per share		
Income from continuing operations	$ 0.05	$ 0.03
Loss on discontinued operations	--	--
Diluted earnings per share	$ 0.05	$ 0.03

See accompanying notes.

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

	Thirty-six weeks ended September 3,2002	Thirty-six weeks ended September 4, 2001

Sales:		
Food and beverage	$ 58,611,361	$ 40,860,097
Entertainment and other	5,634,129	4,236,436
Total net sales	64,245,490	45,096,533
Costs and expenses:		
Costs of sales	16,861,129	12,253,686
Restaurant operating expenses	33,497,620	23,218,215
Depreciation and amortization	3,252,288	2,483,182
Preopening costs	1,322,036	669,066
Restaurant costs and expenses	54,933,073	38,624,149
Restaurant operating income	9,312,417	6,472,384
General and administrative expenses	3,495,136	2,674,861
Goodwill amortization	--	169,036
Income from operations	5,817,281	3,628,487
Other income (expense):		
Loss on disposal of assets	(18,239)	(90,596)
Other income, principally interest	33	1,457
Interest expense	(287,180)	(664,708)
Income from continuing operations before income taxes	5,511,895	2,874,640
Provision for income taxes	2,026,262	1,038,625
Income from continuing operations	3,485,633	1,836,015
Income(loss) from discontinued operations	12,832	(62,771)
Net income	$ 3,498,465	$ 1,773,244
Basic earnings per share:		
Income from continuing operations	$ 0.39	$ 0.21
Loss on discontinued operations	--	(0.01)
Basic earnings per share	$ 0.39	$ 0.20
Diluted earnings per share		
Income from continuing operations	$ 0.37	$ 0.21
Loss on discontinued operations	--	(0.01)
Diluted earnings per share	$ 0.37	$ 0.20

See accompanying notes.

TOTAL ENTERTAINMENT RESTAURANT CORP.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Thirty-six weeks ended Sept. 3, 2002	Thirty-si ende Sept. 4,
Cash flows from operating activities:		
Net income	$ 3,498,465	$ 1,77
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on disposal of assets	15,739	9
Depreciation and amortization	3,287,140	2,74
Deferred income taxes	528,848	12
Net change in operating assets and liabilities:		
Change in operating assets	(1,063,580)	(58
Change in operating liabilities	1,129,523	(1,22
Net cash provided by operating activities	7,396,135	2,93
Cash flows from investing activities:		
Purchases of property and equipment	(12,950,973)	(3,70
Proceeds from disposal of assets	8,722	3
Net cash used in investing activities	(12,942,251)	(3,67
Cash flows from financing activities:		
Proceeds from revolving note payable to bank	18,760,000	32,53
Payments of revolving note payable to bank	(28,275,000)	(31,54
Proceeds from exercise of stock options	1,887,329	
Sale of common stock	12,855,608	
Purchases of common stock	--	(16
Net cash provided by financing activities	5,227,937	81
Net (decrease) increase in cash and cash equivalents	(318,179)	8
Cash and cash equivalents at beginning of period	1,346,495	2,24
Cash and cash equivalents at end of period	$ 1,028,316	$ 2,32
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 288,463	$ 57
Cash paid for income taxes	1,721,349	75
Supplemental disclosure of non cash activity:		
Additions to property and equipment in accounts payable	$ 403,259	$ 32
Tax benefit related to stock options exercised	315,958	

See accompanying notes.

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 2001 Form 10-K. The results of the twelve weeks ended September 3, 2002 are not necessarily indicative of the results to be expected for the full year ending December 31, 2002.

2. Stock Options

During the twelve week period ended September 3, 2002, options to purchase 22,981 shares were exercised at a weighted-average exercise price of $2.99 per share pursuant to its 1997 Incentive and Nonqualified Stock Option Plan and options to purchase 35,000 shares were exercised at a weighted-average exercise price of $3.51 per share pursuant to its 1997 Directors Stock Option Plan. Options for 60,000 shares originally awarded pursuant to the 1997 Directors Stock Option Plan have been rescinded and declared void by the Company's Board of Directors as a result of a mistake of fact as to the proper accounting for such options and other factors.

3. 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 September 3, 2002 and September 4, 2001 were 9,573,356 and 8,666,111, respectively; the number of weighted average shares outstanding for the thirty-six week periods ended September 3, 2002 and September 4, 2001 were 9,007,756 and 8,671,697, respectively.

Diluted earnings per share are computed similar to basic earnings per share except that the weighted average shares outsanding 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 September 3, 2002 and September 4, 2001 were 10,140,017 and 8,701,496, respectively, and for the thirty-six week periods ended September 3, 2002 and September 4, 2001 were 9,500,124 and 8,696,688, respectively.

4. Goodwill

The Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets", effective December 26, 2001. SFAS No. 142 requires that an intangible asset that is acquired shall be initially recognized and measured based on its fair value. SFAS No. 142 also provides that goodwill shall not be amortized, but shall be tested for impairment annually, or more frequently if circumstances indicate potential impairment through a comparison of fair value to its carrying value. No impairment losses were recorded upon the initial adoption of SFAS No. 142.

The effect of the adoption of SFAS No. 142 on net income and earnings per share is as follows:

	Twelve Weeks Ended Sept. 3, 2002	Twelve Weeks Ended Sept. 4, 2001	Thirty-six Weeks Ended Sept. 3, 2002	Thi Wee Sept
Net income, as reported	$ 475,374	$ 219,984	$3,498,465	$1
Goodwill amortization (net of income taxes)	--	42,135	--	
Net income, as adjusted	$ 475,374	$ 262,019	$3,498,465	$1
Basic earnings per share, as reported	$ 0.05	$ 0.03	$ 0.39	$
Goodwill amortization (net of income taxes)	--	--	--	
Basic earnings per share, as adjusted	$ 0.05	$ 0.03	$ 0.39	$
Diluted earnings per share, as reported	$ 0.05	$ 0.03	$ 0.37	$
Goodwill amortization (net of income taxes)	--	--	--	
Diluted earnings per share, as adjusted	$ 0.05	$ 0.03	$ 0.37	$

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 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. It is not possible at this time for the Company to evaluate the merits of this claim, the Company's likelihood of success or the range of potential loss.

7. Public Offering

On July 24, 2002 the Company issued 1,350,000 shares of stock at $10.50 per share in a public offering of its stock. Net proceeds from the offering were $12.9 million, including underwriters' fees and other related public offering costs.

Item 2. Management's Discussion and Anaysis 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 September 3, 2002, the Company owned and operated 51 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 September 3, 2002, the Company owned and operated 36 Fox and Hound restaurants and 15 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 September 4, 2001, the Company owned and operated 27 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 September 3, 2002, food and non-alcoholic beverages were 33.5% of total sales, alcoholic beverages were 57.7% of total sales and entertainment and other were 8.8% of total

sales. For the twelve weeks ended September 4, 2001, food and non-alcoholic beverages were 31.7% of total sales, alcoholic beverages were 58.5% of total sales and entertainment and other were 9.8% 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.

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 September 3, 2002, there were 38 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 2001 consisted of 52 weeks and fiscal year 2002 consists of 53 weeks. Fiscal quarters consist of three accounting periods of 12 weeks each and a final period of 16 or 17 weeks.

	Twelve Weeks Ended		Thirt
	Sept. 3, 2002	Sept. 4, 2001	Sept. 200
Operating Statement Data:			
Net sales	100.0%	100.0%	100
Costs and expenses:			
Costs of sales	26.3	27.1	26
Restaurant operating expenses	56.3	54.0	52

Depreciation and amortization	5.6	6.0	5
Preopening costs	2.2	2.0	2
Restaurant costs and expenses	90.4	89.1	85
Restaurant operating income	9.6	10.9	14
General and administrative expenses	5.6	6.2	5
Goodwill amortization	--	0.4	
Income from operations	4.0	4.3	9
Loss on disposal of assets	--	0.3	0
Interest expense	0.2	1.3	0

Income from continuing operations before income taxes ..	3.8	2.7	8
Provision for income taxes	1.5	0.9	3
Income from continuing operations	2.3	1.8	5
Loss from discontinued operations	--	(0.3)	
Net income	2.3%	1.5%	5
Restaurant Operating Data (dollars in thousands):			
Annualized average weekly sales per location	$ 1,822	$ 1,567	$ 1,9
Number of restaurants at end of the period	51	41	

Twelve Weeks Ended September 3, 2002 Compared to Twelve Weeks Ended September 4, 2001

Net sales increased $6,616,000 (46.0%) for the twelve weeks ended September 3, 2002 to $21,012,000 from $14,396,000 for the twelve weeks ended September 4, 2001. This increase was due to a 27.9% increase in store weeks (600 versus 469) as a result of eleven restaurants opened since September 4, 2001 and a 14.3% increase in annualized average weekly sales for units open during the entire period primarily as a result of increased customer traffic. Comparable restaurant sales increased 4.4% for the quarter ended September 3, 2002.

Costs of sales increased $1,636,000 (42.0%) for the twelve weeks ended September 3, 2002 to $5,533,000 from $3,897,000 in the twelve weeks ended September 4, 2001, and decreased as a percentage of sales to 26.3% from 27.1%. This decrease as a percentage of sales is principally attributable to lower food costs associated with new barbecue menu items and price increases on selected menu items implemented in the fourth quarter of fiscal year 2001.

Restaurant operating expenses increased $4,048,000 (52.1%) for the twelve weeks ended September 3, 2002 to $11,825,000 from $7,777,000 in the twelve weeks ended September 4, 2001, and increased as a percentage of net sales to 56.3% from 54.0%. This increase as a percentage of sales is principally attributable to higher hourly labor costs on new units during the initial months after opening, increases in group insurance costs and workers compensation premiums and higher advertising costs as a result of radio advertising in several markets.

Depreciation and amortization increased $330,000 (38.5%) for the twelve weeks ended September 3, 2002 to $1,188,000 from $858,000 in the twelve weeks ended September 4, 2001, and decreased as a percentage of sales to 5.6% from 6.0%. This increase in expense is due to additional depreciation on eleven restaurants opened net of one restaurant closed since September 4, 2001.

Preopening costs increased $171,000 (57.2%) for the twelve weeks ended September 3, 2002 to $470,000 from $299,000 in the twelve weeks ended September 4, 2001. This increase is attributable to the costs incurred for three units that opened during the twelve weeks ended September 3, 2002 and partial preopening expenses for three restaurants which have yet to open. One restaurant were opened in the twelve weeks ended September 4, 2001.

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General and administrative expenses increased $272,000 (30.3%) for the twelve weeks ended September 3, 2002 to $1,169,000 from $897,000 in the twelve weeks ended September 4, 2001, due to an increase in corporate infrastucture to support the Company's expansion. General and administrative expenses decreased as a percentage of net sales to 5.6% from 6.2%, due to the leverage of infrastructure expense against a higher sales volume.

Loss on disposal of assets was $39,000 for the twelve weeks ended September 4, 2001. The losses reflect the disposal of certain video games.

Interest expense was $62,000 for the twelve weeks ended September 3, 2002 and $187,000 for the twelve weeks ended September 4, 2001. 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 37.8% for the twelve weeks ended September 3, 2002 and 34.1% for the twelve weeks ended September 4, 2001.

Thirty-six Weeks Ended September 3, 2002 Compared to Thirty-six Weeks Ended September 4, 2001

Net sales increased $19,148,000 (42.5%) for the 36 weeks ended September 3, 2002 to $64,245,000 from $45,097,000 for the 36 weeks ended September 4, 2001. This increase was due to an 23.3% increase in store weeks (1,692 versus 1,372) as a result of eleven restaurants opened since September 4, 2001 and a 15.4% increase in annualized average weekly sales for units open during the entire period primarily as a result of increased customer traffic. Comparable restaurant sales increased 8.1% for the 36 weeks ended September 3, 2002.

Costs of sales increased $4,607,000 (37.6%) for the 36 weeks ended September 3, 2002 to $16,861,000 from $12,254,000 in the 36 weeks ended September 4, 2001, and decreased as a percentage of sales to 26.2% from 27.2%. This decrease as a percentage of sales is principally attributable to lower food costs associated with new barbecue menu items and price increases on selected menu items implemented in the fourth quarter of fiscal year 2001.

Restaurant operating expenses increased $10,279,000 (44.3%) for the 36 weeks ended September 3, 2002 to $33,498,000 from $23,218,000 in the 36 weeks ended September 4, 2001, and increased as a percentage of net sales to 52.1% from 51.5%. This increase as a percentage of sales is principally attributable to higher hourly labor costs on new units during the initial months after opening, increases in group insurance costs and workers compensation premiums and higher advertising costs as a result of radio advertising in several markets, offset by leveraging fixed expenses against a higher sales volume.

Depreciation and amortization increased $769,000 (31.0%) for the 36 weeks ended September 3, 2002 to $3,252,000 from $2,483,000 in the 36 weeks ended September 4, 2001, and decreased as a percentage of sales to 5.0% from 5.5%. This increase in expense is due to additional depreciation on eleven restaurants opened net of one restaurant closed since September 4, 2001.

Preopening costs increased $653,000 (97.6%) for the 36 weeks ended September 3, 2002 to $1,322,000 from $669,000 in the 36 weeks ended September 4, 2001. This increase is attributable to the costs incurred for nine units that opened during the 36 weeks ended September 3, 2002 and partial preopening expenses for three restaurants which have yet to open. Three restaurants were opened in the 36 weeks ended September 4, 2001.

General and administrative expenses increased $820,000 (30.7%) for the 36 weeks ended September 3, 2002 to $3,495,000 from $2,675,000 in the 36 weeks ended September 4, 2001, due to an increase in corporate infrastucture to support the Company's expansion. General and administrative expenses decreased as a percentage of net sales to 5.4% from 5.9%, due to the leverage of infrastructure expense against a higher sales volume.

Loss on disposal of assets was $18,000 for the 36 weeks ended September 3, 2002 and $91,000 for the 36 weeks ended September 4, 2001. The losses reflect the disposal of certain video games.

Interest expense was $287,000 for the 36 weeks ended September 3, 2002 and $665,000 for the 36 weeks ended September 4, 2001. 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 36.8% for the 36 weeks ended September 3, 2002 and 36.1% for the 36 weeks ended September 4, 2001.

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 increased $545,000 to $5,705,000 as of September 3, 2002 from $5,160,000 as of December 25, 2001. This increase is attributable primarily to the excess of cost of purchases of property and equipment in excess of working capital provided by operations, net proceeds from the line of credit and net proceeds from the sale of stock. Cash decreased $318,000 at September 3, 2002 compared to the balance at December 25, 2001. 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 September 3, 2002 the Company had borrowed $835,000 under the Line of Credit. The Company is in compliance with all debt covenants.

Cash flows from operations were $7,396,000 in the 36 weeks ended September 3, 2002 compared to $2,935,000 in the 36 weeks ended September 4, 2001. Purchases of property and equipment were $12,951,000 in the 36 weeks ended September 3, 2002 compared to $3,706,000 in the 36 weeks ended September 4, 2001. Net repayments of the revolving note payable to bank was $9,515,000 for the 36 week period ending September 3, 2002 compared to net proceeds of $985,000 for the 36 weeks ending September 4, 2001. At September 3, 2002, the Company had $1,028,000 in cash and cash equivalents.

The Company intends to open twelve new locations in fiscal year 2002 and ten to twelve new locations in fiscal year 2003. At September 3, 2002, ten units had been opened in fiscal 2002, four units were under construction and an additional three leases had 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 $14.0 to $18.0 million to open new locations over the next twelve months.

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 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

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 4.25% for the twelve weeks ended September 3, 2002. The interest rate at September 3, 2002 was 4.25%. The following table presents the quantitative interest rate risks at September 3, 2002:

	Principal Amount by Expected Maturity (In thousands)							
(dollars in thousands)	2002	2003	2004	2005	2006	There-after	Total	Fair Value 9/3/02
Variable rate debt	--	$32	$197	$206	$214	$186	$835	$835
Average Interest Rate-- 1/2% below prime	--	4.25%	4.25%	4.25%	4.25%	4.25%		

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
None

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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 October 11, 2002

/s/ James K. Zielke

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

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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;

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 October 11, 2002 /s/ James K. Zielke

James K. Zielke
Chief Financial Officer,
Secretary and Treasurer

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.;

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 October 11, 2002

/s/ Steven M. Johnson

Steven M. Johnson
Chief Executive Officer