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TOTAL ENTERTAINMENT RESTAURANT CORP  
Form 10-Q  
July 26, 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  
June 11, 2002  
-----

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 July 24, 2002
COMMON STOCK, \$.01 PAR VALUE	10,219,493 SHARES

TOTAL ENTERTAINMENT RESTAURANT CORP.

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

	June 11, 2002	December 25, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 729,407	\$ 1,355,810
Inventories	1,355,810	1,263,500
Deferred income taxes	228,663	1,263,500
Other current assets	1,263,500	1,263,500
Total current assets	3,577,380	3,577,380
Property and equipment:		
Land	600,000	670,629
Buildings	670,629	670,629

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Leasehold improvements	31,645,717	26,
Equipment	18,140,469	15,
Furniture and fixtures	4,632,042	3,
	-----	-----
	55,688,857	46,
Less accumulated depreciation and amortization	14,293,417	12,
	-----	-----
	41,395,440	34,
Other assets:		
Goodwill, net of accumulated amortization	3,661,134	3,
Deferred income taxes	932,398	
Other assets	678,469	
	-----	-----
Total other assets	5,272,001	5,
	-----	-----
Total assets	\$50,244,821	\$43,
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,035,748	\$ 3,
Sales tax payable	897,326	
Accrued payroll	897,409	
Accrued payroll taxes	463,770	
Accrued income taxes	1,884,589	2,
Lease obligation for closed store	105,551	
Other accrued liabilities	1,629,382	1,
	-----	-----
Total current liabilities	9,913,775	8,
Notes payable	11,130,000	10,
Deferred revenue	90,029	
Stockholders' equity:		
Preferred stock	-	
Common stock	88,695	
Additional paid-in capital	19,071,958	17,
Retained earnings	9,950,364	6,
	-----	-----
Total stockholders' equity	29,111,017	24,
	-----	-----
Total liabilities and stockholders' equity	\$50,244,821	\$43,
	=====	=====

See accompanying notes.

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

Twelve weeks ended June 11, 2002	Twelve weeks ended June 12, 2001
-----	-----

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Sales:		
Food and beverage	\$19,500,517	\$13,201,258
Entertainment and other	1,908,331	1,341,938
	-----	-----
Total net sales	21,408,848	14,543,196
Costs and expenses:		
Costs of sales	5,596,385	3,984,438
Restaurant operating expenses	11,272,784	7,588,472
Depreciation and amortization	1,054,611	829,641
Preopening costs	361,180	299,064
	-----	-----
Restaurant costs and expenses	18,284,960	12,701,615
	-----	-----
Restaurant operating income	3,123,888	1,841,581
General and administrative expenses	1,170,409	910,645
Goodwill amortization	-	56,345
	-----	-----
Income from operations	1,953,479	874,591
Other income (expense):		
Loss on disposal of assets	-	(28,538)
Other income, principally interest	4	154
Interest expense	(118,745)	(223,199)
	-----	-----
Income from continuing operations before income taxes	1,834,738	623,008
Provision for income taxes	689,831	228,601
	-----	-----
Income from continuing operations	1,144,907	394,407
Loss from discontinued operations	(19,279)	(32,356)
	-----	-----
Net income	\$ 1,125,628	\$ 362,051
	=====	=====
Basic earnings per share:		
Income from continuing operations	\$ 0.13	\$ 0.04
Loss from discontinued operations	-	-
	-----	-----
Basic earnings per share	\$ 0.13	\$ 0.04
	=====	=====
Diluted earnings per share		
Income from continuing operations	\$ 0.12	\$ 0.04
Loss from discontinued operations	-	-
	-----	-----
Diluted earnings per share	\$ 0.12	\$ 0.04
	=====	=====

See accompanying notes.

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	Twenty-four weeks ended June 11, 2002	Twenty-four weeks ended June 12, 2001
	-----	-----
Sales:		
Food and beverage	\$ 39,376,430	\$ 27,873,344
Entertainment and other	3,857,152	2,827,435
	-----	-----
Total net sales	43,233,582	30,700,779
Costs and expenses:		
Costs of sales	11,327,872	8,356,361
Restaurant operating expenses	21,672,858	15,440,736
Depreciation and amortization	2,064,229	1,625,346
Preopening costs	851,821	370,471
	-----	-----
Restaurant costs and expenses	35,916,780	25,792,914
	-----	-----
Restaurant operating income	7,316,802	4,907,865
General and administrative expenses	2,325,674	1,777,493
Goodwill amortization	-	112,690
	-----	-----
Income from operations	4,991,128	3,017,682
Other income (expense):		
Loss on disposal of assets	(18,239)	(51,828)
Other income, principally interest	10	194
Interest expense	(225,410)	(477,838)
	-----	-----
Income from continuing operations before income taxes	4,747,489	2,488,210
Provision for income taxes	1,737,230	906,989
	-----	-----
Income from continuing operations	3,010,259	\$ 1,581,221
Income(loss) from discontinued operations	12,832	(27,961)
	-----	-----
Net income	\$ 3,023,091	\$ 1,553,260
	=====	=====
Basic earnings per share:		
Income from continuing operations	\$ 0.35	\$ 0.18
Income (loss) from discontinued operations	-	-
	-----	-----
Basic earnings per share	\$ 0.35	\$ 0.18
	=====	=====
Diluted earnings per share		
Income from continuing operations	\$ 0.33	\$ 0.18
Income (loss) from discontinued operations	-	-
	-----	-----
Diluted earnings per share	\$ 0.33	\$ 0.18
	=====	=====

See accompanying notes.

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(UNAUDITED)

Twenty-four  
weeks ended  
June 11, 2002  
-----

Cash flows from operating activities:	
Net income	\$ 3,023,091
Adjustments to reconcile net income to net cash provided by operating activities:	
Loss on disposal of assets	15,739
Depreciation and amortization	2,093,378
Deferred income taxes	45,556
Net change in operating assets and liabilities:	
Change in operating assets	(911,872)
Change in operating liabilities	702,173
	-----
Net cash provided by operating activities	4,968,065
Cash flows from investing activities:	
Purchases of property and equipment	(8,069,683)
Proceeds from disposal of assets	8,895
	-----
Net cash used in investing activities	(8,060,788)
Cash flows from financing activities:	
Proceeds from revolving note payable to bank	12,825,000
Payments of revolving note payable to bank	(12,045,000)
Proceeds from exercise of stock options	1,695,635
Purchases of common stock	-
	-----
Net cash provided by financing activities	2,475,635
	-----
Net (decrease) increase in cash and cash equivalents	(617,088)
Cash and cash equivalents at beginning of period	1,346,495
	-----
Cash and cash equivalents at end of period	\$ 729,407
	=====
Supplemental disclosure of cash flow information:	
Cash paid for interest	\$ 243,166
Cash paid for income taxes	1,726,808
Supplemental disclosure of non cash activity:	
Additions to property and equipment in accounts payable	\$ 893,763
Tax benefit related to stock options exercised	243,409

See accompanying notes.

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## 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 June 11, 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 June 11, 2002, the Company granted to certain key employees stock options for 156,637 shares of Common Stock at a weighted-average exercise price of \$8.95 per share and options to purchase 180,722 shares were exercised at a weighted-average exercise price of \$8.57 per share pursuant to its 1997 Incentive and Nonqualified Stock Option Plan. Options to purchase 29,000 shares were exercised at a weighted-average exercise price of \$5.09 per share pursuant to its 1997 Directors Stock Option Plan.

### 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 June 11, 2002 and June 12, 2001 were 8,787,019 and 8,666,111, respectively; the number of weighted average shares outstanding for the twenty-four week periods ended June 11, 2002 and June 12, 2001 were 8,726,315 and 8,674,490, 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 11, 2002 and June 12, 2001 were 9,366,333 and 8,693,211, respectively, and for the twenty-four week periods ended June 11, 2002 and June 12, 2001 were 9,180,649 and 8,696,009, 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

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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

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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 June 11, 2002 -----	Twelve Weeks Ended June 12, 2001 -----	Twenty-four Weeks Ended June 11, 2002 -----
Net income, as reported	\$1,125,628	\$ 362,051	\$3,023,091
Goodwill amortization (net of income taxes)	--	42,135	--
	-----	-----	-----
Net income, as adjusted	\$1,125,628	\$ 404,186	\$3,023,091
Basic earnings per share, as reported	\$ 0.13	\$ 0.04	\$ 0.35
Goodwill amortization (net of income taxes)	--	0.01	--
	-----	-----	-----
Basic earnings per share, as adjusted	\$ 0.13 =====	\$ 0.05 =====	\$ 0.35 =====
Diluted earnings per share, as reported	\$ 0.12	\$ 0.04	\$ 0.33
Goodwill amortization (net of income taxes)	--	0.01	--
	-----	-----	-----
Diluted earnings per share, as adjusted	\$ 0.12 =====	\$ 0.05 =====	\$ 0.33 =====

### 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

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discontinued operations and prior period statements of income have been reclassified accordingly.



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### 6. LEGAL PROCEEDINGS

Certain former employees have filed a complaint on their 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. SUBSEQUENT EVENT

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.

## 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 11, 2002, the Company owned and operated 48 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 June 11, 2002, the Company owned and operated 34 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 and Texas. As of June 12, 2001, the Company owned and operated 27 Fox and Hound restaurants and 13 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 June 11, 2002, food and non-alcoholic beverages were 33.2% of total sales, alcoholic beverages were 57.9% of total sales and entertainment and other were 8.9% of total sales. For the twelve weeks ended June 12, 2001, food and non-alcoholic beverages were 30.9% of total sales, alcoholic beverages were 59.7% of total sales and entertainment and other were 9.3% of total sales.

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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

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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 June 11, 2002, there were 35 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.

### 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		
	JUNE 11, 2002	JUNE 12, 2001	JUN 2
<b>OPERATING STATEMENT DATA:</b>			
Net sales	100.0%	100.0%	10
Costs and expenses:			
Costs of sales.....	26.1	27.4	2
Restaurant operating expenses.....	52.7	52.2	5
Depreciation and amortization.....	4.8	5.7	
Preopening costs.....	1.7	2.0	
	-----	-----	-----
Restaurant costs and expenses.....	85.3	87.3	8
	-----	-----	-----
Restaurant operating income.....	14.7	12.7	1
General and administrative expenses.....	5.5	6.3	

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Goodwill amortization.....	--	0.4	
	-----	-----	
Income from operations.....	9.2	6.0	1
Loss on disposal of assets.....	--	0.2	
Interest expense	0.5	1.5	
	-----	-----	
Income from continuing operations before income taxes....	8.7	4.3	1
Provision for income taxes	3.3	1.6	
	-----	-----	
Income from continuing operations.....	5.4	2.7	
Loss from discontinued operations	(0.1)	(0.2)	
	-----	-----	
Net income.....	5.3%	2.5%	
RESTAURANT OPERATING DATA (DOLLARS IN THOUSANDS):			
Annualized average weekly sales per location.....	\$1,976	\$1,626	\$2,
Number of restaurants at end of the period.....	48	40	

TWELVE WEEKS ENDED JUNE 11, 2002 COMPARED TO TWELVE WEEKS ENDED JUNE 12, 2001

Net sales increased \$6,866,000 (47.2%) for the twelve weeks ended June 11, 2002 to \$21,409,000 from \$14,543,000 for the twelve weeks ended June 12, 2001. This increase was due to a 19.7% increase in store weeks (564 versus 471) as a result of nine restaurants opened and one restaurant closed since June 12, 2001 and a 21.5% increase in annualized average weekly sales primarily as a result of increased customer traffic. Comparable restaurant sales increased 10.7% for the quarter ended June 11, 2002.

Costs of sales increased \$1,612,000 (40.5%) for the twelve weeks ended June 11, 2002 to \$5,596,000 from \$3,984,000 in the twelve weeks ended June 12, 2001, and decreased as a percentage of sales to 26.1% from 27.4%. 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 \$3,685,000 (48.6%) for the twelve weeks ended June 11, 2002 to \$11,273,000 from \$7,588,000 in the twelve weeks ended June 12, 2001, and increased as a percentage of net sales to 52.7% from 52.2%. This increase as a percentage of sales is principally attributable to higher hourly labor costs on new units during the initial months after opening.

Depreciation and amortization increased \$225,000 (27.1%) for the twelve weeks ended June 11, 2002 to \$1,055,000 from \$830,000 in the twelve weeks ended June 12, 2001, and decreased as a percentage of sales to 4.8% from 5.7%. This increase in expense is due to additional depreciation on nine restaurants opened net of one restaurant closed since June 12, 2001.

Preopening costs increased \$62,000 for the twelve weeks ended June 11, 2002 to \$361,000 from \$299,000 in the twelve weeks ended June 12, 2001. This increase is attributable to the costs incurred for two units that opened during the twelve weeks ended June 11, 2002 and partial preopening expenses for four restaurants which have yet to open. Two restaurants were opened in the twelve weeks ended June 12, 2001.

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General and administrative expenses increased \$259,000 (28.5%) for the twelve weeks ended June 11, 2002 to \$1,170,000 from \$911,000 in the twelve weeks ended June 12, 2001, 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 5.5% from 6.3%, due to the leverage of infrastructure expense against a higher sales volume.

Loss on disposal of assets was \$29,000 for the twelve weeks ended June 12, 2001. The losses reflect the disposal of certain video games.

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Interest expense was \$119,000 for the twelve weeks ended June 11, 2002 and \$223,000 for the twelve weeks ended June 12, 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 37.6% for the twelve weeks ended June 11, 2002 and 36.7% for the twelve weeks ended June 12, 2001.

TWENTY-FOUR WEEKS ENDED JUNE 11, 2002 COMPARED TO TWENTY-FOUR WEEKS ENDED JUNE 12, 2001

Net sales increased \$12,533,000 (40.8%) for the 24 weeks ended June 11, 2002 to \$43,234,000 from \$30,701,000 for the 24 weeks ended June 12, 2001. This increase was due to an 19.0% increase in store weeks (1,103 versus 927) as a result of nine restaurants opened and one restaurant closed since June 12, 2001 and a 17.4% increase in annualized average weekly sales primarily as a result of increased customer traffic. Comparable restaurant sales increased 10.0% for the 24 weeks ended June 11, 2002.

Costs of sales increased \$2,972,000 (35.6%) for the 24 weeks ended June 11, 2002 to \$11,328,000 from \$8,356,000 in the 24 weeks ended June 12, 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 \$6,232,000 (40.4%) for the 24 weeks ended June 11, 2002 to \$21,673,000 from \$15,441,000 in the 24 weeks ended June 12, 2001, and decreased as a percentage of net sales to 50.1% from 50.3%. This decrease as a percentage of sales was attributable to the leveraging of fixed costs against higher average unit volumes offset by higher hourly labor costs on new units during the initial months after opening.

Depreciation and amortization increased \$439,000 (27.0%) for the 24 weeks ended June 11, 2002 to \$2,064,000 from \$1,625,000 in the 24 weeks ended June 12, 2001, and decreased as a percentage of sales to 4.8% from 5.3%. This increase in expense is due to additional depreciation on nine restaurants opened net of one restaurant closed since June 12, 2001.

Preopening costs increased \$482,000 for the 24 weeks ended June 11, 2002 to \$852,000 from \$370,000 in the 24 weeks ended June 12, 2001. This increase is attributable to the costs incurred for six units that opened during the 24 weeks ended June 11, 2002 and partial preopening expenses for four restaurants which have yet to open. Two restaurants were opened in the 24 weeks ended June 12, 2001.

General and administrative expenses increased \$549,000 (30.8%) for the 24 weeks ended June 11, 2002 to \$2,326,000 from \$1,777,000 in the 24 weeks ended

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June 12, 2001, 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 5.4% from 5.8%, due to the leverage of infrastructure expense against a higher sales volume.

Loss on disposal of assets was \$18,000 for the 24 weeks ended June 11, 2002 and \$52,000 for the 24 weeks ended June 12, 2001. The losses reflect the disposal of certain video games.

Interest expense was \$225,000 for the 24 weeks ended June 11, 2002 and \$478,000 for the 24 weeks ended June 12, 2001. This decrease is due to both a lower interest rate and lower average

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balance applicable to the revolving note payable in the current fiscal year compared with the prior fiscal year.

The effective income tax rate was 36.6% for the 24 weeks ended June 11, 2002 and 36.5% for the 24 weeks ended June 12, 2001.

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### 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

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negative working capital. Negative working capital increased \$1,176,000 to \$6,336,000 as of June 11, 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 and net proceeds from the line of credit. Cash decreased \$617,000 at June 11, 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 June 11, 2002 the Company had borrowed \$11,130,000 under the Line of Credit. The Company is in compliance with all debt covenants.

Cash flows from operations were \$4,968,000 in the 24 weeks ended June 11, 2002 compared to \$1,728,000 in the 24 weeks ended June 12, 2001. Purchases of property and equipment were \$8,070,000 in the 24 weeks ended June 11, 2002 compared to \$2,244,000 in the 24 weeks ended June 12, 2001. Net advances of the revolving note payable to bank was \$780,000 for the 24 week period ending June 11, 2002 compared to \$1,270,000 for the 24 week period ending June 12, 2001. At June 11, 2002, the Company had \$729,000 in cash and cash equivalents.

The Company intends to open ten to twelve new locations in both fiscal year 2002 and fiscal year 2003. At June 11, 2002, six units had been opened in fiscal 2002, four units were under construction and an additional two 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

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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

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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.

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### 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 June 11, 2002. The interest rate at June 11, 2002 was 4.25%. The following table presents the quantitative interest rate risks at June 11, 2002:

(dollars in thousands) -----	Principal Amount by Expected Maturity						There- after -----
	(In thousands)						
	2002 ----	2003 ----	2004 ----	2005 ----	2006 ----	There- after -----	
Variable rate debt	-	\$427	\$2,627	\$2,740	\$2,859	\$2,477	
Average Interest Rate-- 1/2% below prime	-	4.25%	4.25%	4.25%	4.25%	4.25%	

The Line of Credit was repaid on July 24, 2002 with the proceeds of the public offering of the Company's stock as discussed in Note 7 to the Financial Statements.

### PART II. OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

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On February 28, 2001, Patrick O'Shea, David W. Faber, Ann Swanson, Stacy Gregory, Wes L. Patterson, Dale Sproat, Mark Thagard and Patrick Wilson filed a complaint on their own behalf and on behalf of other similarly situated persons against us; Fox & Hound of Indiana, Inc., our subsidiary; Gary Judd, our President; Steven M. Johnson, our Chief Executive Officer; J.C. Weinberg, our former Chief Operating Officer; and Kenneth Syvarth, our former Vice President -- Operations and current Chief Operating Officer, in the United States District Court for the Southern District of Indiana.

The plaintiffs allege that they were employed by the defendants with the titles of manager-in-training, assistant manager and/or general manager, and that we and the other defendants willfully and in bad faith failed to pay the defendants overtime pay for hours worked in excess of forty hours per week in violation of the provisions of the Fair Labor Standards Act. The plaintiffs' complaint seeks (i) a declaratory judgment that we and other defendants violated the plaintiffs' legal rights; (ii) an accounting of compensation to which the defendants are owed; (iii) monetary damages in the form of back pay compensation and benefits, unpaid entitlements, liquidated damages and pre-judgment and post-judgment interest; and (iv) attorneys' fees and costs. We and other defendants have filed answers to the plaintiffs' complaint.

On June 4, 2002, the court entered an order allowing the plaintiffs to send a notice to all persons who have worked for us under the above employee-manager titles since February 29, 1998, so that such persons may decide whether to opt-in to the collective action. The court specifically excluded from the collective action those employees who have arbitration agreements with us (which we estimate to be approximately 40% of the persons alleged by the plaintiffs to be similarly situated) and those employees whose claims are barred by the statute of

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limitations. Persons receiving notice will have a period of 120 days after the notice is sent to opt into the action. The trial of the case is currently scheduled for March 2003.

On October 2, 2000, R&A Bailey & Company of Dublin, Ireland, filed a notice of opposition with the Trademark Trial and Appeal Board of the U.S. Patent and Trademark Office to our U.S. service mark applications for "BAILEY'S PUB & GRILLE" (color), "BAILEY'S PUB & GRILLE" (stylized), and "BAILEY'S PUB & GRILLE." Additionally, on November 14, 2000, R&A Bailey & Company filed a petition with the Trademark Trial and Appeal Board of the U.S. Patent and Trademark Office to cancel our U.S. service mark registrations for "7 BAILEY'S SPORTS GRILLE" (+ Design), "SERIOUS FUN 7 BAILEY'S SPORTS GRILLE" (+ Design), and "BAILEY'S SPORTS GRILLE."

R&A Bailey & Company claims to be the owner of several U.S. trademark registrations, including "BAILEYS ORIGINAL IRISH CREAM" (+ Design), "BAILEYS," "BAILEYS THE ORIGINAL LIGHT CREAM," "BAILEYS" (+ Design), and "BAILEYS YUM," that are claimed to be used in association with liqueurs, distilled spirits, ice cream, coffee cups and other ceramic accessories. R&A Bailey & Company has alleged that our cited registrations and applications cause it damage, are likely to create a likelihood of confusion, mistake or deception, and would likely dilute and lessen its "famous" marks in violation of the Lanham Act. R&A Bailey & Company seeks cancellation of our registrations and opposes the registration of our applications for registration of the above-listed marks.

On December 29, 2000, we filed an answer to R&A Bailey & Company's notice of opposition, denying its allegations. One February 16, 2001, we filed a Stipulated Motion to Extend Answer to Petition in response to the petition to



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cancel by R&A Bailey & Company. The actions have been suspended by the Trademark Trial and Appeal Board to allow the parties time to negotiate for possible settlement of these pending actions. We are actively pursuing settlement, and we are of the opinion that any resulting liability should not have a material adverse effect on our financial performance.

### 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 11, 2002:

Date of Sale/issuance	Description of Securities Issued	Number of Shares Sold/Issued/Subject to Options or Warrants
April 2, 2002	Common Stock Options	100,000
April 2, 2002	Common Stock	3,922
April 18, 2002	Common Stock	5,883
April 18, 2002	Common Stock	1,250
April 18, 2002	Common Stock	166,667
April 30, 2002	Common Stock Options	56,637
May 22, 2002	Common Stock	10,000
May 22, 2002	Common Stock	2,000
May 22, 2002	Common Stock	1,000
May 23, 2002	Common Stock	10,000

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May 23, 2002	Common Stock	3,000
May 23, 2002	Common Stock	2,000
May 23, 2002	Common Stock	1,000
May 31, 2002	Common Stock	3,000

All of the above options were granted to certain key employees pursuant to the 1997 Incentive and Nonqualified Option Plan ("the Employee Option Plan"). The options for employees have a vesting period three to five years and a life of ten years. All of the above common stock was issued to an aggregate of six current or former key employees or directors upon the exercise of options previously granted pursuant to the Employee Option Plan or the 1997 Directors Stock Option Plan.

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

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On May 17, 2002, the Company held its Annual Meeting of Stockholders (the "Meeting"). At the Meeting, the stockholders elected Steven M. Johnson, Gary M. Judd, and John D. Harkey, Jr. to the Board of Directors to serve until the 2005 Annual Meeting of Stockholders and until their successors have been duly elected and qualified. As to the new elected Directors, there were 7,976,496 votes "For" and 80,206 votes "Withheld" for Steven M. Johnson, 7,976,496 votes "For" and 80,206 votes "Withheld" for Gary M. Judd, and 7,981,496 votes "For" and 75,206 votes "Withheld" for John D. Harkey, Jr. The continuing directors and the expiration of their current terms as directors are as follows:

C. Wells Hall, III.....	2003
James K. Zielke.....	2003
E. Gene Street.....	2003
Dennis L. Thompson.....	2004
Stephen P. Hartnett.....	2004
Thomas A. Hager.....	2004

The stockholders also ratified the appointment of KPMG LLP as the Company's independent auditors for the year ending December 31, 2002. As to the ratification of auditors, there were 8,051,356 votes "For," 406 votes "Against," and 4,940 votes "Abstained."

In addition, the stockholders voted to amend the Company's 1997 Directors Stock Option Plan to increase the number of authorized shares reserved for issuance pursuant to the Plan, from 150,000 shares of Common Stock to 400,000 shares of Common Stock. As to the amendment, there were 7,754,155 votes "For," 300,224 votes "Against," and 2,323 votes "Abstained."

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

#### Exhibits

None

#### 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 July 25, 2002  
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/s/ James K. Zielke  
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James K. Zielke  
Chief Financial Officer,  
Secretary and Treasurer  
(Duly Authorized Officer)