

MORTONS RESTAURANT GROUP INC
Form 10-K
March 12, 2004

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the fiscal year ended January 4, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission file number 1-12692

MORTON'S RESTAURANT GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

13-3490149

(I.R.S. employer identification no.)

3333 New Hyde Park Road, Suite 210,
New Hyde Park, NY

(Address of principal executive offices)

11042

(zip code)

516-627-1515

(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act: None

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

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As of March 11, 2004, the registrant had 1,000 shares of its common stock, \$.01 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

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Part I

Item 1. Business

Morton's Restaurant Group, Inc. ("MRG") was incorporated as a Delaware corporation on October 3, 1988 and is a wholly-owned subsidiary of Morton's Holdings, LLC ("MHLLC" or "our parent"), a Delaware limited liability company formed on April 4, 2002. As used in this Report, the term "Company" refers to MRG and its consolidated subsidiaries.

General

At January 4, 2004, the Company owned and operated 64 Morton's The Steakhouse restaurants ("Morton's") and 4 Bertolini's Authentic Trattoria restaurants ("Bertolini's"). Morton's are upscale steakhouse restaurants associated with a fine steakhouse dining experience. Bertolini's are designed as white tablecloth, authentic Italian trattorias. These concepts appeal to a broad spectrum of consumer tastes and target separate price points and dining experiences.

The Company provides strategic support and direction to its subsidiary companies, and evaluates and analyzes potential locations for new restaurants. Management consists of Allen J. Bernstein, Chairman of the Board, President and Chief Executive Officer, and vice presidents

responsible for site selection and development, finance and communications.

Morton's The Steakhouse Restaurants

At January 4, 2004, the Company owned and operated 64 Morton's The Steakhouse restaurants (58 in the continental United States, one each in Honolulu, Hawaii; San Juan, Puerto Rico; Toronto and Vancouver, Canada; Singapore; and Hong Kong) located in 61 cities in 28 states. During February 2003, a new Morton's steakhouse opened in Richmond, Virginia. During January 2003 and August 2003, the Morton's steakhouses in Hong Kong Central and Addison, Texas, respectively, were closed.

Morton's strives to provide its guests the highest quality cuisine, an extensive selection of wines and exceptional service in an enjoyable dining environment. Morton's steakhouses feature USDA prime aged beef in the United States and comparable high quality aged beef outside the United States, including, among other cuts, a 24 oz. porterhouse, a 20 oz. New York strip sirloin and a 16 oz. ribeye steak. While the emphasis is on beef, Morton's menu selection is broad enough to appeal to many taste preferences, and includes the highest quality veal, lamb, poultry and fresh seafood, including three to five pound lobsters. Complementing its substantial main course selections, Morton's dessert menu features its original warm Godiva chocolate cake, New York cheesecake, soufflés and traditional desserts. The Morton's tableside menu presentation by the server highlights the quality of its products, personalizes the dining experience and underscores Morton's focus on premium service. In addition, all Morton's steakhouses feature an open display kitchen where the chefs and grills are visible, which increases the energy level of the restaurant and enhances the guests' experience. Each Morton's has a fully stocked bar and an extensive premium wine list that offers approximately 200 wine selections in all restaurants and a broader list of up to 400 wines in selected restaurants.

Morton's caters primarily to high-end, business-oriented clientele. All Morton's are open seven days a week. Those 55 Morton's serving only dinner are typically open from 5:30 p.m. to 11:30 p.m., while those Morton's serving both dinner and lunch typically open at 11:30 a.m. for the lunch period. All except for one Morton's have on-premises, private dining and meeting facilities referred to as "Boardrooms." During the fiscal year ended January 4, 2004, the average per-person check, including lunch, dinner and Boardroom, was approximately \$76.60. Management believes that a vast majority of Morton's weekday revenues and a substantial portion of its weekend revenues are derived from business people using expense accounts. Sales of alcoholic beverages accounted for approximately 30%

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of Morton's revenues during fiscal 2003. In the eight Morton's serving both dinner and lunch during fiscal 2003, dinner service accounted for approximately 86% of revenues and lunch service accounted for approximately 14%. During fiscal 2003, Boardroom revenues were approximately 18% of sales in those locations offering Boardrooms.

Management believes that its operations and cost systems, which have been developed over 25 years, enable Morton's to maintain a high degree of control over operating expenses and to adjust its cost structure to changes in revenue. Morton's staff is highly trained, experienced and motivated. Morton's management believes that its centralized sourcing from primary suppliers of USDA prime aged beef and other products gives it significant cost and availability advantages over many independent restaurants. All Morton's steakhouses report daily through a new point-of-sale system that allows the Company to monitor its revenue, costs, labor, inventory and other operating information.

Bertolini's Authentic Trattoria Restaurants

At January 4, 2004, the Company owned and operated four Bertolini's, located in three cities. Bertolini's are designed as white tablecloth, authentic Italian trattorias, which provide table service in a casual dining atmosphere. For the fiscal year ended January 4, 2004, Bertolini's average per-person check, including lunch and dinner, was approximately \$22.75. Bertolini's restaurants are open seven days a week, for lunch and dinner, with typical hours of 11:00 a.m. to 12:00 midnight. During fiscal 2003, dinner service accounted for approximately 67% of revenues and lunch service accounted for approximately 33%. Sales of alcoholic beverages accounted for approximately 23% of Bertolini's revenues during fiscal 2003. During fiscal 2003, no new Bertolini's restaurants were opened and no existing Bertolini's restaurants were closed.

Site Development and Expansion

General. To date, the Company has sought to enhance its capital resources by obtaining substantial development or rent allowances from its landlords. The Company's restaurant leases typically provide for substantial landlord development and or rent allowances and an annual percentage rent based on gross revenues, subject to market-based minimum annual rents. This leasing strategy enables the Company to reduce its net investments in newly developed restaurants.

The costs of opening a Morton's steakhouse vary by restaurant depending upon, among other things, the location of the site and construction required. The Company generally leases its restaurant sites and operates both free-standing and in-line restaurants. In recent years,

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the Company has received substantial landlord development and or rent allowances for leasehold improvements, furniture, fixtures and equipment. The Company currently targets its average cash investment, net of such landlord allowances in new restaurants, in leased premises, to be less than \$2.0 million per restaurant, although the Company may expend greater amounts for particular restaurants. The standard décor and interior design of each of its restaurant concepts can be readily adapted to accommodate different types of locations.

Management believes that the locations of the Company's restaurants are critical to its long-term success, and management devotes significant time and resources to analyzing each prospective site. As it has expanded, the Company has developed specific criteria by which it evaluates each prospective site. Potential sites are generally sought in major metropolitan areas. Management considers factors such as demographic information, average household size, income, traffic patterns, proximity to shopping areas and office buildings, area restaurant competition, accessibility and visibility. The Company's ability to open new restaurants depends upon, among other things, finding quality locations, reaching acceptable agreements regarding the lease or purchase of locations, raising or having available an adequate amount of money for construction and opening costs, timely hiring, training and retaining the skilled management and other employees necessary to meet staffing needs, obtaining, for an

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acceptable cost, required permits and approvals and efficiently managing the amount of time and money used to build and open each new restaurant. For these and other reasons, there can be no assurance that the Company's expansion plans will be successfully achieved or that new restaurants will meet with consumer acceptance or can be operated profitably.

Morton's. The first Morton's was opened in 1978 in downtown Chicago, where Morton's operations headquarters are still located. From 1978 to 1989, Morton's expanded to a group of nine restaurants in nine cities. Since the 1989 acquisition by the Company, Morton's has grown from nine to 64 restaurants as of March 8, 2004. During February 2003, a new Morton's steakhouse opened in Richmond, Virginia. During January 2003 and August 2003, the Morton's steakhouses in Hong Kong Central and Addison, Texas, respectively, were closed.

Morton's are very similar in terms of style, concept and decor, and are located in upscale retail, hotel, commercial and office complexes in major metropolitan areas and urban centers. The approximate gross costs to the Company for the one Morton's opened in leased premises between December 30, 2002 and March 8, 2004 were \$2.6 million, including costs for leasehold construction, improvements, furniture, fixtures, equipment and pre-opening expenses. These costs were substantially offset by a landlord development allowance of approximately \$1.2 million.

Bertolini's. The first Bertolini's opened in Las Vegas in May 1992, and is located in the Forum Shops Mall, adjacent to Caesars Palace Casino. At January 4, 2004, the Company owned and operated four Bertolini's. No Bertolini's were opened during fiscal 2003 and none are planned for the foreseeable future.

Restaurant Locations

The Company owned and operated 64 Morton's and 4 Bertolini's as of March 8, 2004. The following table provides information with respect to those restaurants:

Morton's The Steakhouse Restaurants	Date Opened
Chicago, IL(1)	December 1978
Washington (Georgetown), DC	November 1982
Westchester/Oakbrook, IL	June 1986
Dallas (Downtown), TX	May 1987
Boston, MA	December 1987
Rosemont, IL	June 1989
Cleveland, OH	September 1990
Tysons Corner, VA	November 1990
Columbus, OH	April 1991
Cincinnati, OH	August 1991
San Antonio, TX	September 1991
Palm Beach, FL	November 1991
Minneapolis, MN	December 1991
Beverly Hills, CA(2)	October 1992
Detroit (Southfield), MI	November 1992
Sacramento, CA	May 1993

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Morton's The Steakhouse Restaurants	Date Opened
Pittsburgh, PA	August 1993
New York (Midtown Manhattan), NY	October 1993
St. Louis (Clayton), MO	December 1993
Palm Desert, CA	January 1994
Atlanta (Buckhead), GA	March 1994
Charlotte, NC	July 1994
San Francisco, CA	November 1994

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Denver (Downtown), CO	March 1995
Atlanta (Downtown), GA	November 1995
Houston, TX	January 1996
Phoenix, AZ	March 1996
Orlando, FL	March 1996
Washington (Connecticut Ave.), DC	January 1997
San Diego, CA	April 1997
Baltimore, MD	August 1997
Miami (Downtown), FL	December 1997
Stamford, CT	February 1998
Singapore	May 1998
North Miami Beach, FL	July 1998
Toronto, Canada	September 1998
Portland, OR	December 1998
Nashville, TN	January 1999
Scottsdale, AZ	January 1999
Philadelphia, PA	July 1999
Boca Raton, FL	August 1999
Kansas City, MO	October 1999
Indianapolis, IN	November 1999
Schaumburg, IL	December 1999
Hong Kong (Kowloon)	December 1999
Seattle, WA	December 1999
Denver (Tech Center), CO	March 2000
Las Vegas, NV	May 2000
Jacksonville, FL	June 2000
Hartford, CT	September 2000
San Juan, PR	October 2000
Great Neck (Long Island), NY	October 2000
Vancouver, Canada	October 2000
New Orleans, LA	December 2000
Louisville, KY	June 2001
Reston, VA	July 2001
Santa Ana/Costa Mesa, CA	November 2001
Los Angeles (Downtown), CA(2)	November 2001
Honolulu, HI	November 2001
King of Prussia, PA	April 2002
Hackensack, NJ	September 2002
Arlington, VA	October 2002
Burbank, CA(2)	November 2002
Richmond, VA	February 2003
Bertolini's Authentic Trattorias	Date Opened
Las Vegas, NV	May 1992
King of Prussia, PA	November 1995
Indianapolis, IN	October 1996

Bertolini's Authentic Trattorias**Date Opened**

West Las Vegas, NV

December 1998

- (1) Does not have Morton's Boardroom Banquet facilities.
- (2) Operates under the name "Arnie Morton's The Steakhouse."

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Restaurant Operations and Management

Morton's and Bertolini's restaurants have a well-developed management infrastructure and are operated and managed as distinct concepts. Regional managers supervise the operations for the Company's restaurants, and each is responsible for several restaurants and reports to a division vice president. Division vice presidents and regional managers meet frequently with senior management to review operations and to resolve issues. Working in concert with vice presidents, regional managers and restaurant general managers, senior management defines operations and performance objectives for each restaurant. Incentive plans tied to achievement of specified revenue, profitability and operating targets and related quality objectives have been established for vice presidents, regional managers and certain restaurant managers.

The Company strives to maintain quality and consistency in its restaurants through the careful training and supervision of personnel and the establishment of standards relating to food and beverage preparation, maintenance of facilities and conduct of personnel. Restaurant managers, many of whom are developed from the Company's restaurant personnel, must complete a training program of typically six to twelve weeks during which they are instructed in areas of restaurant management, including food quality and preparation, customer service, alcoholic beverage service, liquor liability avoidance and employee relations. Restaurant managers are also provided with operations manuals relating to food and beverage preparation and operation of restaurants. These manuals are designed to ensure uniform operations, consistently high quality products and service, and proper accounting for restaurant operations. The Company holds regular meetings of its restaurant managers to discuss menu items, continuing training and other aspects of business management.

The staff for a typical Morton's consists of one general manager, up to four assistant managers and approximately 40 to 60 hourly employees. The staff for a typical Bertolini's consists of one general manager, up to six assistant managers and approximately 70 to 100 hourly employees. Each new restaurant employee of the Company participates in a training program during which the employee works under the close supervision of restaurant managers. Management strives to instill enthusiasm and dedication in the Company's employees. Restaurant management regularly solicits employee suggestions concerning restaurant operations, strives to be responsive to the employees' concerns and meets regularly with employees at each of the restaurants.

The Company devotes considerable attention to controlling food costs. The Company makes extensive use of information technology to provide management with pertinent information on daily revenues and inventory requirements, thus reducing the need to carry excessive quantities of food inventories. This cost management system is complemented by the Company's ability to obtain certain volume-based discounts. In addition, each Morton's and Bertolini's has similar menu items and common operating methods, allowing for more simplified management operating controls.

The Company maintains financial and accounting controls for each of its restaurants through the use of centralized accounting and management information systems and reporting requirements. Revenue, cost and related information is collected daily for each restaurant. Restaurant managers are provided with operating statements for their respective restaurants. Cash and credit card receipts are controlled through daily deposits to local operating accounts, the balances of which are wire transferred or deposited to cash concentration accounts. During 2003, the Company has completed the implementation of a new point-of-sale system at all Morton's steakhouses.

Purchasing

The Company's ability to maintain consistent quality throughout its restaurants depends in part upon the ability to acquire food products and related items from reliable sources in accordance with Company specifications. All of Morton's USDA prime aged beef is shipped to Morton's restaurants by refrigerated common carrier from its primary suppliers. Due to restrictions imposed in December 2003

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on the import of U.S. beef into non-U.S. markets, the Company uses high quality non-U.S. aged beef in its non-U.S. restaurants. Other products used by Morton's are procured locally based on strict Company specifications. Bertolini's restaurants also adhere to strict product specifications and use national, regional and local suppliers. Food and supplies are shipped directly to the restaurants and invoices for purchases are sent for payment to the headquarters office. The Company has no long-term contracts for any food items used in its restaurants. The Company currently does not engage in any futures contracts and all purchases are made at prevailing market or contracted prices. While management believes adequate alternative sources of supply are generally readily available, these alternative sources might not provide as favorable terms to the Company as its current suppliers when viewed on a long-term basis.

Marketing

Management believes that the Company's consistent commitment to quality food, hospitality, service and providing a high level of value at its price point is the most effective approach to attracting and maintaining guests. As a part of this, there are nine dedicated sales and marketing employees at the corporate level, and an additional sales and marketing employee at 63 Morton's steakhouses. The Company utilizes a variety of marketing techniques to maintain and build its guest base, increase guest traffic, maintain and enhance Morton's brand image and continually improve and refine its fine steakhouse dining experience. The Company uses certain databases to identify target guests and uses direct mailings to increase their awareness of Morton's fine steakhouse dining experience and of local promotional activities. In addition, the Company utilizes public relations consultants and limited targeted print advertising. The Company recently introduced new print advertising featuring Morton's new "Savor the Good Life" theme. The Company's expenditures for advertising, marketing and promotional expenses, as a percentage of its revenues, were 2.3% and 2.1% during fiscal 2003 and fiscal 2002, respectively.

Competition

The restaurant business is highly competitive and fragmented, and the number, size and strength of competitors varies widely by region. The Company believes that restaurant competition is based on, among other things, quality of food products, customer service, reputation, restaurant location, name recognition and menu price points. The Company's restaurants compete with a number of restaurants within their markets, both locally owned restaurants and other restaurants that are members of regional or national chains. The Company has many well-established competitors with greater financial and other resources and greater name recognition than the Company and its restaurants. Many of these competitors have been in existence longer than the Company and are better established in areas where the Company's restaurants are located or are planned to be located. The restaurant business is also impacted by changes in consumer taste, economic and market conditions, restaurant profitability levels, demographic trends, traffic patterns, employee availability and benefits, regulatory developments, product availability and cost increases.

Service Marks and Trademarks

The Company has registered the names Morton's, Morton's The Steakhouse, Morton's of Chicago, Bertolini's and certain other names used by its restaurants as trade names, trademarks or service marks with the United States Patent and Trademark Office and in certain foreign countries. The Company is aware of names similar to that of the Company's restaurants used by third parties in certain limited geographical areas, although the Company does not anticipate that such use will prevent the Company from using its marks in such areas. The Company is not aware of any infringing uses that could materially affect its business. The Company believes that its trade names, trademarks and service marks are valuable to the operation of its restaurants and are important to its marketing strategy.

Government Regulation

The Company's business is subject to extensive federal, state and local government regulation, including regulations relating to the preparation and sale of food, the sale of alcoholic beverages, the sale and use of tobacco, zoning and building codes, land use and employee, health, sanitation and safety matters.

Typically, the Company's licenses to sell alcoholic beverages must be renewed annually and may be suspended or revoked at any time for cause. Alcoholic beverage control regulations relate to various aspects of the daily operation of the Company's restaurants, including minimum age of patrons and employees, hours of operation, advertising, wholesale purchasing, and inventory control, handling and storage. In fiscal 2003, approximately 30% and 23% of the revenues of Morton's and Bertolini's, respectively, were attributable to the sale of alcoholic beverages, and management believes that the ability to serve alcohol is an important factor in attracting guests. The failure of any restaurants to timely obtain and maintain liquor or other licenses, permits and approvals required to serve alcoholic beverages or food could delay or prevent the opening of,

or adversely impact the viability of, the restaurant and the Company could lose significant revenue.

The Company is subject to "dram-shop" laws in each state in which it operates, which allow a person to sue the Company if that person was injured by a legally intoxicated person who was wrongfully served alcoholic beverages at one of the Company's restaurants. A judgment against the Company under a dram shop law could exceed the Company's liability insurance coverage policy limits and could result in substantial liability for the Company and have a material adverse effect on its profitability. The Company's inability to continue to obtain such insurance coverage at reasonable costs also could have a material adverse effect on the Company.

To the extent that governmental regulations impose material additional obligations or restrictions on the Company's suppliers, including, without limitation, regulations relating to the inspection, preparation, export or import of meat, food and other products used in the Company's business, product availability could be limited and the prices that suppliers charge could increase. Management cannot assure you that the Company would be able to offset these costs through increased menu prices, which could have a material adverse effect on the Company. If any of the Company's restaurants were unable to serve particular food products, even for a short period of time, the Company could experience a reduction in its overall revenue, which could have a material adverse effect on the Company. To date, restrictions imposed in December 2003 on the import of U.S. beef into non-U.S. markets, and the Company's use of high quality non-U.S. beef in those markets, have not had a material adverse effect on the Company's business and results of operations, but management cannot assure you that that will continue to be the case.

One or more of the Company's restaurants could be subject to litigation and governmental fine, censure or closure in connection with issues relating to its food and or its facilities. The food products that the Company serves, including meat and seafood, are susceptible to food borne illnesses. The Company and other restaurant companies have been named as defendants in actions brought under state laws regarding notices with respect to chemicals contained in food products and regarding excess moisture in the business premises. To date, none of these matters has had a material adverse effect on the Company and its results of operations, but management cannot assure you that that will continue to be the case.

The Company is also subject to the Fair Labor Standards Act, the Immigration Reform and Control Act of 1986 and various federal and state laws governing such matters as minimum wages, overtime, tips, tip credits and other working conditions. A significant number of the Company's hourly staff are paid at rates related to the federal or state minimum wage and, accordingly, increases in the minimum wage or decreases in allowable tip credits will increase the Company's labor cost.

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The costs of operating the Company's restaurants may increase if there are changes in laws governing minimum hourly wages, working conditions, overtime and tip credits, workers' compensation insurance rates, unemployment tax rates, sales taxes or other laws and regulations such as those governing access for the disabled, including the Americans with Disabilities Act. If any of these costs increased and the Company was unable to offset the increase by increasing its menu prices or by other means, the Company would generate lower profits, which could have a material adverse effect on its business and results of operations.

The development and construction of additional restaurants will be subject to compliance with applicable zoning, land use and environmental regulations. Management believes that federal and state environmental regulations have not had a material effect on the Company's operations, but more stringent and varied requirements of local government bodies with respect to zoning, land use and environmental factors could delay construction and increase development costs for new restaurants.

Employees

As of January 4, 2004, the Company had 3,859 employees, of whom 3,368 were hourly restaurant employees, 387 were salaried restaurant employees engaged in administrative and supervisory capacities and 104 were corporate and office personnel. Many of the hourly employees are employed on a part-time basis to provide services necessary during peak periods of restaurant operations. None of the Company's employees are covered by a collective bargaining agreement. The Company believes that it generally has good relations with its employees.

Financial Information about Geographic Areas

The information regarding revenues that is reported in the "Consolidated Statements of Operations" includes revenues generated from operations in foreign countries of \$11.2 million, \$13.0 million and \$13.1 million for fiscal 2003, fiscal 2002 and fiscal 2001, respectively. The information regarding income (loss) before income taxes that is reported in the "Consolidated Statements of Operations" includes income (loss) before income taxes generated from operations in foreign countries of \$0.8 million, \$0.1 million and \$(3.6) million for fiscal 2003, fiscal 2002 and fiscal 2001, respectively. The fiscal 2001 loss before income taxes generated from operations in foreign countries primarily consists of a loss before income taxes of \$2.6 million generated by the Morton's steakhouse formerly located in Sydney, Australia, which was closed in

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January 2002. The fiscal 2001 loss before income taxes generated by the Sydney Morton's steakhouse included a pre-tax charge of \$1.6 million for the write-down of the net book value of the restaurant. The information regarding net property and equipment, which is reported on the "Consolidated Balance Sheets" includes net property and equipment in foreign countries of \$1.5 million and \$1.6 million at the end of fiscal 2003 and fiscal 2002, respectively. For information regarding the risks associated with foreign operations, see "Government Regulation" and "Quantitative and Qualitative Disclosures About Market Risk."

Forward-Looking Statements

This Form 10-K contains various "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements, written, oral or otherwise made, represent the Company's expectation or belief concerning future events. Without limiting the foregoing, the words "believes," "thinks," "anticipates," "plans," "expects," and similar expressions are intended to identify forward-looking statements. The Company cautions that these statements are further qualified by important economic and competitive factors that could cause actual results to differ materially, or otherwise, from those in the forward-looking statements, including, without limitation, risks of the restaurant industry, including a highly competitive environment and industry with many well-established competitors with greater financial and other resources than the Company, and the impact of changes in consumer tastes,

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local, regional and national economic and market conditions, restaurant profitability levels, expansion plans, demographic trends, traffic patterns, employee availability and benefits, cost increases, product safety and availability, government regulation and other risks detailed from time to time in the Company's periodic earnings releases and reports filed with the Securities and Exchange Commission. In addition, the Company's ability to expand is dependent upon various factors, such as the availability of attractive sites for new restaurants, the ability to negotiate suitable lease terms, the ability to generate or borrow funds to develop new restaurants and obtain various government permits and licenses and the recruitment and training of skilled management and restaurant employees. Accordingly, such forward-looking statements do not purport to be predictions of future events or circumstances and therefore there can be no assurance that any forward-looking statement contained herein will prove to be accurate.

Item 2. Properties

The Company's restaurants are generally located in space leased by subsidiaries of the Company. Restaurant lease expirations, including renewal options, range from two to 39 years. The Company's leases typically provide for renewal options for terms ranging from five years to 20 years. Restaurant leases provide for a specified annual rent, and most leases require additional or contingent rent based on revenues above specified levels. Generally, leases are "net leases" that require the Company's subsidiary that is a party to the lease to pay its pro rata share of taxes, insurance and maintenance costs. Typically, one of the Company's operating companies is a party to the lease, and performance is guaranteed by MRG or one of its subsidiaries for a portion of the lease term. See Note 11 to the Company's consolidated financial statements. Many of the Company's current leases are non-cancelable. If the Company closes a restaurant, it may remain committed to perform its obligations under the applicable lease, which would include, among other things, payment of the base rent for the balance of the lease term. These liabilities, if incurred, could have a material adverse effect on the Company's business and results of operations. Alternatively, at the end of the lease term and any renewal period for a restaurant, the Company may be unable to renew the lease without substantial additional cost, if at all. The Company currently operates six restaurants on properties which it owns.

The Company maintains its executive offices in leased space of approximately 9,800 square feet in New Hyde Park, New York and approximately 16,500 square feet in Chicago. The Company believes its current office and operating space is suitable and adequate for its intended purposes.

Item 3. Legal Proceedings

Since August 2002, a number of the Company's current and former employees in New York and Florida have initiated arbitrations with the American Arbitration Association in their respective states alleging that the Company has violated state and federal (New York arbitrations) and federal (Florida arbitrations) wage and hour laws regarding the sharing of tips with other employees. In general, the complainants are seeking restitution of tips, the difference between the tip credit wage and the minimum wage, liquidated damages and attorneys' fees and costs. The arbitrator in the New York arbitrations has permitted the complainants to consolidate their arbitrations into one action. The Florida complainants are also seeking to consolidate their arbitrations, but there has been no determination to date. The Company believes that the allegations are without merit and intends to contest them vigorously.

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The Company is involved in various other claims and legal actions arising in the ordinary course of business. Management does not believe that the ultimate resolution of these actions will have a material adverse effect on the Company's consolidated financial position, results of operations, liquidity and capital resources.

Item 4. Submission of Matters to a Vote of Security Holders

None.

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Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

There is no established public trading market for the Company's common stock. As of January 4, 2004, there was one holder of record of the Company's 1,000 shares of common stock, \$0.01 par value.

The Company has not declared dividends on its common stock. The Company is restricted from paying dividends by certain of its working capital facility covenants and the indenture pursuant to which its senior secured notes were issued (see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources"). However, the Company may pay dividends in the future, including in fiscal 2004, if it is permitted to do so under its debt covenants.

Item 6. Selected Consolidated Financial and Operating Data

The following table contains selected consolidated historical financial data for fiscal 2003, 2002, 2001, 2000 and 1999. The selected financial data for fiscal 2003, 2002, 2001, 2000 and 1999 have been derived from the Company's audited consolidated historical financial statements. Audited consolidated income statement data for fiscal 2003, 2002 and 2001 and audited consolidated balance sheet data at the end of fiscal 2003 and 2002 are included in Item 8, "Financial Statements and Supplementary Data." The selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and with the Company's consolidated financial statements and the notes thereto.

The selected financial data presented for fiscal 2002 include the Predecessor Period from December 31, 2001 through July 24, 2002 and the Successor Period from July 25, 2002 through December 29, 2002. On July 25, 2002, our parent acquired all of MRG's outstanding stock in a business combination accounted for under the purchase method of accounting. As a result of the acquisition, the Company's capital structure and its basis of accounting under the "push down" method differ from those prior to the acquisition. Therefore, the Company's Successor Period financial data generally will not be comparable to its Predecessor Period financial data. As a result of the acquisition, the Company's consolidated statement of operations for the Successor Period includes amortization expense relating to debt issuance costs and management fees that did not exist prior to the acquisition. Further, as a result of purchase accounting, the fair values of the Company's fixed assets on the date of acquisition became their new "cost" basis. Accordingly, the depreciation of these assets for the Successor Period is based upon their newly established cost basis. Other effects of purchase accounting in the Successor Period are not considered significant.

The Company has restated its consolidated financial statements for fiscal 2002 (Successor Period and Predecessor Period), 2001, 2000, 1999 and 1998 as a result of having incorrectly provided estimates for expirations and non-redemption of gift certificates that it had sold. The effect of the restatement was to reduce revenues for the 2002 Successor Period and the 2002 Predecessor Period in the amounts of \$294,000 and \$336,000, respectively, and to reduce revenues for fiscal 2001, fiscal 2000, fiscal 1999 and fiscal 1998 by \$949,000, \$872,000, \$444,000 and \$408,000, respectively. The Company has recorded an adjustment to retained earnings of \$1,090,000 at December 31, 2000 for the cumulative effect of these restatement adjustments in prior periods. The restatement had no effect on the Company's net operating cash position. See Note 3 to the Company's 2003 consolidated financial statements.

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Successor Period

Predecessor Period

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Fiscal Year	Fiscal Year					
	2003	July 25, 2002 to Dec. 29, 2002	Dec. 31, 2001 to July 24, 2002	2001	2000	1999
	Restated*	Restated*	Restated*	Restated*	Restated*	Restated*

(dollars in millions, except per share data)

Statement of Operations Data

Revenues	\$ 258.7	\$ 105.7	\$ 132.4	\$ 236.2	\$ 247.5	\$ 206.4
Income (Loss) Before Income Taxes and Cumulative Effect of a Change in an Accounting Principle	5.5(1)	1.5	(4.0)(2)	(0.7)(3)	13.5	13.9(5)
Income (Loss) Before Cumulative Effect of a Change in an Accounting Principle	4.2(1)	0.9	(4.8)(2)	0.4(3)(4)	9.5	10.5(5)
Net Income (Loss)	4.2(1)	0.9	(4.8)(2)	0.4(3)(4)	9.5	8.2(5)(6)

Net Income (Loss) Per Share Before Cumulative Effect of a Change in an Accounting Principle:

Basic				0.10(3)(4)	2.08	1.76(5)
Diluted				0.10(3)(4)	2.00	1.72(5)
Net Income (Loss) Per Share:						
Basic				0.10(3)(4)	2.08	1.38(5)(6)
Diluted				0.10(3)(4)	2.00	1.34(5)(6)

Balance Sheet Data

Current Assets	\$ 44.2	\$ 24.2	\$ 25.7	\$ 24.4	\$ 22.8
Property and Equipment, Net	54.1	54.7	82.9	78.0	66.7
Total Assets	262.2	245.0	135.7	125.0	114.7
Current Liabilities	35.0	43.8	33.2	37.5	35.3
7.5% senior secured notes	90.0				
Obligations to financial institutions and capital leases, less current maturities	12.3	82.5	100.2	85.0	61.0
Stockholder's Equity (Deficit)	102.3	97.4	(1.9)	(2.0)	11.5

*

The Company has restated its consolidated financial statements for the fiscal years 2002, 2001, 2000, 1999 and 1998. See Note 3 to the 2003 consolidated financial statements.

(1) Includes a pre-tax charge of \$2.3 million for costs associated with the repayment of certain debt.

(2) Includes a pre-tax gain on insurance proceeds of \$1.4 million, a pre-tax credit of \$0.3 million representing restaurant closing credit and a pre-tax charge of \$9.1 million for costs associated with strategic alternatives and proxy contest.

- (3) Includes pre-tax charge of \$1.6 million representing restaurant closing costs and pre-tax charge of \$0.7 million for costs associated with strategic alternatives and proxy contest.
- (4) Includes an income tax benefit of \$1.1 million.
- (5) Includes pre-tax litigation benefit of \$0.2 million.
- (6) Includes a \$2.3 million charge, net of income taxes, representing the cumulative effect of the requisite change in accounting for pre-opening costs.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our results of operations and financial condition should be read in conjunction with our financial statements and related notes included elsewhere in this Form 10-K. The following discussion includes forward-looking statements that involve certain risks and uncertainties. See "Forward-Looking Statements."

Restatement of Consolidated Financial Statements

We have restated our consolidated financial statements for fiscal 2002 (Successor Period and Predecessor Period), 2001, 2000, 1999 and 1998 as a result of having incorrectly provided estimates for expirations and non-redemption of gift certificates that we had sold. The effect of the restatement was to reduce revenues for the 2002 Successor Period and the 2002 Predecessor Period in the amounts of \$0.3 million and \$0.3 million, respectively, and to reduce revenues for fiscal 2001, fiscal 2000, fiscal 1999 and fiscal 1998 by \$0.9 million, \$0.9 million, \$0.4 million and \$0.4 million, respectively. We have recorded an adjustment to retained earnings of \$1.1 million at December 31, 2000 for the cumulative effect of these restatement adjustments in prior periods. The restatement had no effect on our net operating cash position. See Note 3 to our 2003 consolidated financial statements.

Company Background

With 64 Morton's steakhouses, we are the world's largest owner and operator of wholly-owned upscale steakhouse restaurants. This conclusion is based on the number of restaurants owned and operated by us as compared to our known competitors. We have 60 Morton's steakhouses located in the United States and four located internationally. We own all of our restaurants and we do not franchise. We also own and operate four Bertolini's restaurants, which are designed as white tablecloth, authentic Italian trattorias.

Our Morton's steakhouses offer premium quality steak, featuring USDA prime aged beef in the United States, fresh fish, lobster, veal and chicken, complemented by a fully stocked bar and an extensive premium wine list that offers approximately 200 selections in all restaurants and a broader list of up to 400 wines in selected restaurants. Due to restrictions imposed in December 2003 on the import of U.S. beef into non-U.S. markets, we use high quality non-U.S. aged beef in our non-U.S. restaurants. Our menu, and its tableside presentation by our servers, is designed to highlight our focus on quality while presenting sufficient choices to appeal to a wide range of taste preferences.

In 1978, we opened the original Morton's in downtown Chicago, and since then have expanded to 64 Morton's located in 61 cities in 28 states, with two in Canada, one in Hong Kong and one in Singapore. In July 2002, Castle Harlan Partners III, L.P. and affiliates (collectively "CHP III"), a \$630 million private equity fund, and certain other investors, acquired us in a going-private transaction, which included an initial equity investment by CHP III of approximately \$93.7 million.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses during the period. Significant accounting policies that we employ, including the use of estimates, are presented in the notes to our consolidated financial statements.

Critical accounting estimates involved in applying our accounting policies are those that require us to make assumptions about matters that are highly uncertain at the time the accounting estimate was made and those for which different estimates reasonably could have been used for the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, and would have a material impact on the presentation of our financial condition, changes in financial condition or results of operations. Our most critical accounting estimates, discussed below, pertain to accounting policies for goodwill and other intangible assets, property and equipment and income taxes.

Goodwill and Other Intangible Assets

We adopted SFAS No. 141, "Business Combinations," as of July 1, 2001, and SFAS No. 142, "Goodwill and Other Intangible Assets," as of December 31, 2001. Through December 31, 2001, goodwill resulting from business acquisitions was amortized over 40 years. The reassessment of the useful lives of intangible assets acquired on or before June 30, 2001 was completed during the first quarter of fiscal 2002. Amortization of goodwill resulting from previous business acquisitions of approximately \$16.0 million was discontinued as of December 31, 2001. In accordance with SFAS No. 141, goodwill as restated of approximately \$68.4 million and an intangible asset of \$92.0 million representing Morton's trade name, which has an indefinite useful life, recognized in connection with our acquisition that occurred on July 25, 2002, are not being amortized; however, both goodwill and the trade name intangible asset are subject to annual impairment testing in accordance with SFAS 142. Goodwill at the date of the acquisition includes an adjustment of \$1.3 million reflecting the cumulative effect of the restatements (see Note 3 to our 2003 consolidated financial statements). Other changes to the carrying amount of goodwill of \$6.8 million during fiscal 2003 consist of adjustments of \$4.1 million primarily consisting of the reversal of accrued lease exit costs in connection with the finalization of purchase accounting adjustments and tax benefits that have been recorded with regard to changes in estimates of income tax uncertainties of \$2.7 million.

The impairment evaluation for goodwill is conducted annually using a two-step process. In the first step, the fair value of each reporting unit is compared with the carrying amount of the reporting unit, including goodwill. We consider a reporting unit to be an individual restaurant. The estimated fair value of the reporting unit is generally determined on the basis of discounted future cash flows. If the estimated fair value of the reporting unit is less than the carrying amount of the reporting unit, then a second step must be completed in order to determine the amount of the goodwill impairment that should be recorded. In the second step, the implied fair value of the reporting unit's goodwill is determined by allocating the reporting unit's fair value to all of its assets and liabilities other than goodwill (including any unrecognized intangible assets) in a manner similar to a purchase price allocation. The resulting implied fair value of the goodwill that results from the application of this second step is then compared to the carrying amount of the goodwill and an impairment charge is recorded for the difference.

The evaluation of the carrying amount of other intangible assets with indefinite lives is made annually by comparing the carrying amount of these assets to their estimated fair value. The estimated fair value is generally determined on the basis of discounted future cash flows. If the estimated fair value is less than the carrying amount of the other intangible assets with indefinite lives, then an impairment charge is recorded to reduce the asset to its estimated fair value.

The assumptions used in the estimate of fair value are generally consistent with the past performance of each reporting unit and other intangible assets and are also consistent with the projections and assumptions that are used in current operating plans. These assumptions are subject to change as a result of changing economic and competitive conditions.

Goodwill was assigned to reporting units and transitional impairment tests were performed for goodwill and other intangible assets during the second quarter of fiscal 2002 and the annual impairment tests were performed in the fourth quarter of fiscal 2003. No impairment of assets was determined as a result of these tests.

Property and Equipment

We assess recoverability of property and equipment in accordance with SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets." Our assessment of recoverability of property and equipment is performed on a restaurant-by-restaurant basis. Certain events or changes in circumstances may indicate that the recoverability of the carrying amount of property and equipment should be assessed. Such events or changes may include a significant decrease in market value, a significant

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change in the business climate in a particular market, or a current-period operating or cash flow loss combined with historical losses or projected future losses. If an event occurs or changes in circumstances are present, we estimate the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount, we recognize an impairment loss. The impairment loss recognized is the amount by which the carrying amount exceeds the fair value.

Our assessments of cash flows represent our best estimate as of the time of the impairment review and are consistent with our internal planning. If different cash flows had been estimated in the current period, the property and equipment balances could have been materially impacted. Furthermore, our accounting estimates may change from period to period as conditions in the world change, and this could materially impact our results in future periods. Factors that we must estimate when performing impairment tests include, among other items, sales volume, prices, inflation, marketing spending, exchange rates and capital spending.

During each quarter in fiscal 2003, we considered and analyzed impairment indicators related to property and equipment. Based on our analysis, we concluded that no material items recorded in property and equipment required an impairment charge.

Income Taxes

We have accounted for, and currently account for, income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." This Statement establishes financial accounting and reporting standards for the effects of income taxes that result from an enterprise's activities during the current and preceding years. It requires an asset and liability approach for financial accounting and reporting of income taxes.

The realization of tax benefits of deductible temporary differences and operating loss or tax credit carryforwards will depend on whether we will have sufficient taxable income of an appropriate character within the carryback and carryforward period permitted by the tax law to allow for utilization of the deductible amounts and carryforwards. Without sufficient taxable income to offset the deductible amounts and carryforwards, the related tax benefits will expire unused. We have evaluated both positive and negative evidence in making a determination as to whether it is more likely than not that all or some portion of the deferred tax asset will not be realized. As a result of our acquisition, tax benefits that are recognized in future periods by the elimination of the valuation allowance at the acquisition date are to be applied, first to reduce to zero any goodwill related to the acquisition, and then to reduce to zero any noncurrent intangible assets related to the acquisition.

Our Going-Private Transaction

On July 25, 2002, CHP III and certain other investors acquired us in a going-private transaction. We accounted for our July 25, 2002 acquisition in accordance with SFAS No. 141, "Business Combinations." As a result of the acquisition, our capital structure and our basis of accounting under the "push down" method differ from those prior to the transaction. Our financial data in respect of all reporting periods subsequent to July 25, 2002 reflect the acquisition under the purchase method of accounting. Therefore, our financial data for the period before the acquisition (which we refer to as the Predecessor Period) generally will not be comparable to our financial data for the period after the acquisition (which we refer to as the Successor Period). As a result of the acquisition, our consolidated statement of operations for the Successor Period includes amortization expense relating to debt issuance costs and management fees that did not exist prior to the acquisition. Further, as a result of purchase accounting, the fair values of our fixed assets on the date of acquisition became their new "cost" basis. Accordingly, the depreciation of these assets for the Successor Period is based upon their newly established cost basis. Other effects of purchase accounting in the Successor Period are not considered significant.

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Results of Operations

As discussed above in "Our Going Private Transaction," our financial data in respect of all reporting periods subsequent to our July 25, 2002 acquisition by CHP III and certain other investors reflect the acquisition under the purchase method of accounting. Our financial data for the Predecessor Period generally will not be comparable to our financial data for the Successor Period. The following table sets forth our fiscal 2002 results of operations for the Successor Period, Predecessor Period and combined Successor Period and Predecessor Period. The combined results, which generally will not be comparable to our financial data for fiscal years before the acquisition, are used solely in the discussion of our revenues and direct costs of operations that follows.

Successor Period	Predecessor Period	Combined
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	Successor Period	Predecessor Period	
	July 25, 2002 to Dec. 29, 2002	Dec. 31, 2001 to July 24, 2002	Restated
	Restated	Restated	Restated
Revenues	\$ 105,704	\$ 132,433	\$ 238,137
Food and beverage costs	35,797	45,566	81,363
Restaurant operating expenses	50,352	61,474	111,826
Pre-opening costs, depreciation, amortization and non-cash charges	3,949	5,933	
General and administrative expenses	6,369	8,483	
Marketing and promotional expenses	3,597	3,005	
Gain on insurance proceeds		1,443	
Costs associated with strategic alternatives and proxy contest		9,078	
Restaurant closing costs (credit)		(300)	
Interest expense, net	2,876	4,647	
Management fee paid to related party	1,243		
Income (loss) before income taxes	1,521	(4,010)	
Income tax expense	642	818	
Net income (loss)	\$ 879	\$ (4,828)	

Fiscal Year Ended January 4, 2004 (53 weeks) Compared to Fiscal Year Ended December 29, 2002 (52 weeks)

Revenues increased \$20.5 million, or 8.6%, to \$258.7 million for fiscal 2003 from \$238.1 million for fiscal 2002. Revenues increased \$13.3 million due to the opening of five new restaurants (one in fiscal 2003 and four in fiscal 2002). Revenues increased \$10.5 million due to an increase in comparable revenues from restaurants open all of both fiscal years. Revenues declined \$3.3 million due to the closing of the Morton's steakhouse formerly located in Hong Kong Central (closed since January 2003) and Addison, Texas (closed since August 2003). These steakhouses were closed due to their comparatively low revenues and negative cash flows. Average revenue per restaurant open all of either period increased 6.0%. Revenues for fiscal 2003 also reflect the impact of aggregate menu price increases of approximately 2% in January 2003 and 3% in November 2003.

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Percentage changes in comparable restaurant revenues for fiscal 2003 (53 weeks) versus fiscal 2002 (52 weeks) for restaurants open all of both periods are as follows:

	Percentage Change
Morton's	4.3%
Bertolini's	8.1%
Total	4.6%

We believe that the 2003 war in Iraq adversely affected the economy in the markets in which we operate which, in turn, contributed to weak revenue trends and negative comparable restaurant revenues during the first and second quarters of fiscal 2003. Additionally, the 2003 outbreak of "severe acute respiratory syndrome" materially affected the results of our three restaurants located in Hong Kong, Singapore and Toronto during the first and second quarters of fiscal 2003.

Food and beverage costs increased \$4.9 million, or 6.0%, to \$86.3 million for fiscal 2003 from \$81.4 million for fiscal 2002. These costs as a percentage of revenues decreased by 0.9% to 33.3% for fiscal 2003 from 34.2% for fiscal 2002. This percentage decrease was primarily due to the benefit of menu price increases.

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Restaurant operating expenses, which include labor, occupancy and other operating expenses, increased \$10.9 million, or 9.7%, to \$122.7 million for fiscal 2003 from \$111.8 million for fiscal 2002. This increase was primarily due to the opening of additional restaurants and increases in labor and benefit costs. Restaurant operating expenses as a percentage of revenues increased 0.4% to 47.4% for fiscal 2003 from 47.0% for fiscal 2002. Included in both fiscal 2003 and fiscal 2002 are recoveries of approximately \$0.9 million and \$1.9 million, respectively from business interruption insurance benefits related to the closing of the Morton's steakhouse formerly located at 90 West Street, New York, New York, two blocks from the World Trade Center, which was closed permanently due to structural damages. As of January 4, 2004, cumulative benefits recorded were \$3.6 million and cumulative amounts received were \$2.6 million for this insurance. Based on our insurance policy coverage, we believe that additional benefits will be recorded in fiscal 2004 relating to future insurance recoveries, although we cannot assure you that we will receive any future recoveries. Additionally, at this time, the total amount of any future recoveries is unknown.

Pre-opening costs, depreciation, amortization and non-cash charges were \$7.6 million, or 2.9% as a percentage of revenues, for fiscal 2003. Pre-opening costs, depreciation, amortization and non-cash charges were \$3.9 million, or 3.7% as a percentage of revenues, for the Successor Period from July 25, 2002 to December 29, 2002. Pre-opening costs, depreciation, amortization and non-cash charges were \$5.9 million, or 4.5% as a percentage of revenues, for the Predecessor Period from December 31, 2001 to July 24, 2002. We expense all costs incurred during start-up activities, including pre-opening costs, as incurred. Pre-opening costs incurred and recorded as an expense were \$0.9 million for fiscal 2003. Pre-opening costs incurred and recorded as an expense were \$1.3 million for the Successor Period from July 25, 2002 to December 29, 2002. Pre-opening costs incurred and recorded as an expense were \$0.7 million for the Predecessor Period from December 31, 2001 to July 24, 2002. The number of restaurants opened, the timing of restaurant openings and the costs per restaurant opened affected the amount of these costs.

General and administrative expenses were \$16.7 million, or 6.4% as a percentage of revenues, for fiscal 2003. General and administrative expenses were \$6.4 million, or 6.0% as a percentage of revenues, for the Successor Period from July 25, 2002 to December 29, 2002. General and administrative expenses were \$8.5 million, or 6.4% as a percentage of revenues, for the Predecessor Period from December 31, 2001 to July 24, 2002. This increase was primarily due to compensation related costs including increases in salaries, benefits and bonuses.

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Marketing and promotional expenses were \$5.9 million, or 2.3% as a percentage of revenues, for fiscal 2003. Marketing and promotional expenses were \$3.6 million, or 3.4% as a percentage of revenues, for the Successor Period from July 25, 2002 to December 29, 2002. Marketing and promotional expenses were \$3.0 million, or 2.3% as a percentage of revenues, for the Predecessor Period from December 31, 2001 to July 24, 2002. This decrease was primarily due to fewer direct mail promotions.

Gain on insurance proceeds of \$1.4 million for the Predecessor Period from December 31, 2001 to July 24, 2002 represents the amount of insurance proceeds received in excess of the insurance receivable of approximately \$1.7 million which was recorded as of December 30, 2001. The insurance receivable was recorded to write off the net book value of the assets of the Morton's steakhouse formerly located at 90 West Street, New York, New York. During the Predecessor Period from December 31, 2001 to July 24, 2002, we received \$3.1 million relating to this insurance and therefore recorded a gain of approximately \$1.4 million in the accompanying consolidated statements of operations. There was no comparable gain on insurance proceeds in fiscal 2003.

Costs associated with the repayment of certain debt of \$2.3 million for fiscal 2003 represent: (1) the write-off of deferred financing costs of \$0.7 million relating to our previously existing credit facility; (2) prepayment penalties of \$0.5 million that we incurred with the repayment of our capital leases and one mortgage; and (3) the write-off of the accumulated other comprehensive loss of \$0.7 million and deferred tax assets of \$0.4 million previously recognized in connection with two interest rate swap agreements that are due to expire on October 24, 2004 and October 24, 2005, which due to the repayment of our previously existing credit facility are now accounted for as speculative instruments. Changes in their fair market value are charged or credited to interest expense in the consolidated statements of operations. There were no comparable costs associated with the repayment of certain debt in the fiscal 2002 Predecessor Period or Successor Period.

Costs associated with strategic alternatives and proxy contest were \$9.1 million for the Predecessor Period from December 31, 2001 to July 24, 2002. Costs associated with strategic alternatives and proxy contest of \$9.1 million represent \$4.2 million in legal costs, \$3.1 million in investment banking costs, \$0.9 million in bank costs, \$0.6 million in printing, investor relations and proxy solicitation costs and \$0.3 million in other costs. There were no comparable costs associated with strategic alternatives and proxy contest in the 2002 Successor Period or in fiscal 2003.

Restaurant closing costs (credit) recorded during the Predecessor Period from December 31, 2001 to July 24, 2002 represents a pre-tax credit of \$0.3 million recorded in conjunction with a mutual release with the lessor, representing the recovery of assets previously written-down, which included inventory that was utilized in another Morton's steakhouse and the recovery of a security deposit that had not been anticipated, and exit costs, such as legal costs, which were less than initially accrued for closing the Morton's steakhouse formerly located in Sydney, Australia. In addition, we reversed an accrual for a construction invoice of \$0.1 million, which we determined was no longer required. There were no comparable restaurant closing costs (credit) in the 2002 Successor Period or in fiscal 2003.

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Interest expense, net, was \$8.9 million for fiscal 2003, \$2.9 million for the Successor Period from July 25, 2002 to December 29, 2002 and \$4.6 million for the Predecessor Period from December 31, 2001 to July 24, 2002. This increase was primarily due to the issuance of the 7.5% senior secured notes in fiscal 2003. Interest income was not significant in any of these periods.

Management fee paid to related party was \$2.8 million for fiscal 2003. Management fee paid to related party was \$1.2 million for the Successor Period from July 25, 2002 to December 29, 2002. We paid this fee pursuant to our parent's management agreement with Castle Harlan, Inc.

Provision for income taxes consisted of income tax expense of \$1.2 million for fiscal 2003. Our provision for income taxes consisted of an income tax expense of \$0.6 million for the Successor Period from July 25, 2002 to December 29, 2002. Our provision for income taxes consisted of income tax

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expense of \$0.8 million for the Predecessor Period from December 31, 2001 to July 24, 2002. Our effective tax rate differs from the statutory rate due to the establishment of additional deferred tax assets relating to FICA and other tax credits. See Note 9 to our 2003 consolidated financial statements.

Fiscal Year Ended December 29, 2002 (52 weeks) Compared to Fiscal Year Ended December 30, 2001 (52 weeks)

Revenues increased \$2.0 million, or 0.8%, to \$238.1 million for fiscal 2002 from \$236.2 million for fiscal 2001. Revenues increased \$14.4 million due to the opening of nine new Morton's steakhouses (four in fiscal 2002 and five in fiscal 2001), offset by \$6.7 million due to a reduction in comparable revenues from restaurants open all of both fiscal years. Revenues declined \$4.4 million due to the closing of the Morton's steakhouse formerly located at 90 West Street, New York, New York, \$0.5 million due to the closing in January 2002 of the Morton's steakhouse formerly located in Sydney, Australia and \$0.8 million due to the closing of one Bertolini's restaurant during fiscal 2001. Average revenue per restaurant open for all of either period decreased 3.7%. Revenues for fiscal 2002 reflect the impact of an aggregate menu price increase of approximately 1% in January 2002. As of December 29, 2002, we owned and operated 69 restaurants (65 Morton's and four Bertolini's) and as of December 30, 2001, 66 restaurants (62 Morton's and four Bertolini's).

Percentage changes in comparable restaurant revenues for fiscal 2002 versus fiscal 2001 for restaurants open all of both periods are as follows:

	Percentage Change
Morton's	-2.9%
Bertolini's	-4.0%
Total	-3.0%

Food and beverage costs decreased \$0.8 million, or 1.0%, to \$81.4 million for fiscal 2002 from \$82.2 million for fiscal 2001. This decrease primarily was due to slightly lower purchase costs on certain items during fiscal 2002 as compared to fiscal 2001. These costs as a percentage of revenues decreased 0.6% to 34.2% for fiscal 2002 from 34.8% for fiscal 2001.

Restaurant operating expenses increased \$3.9 million, or 3.6%, to \$111.8 million for fiscal 2002 from \$107.9 million for fiscal 2001. Those costs as a percentage of revenues increased 1.3% to 47.0% for fiscal 2002 from 45.7% for fiscal 2001. Included in fiscal 2002 and fiscal 2001 are recoveries of approximately \$1.9 million and \$0.9 million, respectively, for business interruption insurance recovery related to costs incurred from the closing of the Morton's steakhouse formerly located at 90 West Street, New York, New York. During 2002, we received \$3.1 million related to property insurance and recorded a gain of approximately \$1.4 million in the accompanying consolidated statements of operations.

Pre-opening costs, depreciation, amortization and non-cash charges were \$3.9 million, or 3.7% as a percentage of revenues, for the Successor Period from July 25, 2002 to December 29, 2002. Pre-opening costs, depreciation, amortization and non-cash charges were \$5.9 million, or 4.5% as a percentage of revenues, for the Predecessor Period from December 31, 2001 to July 24, 2002. Pre-opening costs, depreciation, amortization and non-cash charges were \$12.7 million, or 5.4% as a percentage of revenues, for fiscal 2001. We expense all costs incurred during start-up activities, including pre-opening costs, as incurred. Pre-opening costs incurred and recorded as an expense were \$1.3 million for the Successor Period from July 25, 2002 to December 29, 2002. Pre-opening costs incurred and recorded as an expense were \$0.7 million for the Predecessor Period from December 31, 2001 to July 24, 2002. Pre-opening costs incurred and recorded as an expense were \$3.7 million for fiscal 2001. The timing of restaurant openings, as well as costs per restaurant, affected the amount of these costs.

General and administrative expenses were \$6.4 million, or 6.0% as a percentage of revenues, for the Successor Period from July 25, 2002 to December 29, 2002. General and administrative expenses were \$8.5 million, or 6.4% as a percentage of revenues, for the Predecessor Period from December 31, 2001 to July 24, 2002. General and administrative expenses were \$17.2 million, or 7.3% as a percentage of revenues, for fiscal 2001.

Marketing and promotional expenses were \$3.6 million, or 3.4% as a percentage of revenues, for the Successor Period from July 25, 2002 to December 29, 2002. Marketing and promotional expenses were \$3.0 million, or 2.3% as a percentage of revenues, for the Predecessor Period from December 31, 2001 to July 24, 2002. Marketing and promotional expenses were \$6.9 million, or 2.9% as a percentage of revenues, for fiscal 2001.

Gain on insurance proceeds of \$1.4 million for the Predecessor Period from December 31, 2001 to July 24, 2002 represents the amount of insurance proceeds received in excess of the insurance receivable of approximately \$1.7 million which was recorded as of December 30, 2001. The insurance receivable was recorded to write off the net book value of the assets of the Morton's steakhouse formerly located at 90 West Street, New York, New York. During the Predecessor Period from December 31, 2001 to July 24, 2002, we received \$3.1 million relating to this insurance and therefore recorded a gain of approximately \$1.4 million in the accompanying consolidated statements of operations.

Costs associated with strategic alternatives and proxy contest were \$9.1 million for the Predecessor Period from December 31, 2001 to July 24, 2002. Costs associated with strategic alternatives and proxy contest of \$9.1 million represent \$4.2 million in legal costs, \$3.1 million in investment banking costs, \$0.9 million in bank costs, \$0.6 million in printing, investor relations and proxy solicitation costs and \$0.3 million in other costs. Costs associated with strategic alternatives and proxy contest were \$0.7 million for fiscal 2001. We did not begin to incur substantial costs in this regard until late in fiscal 2001.

Restaurant closing costs (credit) recorded during the Predecessor Period from December 31, 2001 to July 24, 2002 represents a pre-tax credit of \$0.3 million recorded in conjunction with a mutual release with the lessor, representing the recovery of assets previously written-down, which included inventory that was utilized in another Morton's steakhouse and the recovery of a security deposit that had not been anticipated, and exit costs, such as legal costs, which were less than initially accrued for closing the Morton's steakhouse formerly located in Sydney, Australia. In addition, we reversed an accrual for a construction invoice of \$0.1 million, which we determined was no longer required. Restaurant closing costs recorded during fiscal 2001 represent a pre-tax charge of \$1.6 million for the write-down of the net book value of the restaurant, consisting of property and equipment of approximately \$1.3 million (which included an unpaid invoice of \$0.1 million related to the construction of the restaurant), inventory and smallwares of approximately \$0.1 million, security deposits of approximately \$45,000, accrued legal fees of approximately \$0.1 million and certain exit costs of approximately \$0.1 million, associated with the closing in January 2002 of the Morton's steakhouse formerly located in Sydney, Australia.

Interest expense, net, was \$2.9 million for the Successor Period from July 25, 2002 to December 29, 2002. Interest expense, net, was \$4.6 million for the Predecessor Period from December 31, 2001 to July 24, 2002. Interest expense, net, was \$7.6 million for fiscal 2001. Interest income was not significant in any of these periods.

Management fee paid to related party was \$1.2 million for the Successor Period from July 25, 2002 to December 29, 2002. We paid this fee pursuant to our parent's management agreement with Castle Harlan, Inc.

Our provision for income taxes consisted of income tax expense of \$0.6 million for the Successor Period from July 25, 2002 to December 29, 2002. Our provision for income taxes consisted of income

tax expense of \$0.8 million for the Predecessor Period from December 31, 2001 to July 24, 2002. Provision for income taxes consisted of income tax benefit of \$1.1 million for fiscal 2001. Our effective tax rate differs from the statutory rate due to the establishment of additional deferred tax assets relating to FICA and other tax credits. See Note 7 to our 2002 consolidated financial statements.

Liquidity and Capital Resources

Our principal liquidity requirements are to service our debt and meet our working capital and capital expenditure needs. Subject to our performance, which, if adversely affected, could adversely affect the availability of funds, we expect to be able to meet our liquidity

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requirements for the foreseeable future through cash provided by operations and through borrowings available under our working capital facility. We cannot assure you, however, that this will be the case.

Working Capital and Cash Flows

In the past we have had, and in the future we may have, negative working capital balances. We do not have significant receivables and we receive trade credit based upon negotiated terms in purchasing food and supplies. Funds available from cash sales not needed immediately to pay for food and supplies or to finance receivables or inventories historically have typically been used for noncurrent capital expenditures and/or payments of long-term debt balances under our prior revolving credit agreement.

Operating Activities. Cash flows provided by operating activities for fiscal 2003 were \$11.4 million, consisting primarily of a net increase in cash of \$12.2 million resulting from net income before depreciation, amortization and other non-cash charges and a net increase in cash of \$1.7 million resulting from a decrease in prepaid expenses and other assets, partially offset by a net decrease in cash of \$3.8 million resulting from a decrease in accounts payable, accrued expenses and other liabilities. The decrease in accounts payable, accrued expenses and other liabilities primarily relates to payment of construction costs and merger and legal costs, as well as a series of monthly settlement payments relating to a Bertolini's restaurant that was closed in fiscal 1999. See Note 4(c) to our 2003 consolidated financial statements. Cash flows provided by operating activities for the Successor Period from July 25, 2002 to December 29, 2002 were \$7.0 million, primarily attributable to an increase in accounts payable, accrued expenses and other liabilities of \$6.7 million that primarily related to an increase in accrued construction costs, accrued restaurant operating expenses, accrued merger and legal costs and accrued gift certificates. Cash flows provided by operating activities for the Predecessor Period from December 31, 2001 to July 24, 2002 were \$6.8 million, consisting primarily of insurance proceeds of approximately \$3.1 million received from the recovery related to costs incurred from the Morton's steakhouse formerly located at 90 West Street, New York, New York, a net increase in cash of \$1.3 million attributable to an increase in accounts payable, accrued expenses and other liabilities and a net increase in cash of \$1.3 million resulting from a decrease in accounts receivable. Cash flows provided by operating activities for fiscal 2001 were \$4.2 million, primarily attributable to a net increase in cash of \$9.4 million resulting from net income before depreciation, amortization and other non-cash charges, partially offset by a net decrease in cash of \$3.6 million resulting from a decrease in accounts payable, accrued expenses and other liabilities and a net decrease in cash of \$1.0 million resulting from a decrease in accrued income taxes.

Investing Activities. Cash flows used in investing activities for fiscal 2003 were \$4.5 million, attributable to purchases of property and equipment primarily related to the opening of one Morton's steakhouse in February 2003. Cash flows used in investing activities for the Successor Period from July 25, 2002 to December 29, 2002 were \$4.8 million, attributable to purchases of property and equipment primarily related to the opening of one Morton's steakhouse in each of September, October and November of 2002. Cash flows used in investing activities for the Predecessor Period from December 31, 2001 to July 24, 2002 were \$3.4 million, attributable to purchases of property and

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equipment primarily related to the opening of one Morton's steakhouse in each of April and September of 2002. Cash flows used in investing activities for fiscal 2001 were \$14.9 million, attributable to purchases of property and equipment primarily related to the opening of seven Morton's steakhouses in fiscal 2001.

Financing Activities. Cash flows provided by financing activities for fiscal 2003 were \$9.3 million, consisting of net proceeds from the 7.5% senior secured notes offering of \$89.3 million, partially offset by net principal reductions on obligations to financial institutions and capital leases of \$72.4 million, the payment of deferred financing costs relating to our 7.5% senior secured notes offering and our working capital facility of \$6.3 million and \$1.1 million of cash restricted as collateral for our two interest rate swap agreements with Fleet National Bank ("Fleet"). Cash flows used by financing activities for the Successor Period from July 25, 2002 to December 29, 2002 were \$3.6 million, attributable to the net principal reduction on obligations to financial institutions and capital leases. Cash flows used by financing activities for the Predecessor Period from December 31, 2001 to July 24, 2002 were \$5.2 million, consisting primarily of net principal reduction on obligations to financial institutions and capital leases of \$5.7 million, partially offset by proceeds from the issuance of stock of \$0.5 million. Cash flows provided by financing activities for fiscal 2001 were \$13.3 million, primarily attributable to the net proceeds from obligations to financial institutions of \$12.9 million.

Debt and Other Obligations

7.5% Senior Secured Notes. On July 7, 2003, we completed a private offering of \$105.0 million in aggregate principal amount at maturity of 7.5% senior secured notes due July 1, 2010. The notes were issued at a discount of 15% and have a yield to maturity of 12.005% including the accretion of the discount and the amortization of the related deferred financing costs. The notes are fully and unconditionally guaranteed on a senior secured basis by all of our present and future domestic restricted subsidiaries (defined below). On December 22, 2003, we filed a

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registration statement with respect to notes having substantially identical terms as the original notes, as part of an offer to exchange registered notes for the privately-issued original notes. The new notes evidence the same debt as the original notes, are entitled to the benefits of the indenture governing the original notes and are treated under the indenture as a single class with the original notes. The exchange offer was completed on January 26, 2004. We refer to these notes as our 7.5% senior secured notes.

Our domestic restricted subsidiaries presently consist of all of our domestic subsidiaries that either own restaurants or own subsidiaries that own restaurants. As restricted subsidiaries, each of these guarantors of the 7.5% senior secured notes is subject to all of the terms, conditions and covenants contained in the indenture governing the 7.5% senior secured notes that apply to restricted subsidiaries. The 7.5% senior secured notes are not guaranteed by our foreign subsidiaries due to the tax implications of providing such guarantees, or by our unrestricted subsidiaries, which presently consist of subsidiaries that have no material assets. Our unrestricted subsidiaries are not subject to the terms, conditions or covenants contained in the indenture, and must interact with MRG and our restricted subsidiaries on the same basis as unrelated third parties. From time to time, we may designate other subsidiaries as unrestricted subsidiaries subject to the terms and conditions set forth in the indenture.

The 7.5% senior secured notes and the guarantees are secured by substantially all of our and our domestic restricted subsidiaries' tangible and intangible assets, as well as by a pledge of a portion of the stock of the subsidiaries owned by us and by our domestic restricted subsidiaries, in each case subject to the prior ranking claims on such assets by the lender under our working capital facility and holders of any capital lease obligations and certain other secured indebtedness. The indenture governing the 7.5% senior secured notes permits us to incur other senior secured indebtedness and to grant liens on our assets under certain circumstances.

We pay interest on the 7.5% senior secured notes semi-annually in cash, in arrears, on January 1 and July 1 at an annual rate of 7.5%. We paid the first interest payment under the 7.5% senior secured

notes on January 1, 2004. The indenture governing the 7.5% senior secured notes contains various affirmative and negative covenants, subject to a number of important limitations and exceptions, including but not limited to those limiting our ability to incur additional indebtedness or enter into sale and leaseback transactions; pay dividends, redeem stock or make other distributions; issue stock of our subsidiaries; make certain investments or acquisitions; grant liens on assets; enter into transactions with affiliates; merge, consolidate or transfer substantially all of our assets; and transfer and sell assets. Our indenture has a covenant that limits our incurrence of additional indebtedness unless on the date of the incurrence of additional indebtedness our Consolidated Fixed Charge Coverage Ratio (defined therein) will be, after giving effect to the incurrence thereof and the application of the proceeds thereof, greater than 2.25 to 1.0. The indenture defines Consolidated Fixed Charge Coverage Ratio as the ratio of Consolidated EBITDA to Consolidated Fixed Charges (defined therein).

The indenture governing the 7.5% senior secured notes contains various events of default, including but not limited to those related to non-payment of principal, interest or fees; violations of certain covenants; certain bankruptcy-related events; invalidity of liens; non-payment of certain legal judgments; and cross defaults with certain other indebtedness.

We can redeem the 7.5% senior secured notes on or after July 1, 2007, except we may redeem up to 35% of the 7.5% senior secured notes prior to July 1, 2006 with the proceeds of one or more public equity offerings. We are required to redeem the 7.5% senior secured notes under certain circumstances involving changes of control. Additionally, if we or any of our domestic restricted subsidiaries engage in asset sales, we generally must either invest the net cash proceeds from such sales in our business within 360 days, prepay the debt under our working capital facility or certain other secured debt or make an offer to purchase a portion of the 7.5% senior secured notes having an accreted value equal to the excess net cash proceeds.

Working Capital Facility. On July 7, 2003, we entered into a \$15.0 million senior secured working capital facility with Wells Fargo Foothill, Inc. Our working capital facility matures on July 7, 2007. Availability under our working capital facility is limited to the lesser of (i) \$15.0 million and (ii) the borrowing base amount, in each case, less the sum of (a) the revolving loans then outstanding (including letters of credit) and (b) reserves required by the lender. The borrowing base amount is defined as the lesser of (A) 80% of our twelve-month trailing EBITDA, as determined in accordance with the most recently delivered financial statements, or (B) 25% of our "enterprise value," determined to be \$168.0 million as of July 7, 2003, and thereafter to be the amount determined by a third party appraiser. We are permitted to repay and reborrow such advances until the maturity date. As of January 4, 2004, we had no borrowings outstanding under our working capital facility. At our option, up to \$7.5 million of the facility can consist of one or more letters of credit issued by the lender. As of January 4, 2004, \$1.0 million was restricted for letters of credit under our working capital facility. Our working capital facility is guaranteed by all of our domestic restricted subsidiaries and secured by a first priority perfected security interest in all of the collateral securing the 7.5% senior secured notes. Interest will accrue on borrowings under our working capital facility at a floating rate of interest per annum equal to the rate of interest announced from time to time within the lender's principal office in San Francisco as its "prime rate" plus 1.75%, or a LIBOR-based equivalent thereof. Interest is calculated on the basis of a 360-day year and will be payable monthly for base rate loans and at the end of each interest period for LIBOR loans (but not less frequently than quarterly). Our working capital facility contains certain customary fees, including a closing fee, anniversary fees,

servicing fees and pre-payment fees.

Our working capital facility contains various affirmative and negative covenants customary for similar working capital facilities, including but not limited to covenants pertaining to mergers and sales of assets outside the ordinary course of business; use of proceeds; granting of liens; incurrence of indebtedness; restricted payments; voluntary prepayment of indebtedness, including the 7.5% senior secured notes; payment of dividends; business activities; investments and acquisitions; transactions with

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affiliates; certain restrictions affecting subsidiaries; fundamental changes; and amendments or modifications to instruments governing certain indebtedness. Our working capital facility also requires us to achieve and maintain a twelve-month trailing EBITDA (as defined therein) of not less than \$16.0 million. As of January 4, 2004, we were in compliance with all of our financial covenants.

Our working capital facility contains customary events of default, including but not limited to those related to non-payment of principal, interest or fees; violations of certain covenants; change of control; certain bankruptcy-related events; inaccuracy of representations and warranties in any material respect; and cross defaults with certain other indebtedness and agreements, including without limitation the indenture governing the 7.5% senior secured notes.

Prior Credit Facility. Our prior credit facility was pursuant to the Second Amended and Restated Revolving Credit and Term Loan Agreement, dated June 19, 1995, between us and Fleet, as amended from time to time, a portion of which had been syndicated to other lenders. On July 7, 2003, we used a portion of the proceeds from the 7.5% senior secured notes offering to repay our prior credit facility in full. Following repayment, the credit facility was terminated. On April 7, 1998 and May 29, 1998, we entered into interest rate swap agreements with Fleet on notional amounts of \$10.0 million each. These agreements terminated on April 7, 2003 and May 29, 2003, respectively. Additionally, on October 24, 2002, we entered into two interest rate swap agreements with Fleet on notional amounts of \$20.0 million each. These agreements terminate on October 24, 2004 and October 24, 2005, respectively. These agreements were used to reduce the potential impact of interest rate fluctuations relating to \$40.0 million of variable rate debt under our prior credit facility. As a result of the July 7, 2003 repayment of our prior credit facility with a portion of the proceeds from the 7.5% senior secured notes offering, these interest rate swap agreements are now accounted for as speculative instruments and resulting changes in their fair market value are charged or credited to the statement of operations. As of January 4, 2004, in accordance with SFAS No. 133, liabilities were approximately \$0.7 million in the accompanying consolidated balance sheet and the change in the fair market value has been recognized in interest expense, net in the consolidated statement of operations for fiscal 2003.

CNL Loan. In March 1997, one of our subsidiaries entered into a \$2.5 million loan agreement with CNL Financial I, Inc. ("CNL"). This loan is scheduled to mature on April 1, 2007 and bears interest at 10.002% per annum. This loan is secured by a security interest in the assets of the Morton's steakhouses located in Chicago and Denver (downtown). Principal and interest payments are due monthly over the term of the loan. On January 4, 2004 and December 29, 2002 the outstanding principal balance of the CNL loan was approximately \$1.1 million and \$1.4 million, respectively, of which approximately \$0.3 million for each period has been included in "Current portion of obligations to financial institutions and capital leases" in the accompanying consolidated balance sheets.

Mortgages. During 1998 and 1999, certain of our subsidiaries entered into a total of six mortgage loans aggregating \$18.9 million with GE Capital Franchise Finance, the proceeds of which were used to fund the purchases of land and construction of restaurants. The loans generally require monthly payments of principal and interest, and are scheduled to mature over the period from September 2018 to March 2021. The interest rates range from 7.68% to 9.26% per annum. On January 4, 2004 and December 29, 2002 the aggregate outstanding principal balance due on these loans was approximately \$11.8 million and \$17.6 million, respectively, of which approximately \$0.4 million and \$0.5 million, respectively, of principal is included in "Current portion of obligations to financial institutions and capital leases" in the accompanying consolidated balance sheets. We repaid one mortgage in May 2003 and one in September 2003. We plan to repay two mortgages in April 2004 using approximately \$5.3 million of the proceeds from the 7.5% senior secured notes offering.

Capital Leases. We had financed the purchase of certain restaurant equipment through capital lease finance agreements. These leases generally required monthly payments of principal and interest, and were scheduled to mature over the period from August 2003 to October 2006. During fiscal 2003,

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we used \$4.2 million of the proceeds from the 7.5% senior secured notes offering to repay our capital lease obligations in full, including prepayment fees and expenses.

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Restaurant Operating Leases. Our obligations for restaurant operating leases include certain restaurant operating leases for which we or one of our subsidiaries guarantees, for a portion of the lease term, the performance of the lease by the operating company that is a party thereto. See Note 11 to our 2003 consolidated financial statements.

Contractual Commitments. The following table represents our contractual commitments associated with our debt and other obligations disclosed above as of January 4, 2004:

	2004	2005	2006	2007	2008	Thereafter	Total
(amounts in thousands)							
7.5% senior secured notes	\$	\$	\$	\$	\$	\$ 105,000	\$ 105,000
Working capital facility							
Loan agreement with CNL	300	329	364	104			1,097
Mortgage loans with GE Capital							
Franchise Finance	358	387	422	460	501	9,707	11,835
Subtotal	658	716	786	564	501	114,707	117,932
Restaurant operating leases	16,170	16,768	16,147	15,054	14,318	94,029	172,486
Letters of credit	1,000						1,000
Total	\$ 17,828	\$ 17,484	\$ 16,933	\$ 15,618	\$ 14,819	\$ 208,736	\$ 291,418

Capital Expenditures. During fiscal 2003, our net investment in fixed assets and related investment costs, including expensed pre-opening costs, approximated \$5.4 million. We estimate that we will expend up to an aggregate of \$11.0 million in fiscal 2004 to finance ordinary refurbishment of existing restaurants and capital expenditures, net of landlord development and or rent allowances and net of equipment lease financing, for new restaurants. We anticipate that funds generated through operations and through borrowings under our new working capital facility will be sufficient to fund planned expansion. We cannot assure you, however, that this will be the case.

Net Operating Loss Carryforwards

At January 4, 2004, we had federal and state income tax net operating loss carryforwards which expire in various periods through 2021. As of January 4, 2004, we had approximately \$12.0 million in FICA and other tax credits expiring in various periods through 2023 available to reduce income taxes payable in future years. Approximately \$2.7 million of our deferred tax assets represents capital loss carryforwards. In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon generating future taxable income during the periods in which temporary differences become deductible and net operating losses can be carried forward. We consider the scheduled reversal of deferred tax assets, projected future taxable income and tax planning strategies in making this assessment. Tax benefits that are recognized in future periods by the elimination of the valuation allowance at the date of our acquisition by CHP III (\$6.9 million) are to be applied, first to reduce to zero any goodwill related to the acquisition, and then to reduce to zero any noncurrent intangible assets related to the acquisition. See Note 9 to our 2003 consolidated financial statements.

Inflation

Over the past five years, inflation has not significantly affected our operations. However, the impact of inflation on labor, food and occupancy costs could, in the future, significantly affect our operations. We pay many of our employees hourly rates related to the applicable federal or state

minimum wage. Food costs as a percentage of net sales have been somewhat stable due to procurement efficiencies and menu price adjustments. Costs for construction, taxes, repairs, maintenance and insurance all impact our occupancy costs. We believe that our current practice of maintaining operating margins through a combination of menu price increases, cost controls, careful evaluation of property and equipment needs, and efficient purchasing practices is its most effective tool for dealing with inflation.

Seasonality

Our business is somewhat seasonal in nature, with revenues generally being less in the third quarter primarily due to our reduced summer volume. The following table sets forth historical, unaudited quarterly revenues for our Morton's and Bertolini's restaurants that were open for the entire period from December 30, 2002 to January 4, 2004 (63 restaurants) and for the entire period from December 31, 2001 to December 29, 2002 (60 restaurants). The fourth quarter of fiscal 2003 includes one extra week as fiscal 2003 includes a 53rd week. The 2001 third quarter includes the impact of the September 11, 2001 World Trade Center terrorist attacks.

	Comparable Restaurant Revenues							
	2003		2002		2002		2001	
	63 restaurants				60 restaurants			
	\$	%	\$	%	\$	%	\$	%
	(dollars in thousands)							
First Quarter	60,153	25.2	59,650	26.2	56,436	26.2	63,260	28.4
Second Quarter	54,583	22.9	55,813	24.5	52,802	24.5	54,340	24.4
Third Quarter	53,894	22.6	51,522	22.6	48,755	22.6	47,910	21.6
Fourth Quarter	69,857	29.3	60,921	26.7	57,760	26.7	56,904	25.6
	238,487	100.0	227,906	100.0	215,753	100.0	222,414	100.0

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The inherent risk in market risk sensitive instruments and positions primarily relates to potential losses arising from adverse changes in foreign currency exchange rates and interest rates.

As of January 4, 2004, we owned and operated four international restaurants, one in Hong Kong, one in Singapore, one in Toronto, Canada and one in Vancouver, Canada. As a result, we are subject to risk from changes in foreign exchange rates. These changes result in cumulative translation adjustments, which are included in accumulated other comprehensive income (loss). We do not consider the potential loss resulting from a hypothetical 10% adverse change in quoted foreign currency exchange rates, as of January 4, 2004, to be material.

We also are subject to market risk from exposure to changes in interest rates based on our financing activities. This exposure relates to borrowings under our working capital facility that will be payable at floating rates of interest and the 7.5% senior secured notes that are payable at a fixed rate of interest of 7.5%. As of January 4, 2004, there were no borrowings outstanding under our floating rate working capital facility. A hypothetical 10% fluctuation in interest rates, as of January 4, 2004, would have a net impact of approximately \$0.6 million on earnings for fiscal 2003.

Item 8. Financial Statements and Supplementary Data

The audited consolidated financial statements follow on pages 28 to 67.

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The Board of Directors and Stockholder
Morton's Restaurant Group, Inc.:

We have audited the accompanying consolidated balance sheets of Morton's Restaurant Group, Inc. and subsidiaries, direct or indirect wholly-owned subsidiaries of Morton's Holdings, LLC, as of January 4, 2004 (Successor Period) and December 29, 2002 (Successor Period) and the related consolidated statements of operations, stockholder's equity and cash flows for the fiscal year ended January 4, 2004 (Successor Period), the period from July 25, 2002 to December 29, 2002 (Successor Period), the period from December 31, 2001 to July 24, 2002 (Predecessor Period) and the fiscal year ended December 30, 2001 (Predecessor Period). These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Morton's Restaurant Group, Inc. and subsidiaries as of January 4, 2004 (Successor Period) and December 29, 2002 (Successor Period) and the results of their operations and their cash flows for the fiscal year ended January 4, 2004 (Successor Period), the period from July 25, 2002 to December 29, 2002 (Successor Period), the period from December 31, 2001 to July 24, 2002 (Predecessor Period) and the fiscal year ended December 30, 2001 (Predecessor Period) in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the accompanying consolidated financial statements, the consolidated balance sheet as of December 29, 2002 (Successor Period) and the related statements of operations, stockholder's equity and cash flows for the period from July 25, 2002 to December 29, 2002 (Successor Period), the period from December 31, 2001 to July 24, 2002 (Predecessor Period) and the fiscal year ended December 30, 2001 (Predecessor Period) have been restated.

KPMG LLP
Melville, New York
March 12, 2004

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MORTON'S RESTAURANT GROUP, INC. AND SUBSIDIARIES Consolidated Balance Sheets January 4, 2004 and December 29, 2002

(amounts in thousands)

	Successor Period	
	January 4, 2004	December 29, 2002
		Restated
		(see Note 3)
Assets		
Current assets:		
Cash and cash equivalents	\$ 17,997	\$ 1,703
Restricted cash	1,100	
Accounts receivable	3,829	3,563
Income taxes receivable		885
Inventories	9,094	8,672

	Successor Period	
Prepaid expenses and other current assets	5,069	4,128
Deferred income taxes	7,076	5,268
Total current assets	44,165	24,219
Property and equipment, net	54,110	54,672
Intangible asset	92,000	92,000
Goodwill	61,552	68,404
Other assets and deferred expenses, net	10,360	5,686
	\$ 262,187	\$ 244,981

See accompanying notes to consolidated financial statements.

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MORTON'S RESTAURANT GROUP, INC. AND SUBSIDIARIES
Consolidated Balance Sheets (continued)
January 4, 2004 and December 29, 2002

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

	Successor Period	
	January 4, 2004	December 29, 2002
		Restated
		(see Note 3)
Liabilities and Stockholder's Equity		
Current liabilities:		
Accounts payable	\$ 6,111	\$ 6,103
Accrued expenses	27,955	34,654
Current portion of obligations to financial institutions and capital leases	658	2,877
Accrued income taxes	296	168
Total current liabilities	35,020	43,802
7.5% senior secured notes, net of unamortized discount of \$14,987	90,013	
Obligations to financial institutions and capital leases, less current maturities	12,274	82,542
Deferred income taxes	20,471	20,471
Other liabilities	2,087	753

	<u>Successor Period</u>	
Total liabilities	159,865	147,568
Commitments and contingencies		
Stockholder's equity:		
Common stock, \$0.01 par value per share. Authorized, issued and outstanding 1,000 shares at January 4, 2004 and December 29, 2002		
Additional paid-in capital	97,075	97,073
Accumulated other comprehensive income (loss)	128	(539)
Retained earnings	5,119	879
Total stockholder's equity	102,322	97,413
	\$ 262,187	\$ 244,981

See accompanying notes to consolidated financial statements.

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MORTON'S RESTAURANT GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Successor Period and Predecessor Period

(amounts in thousands)

	<u>Successor Period</u>		<u>Predecessor Period</u>	
	<u>Fiscal Year 2003</u>	<u>July 25, 2002- Dec. 29, 2002</u>	<u>Dec. 31, 2001- July 24, 2002</u>	<u>Fiscal Year 2001</u>
		Restated (see Note 3)	Restated (see Note 3)	Restated (see Note 3)
Revenues	\$ 258,668	\$ 105,704	\$ 132,433	\$ 236,163
Food and beverage costs	86,265	35,797	45,566	82,150
Restaurant operating expenses	122,713	50,352	61,474	107,905
Pre-opening costs, depreciation, amortization and non-cash charges	7,602	3,949	5,933	12,678
General and administrative expenses	16,680	6,369	8,483	17,201
Marketing and promotional expenses	5,933	3,597	3,005	6,927
Gain on insurance proceeds			1,443	
Costs associated with the repayment of certain debt	2,349			
Costs associated with strategic alternatives and proxy contest			9,078	730
Restaurant closing costs (credit)			(300)	1,625
Interest expense, net	8,862	2,876	4,647	7,617

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	Successor Period		Predecessor Period	
Management fee paid to related party	2,800	1,243		
Income (loss) before income taxes	5,464	1,521	(4,010)	(670)
Income tax expense (benefit)	1,224	642	818	(1,072)
Net income (loss)	\$ 4,240	\$ 879	\$ (4,828)	\$ 402

See accompanying notes to consolidated financial statements.

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MORTON'S RESTAURANT GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholder's Equity

Successor Period and Predecessor Period
(amounts in thousands, except share and per share amounts)

	Common Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock at Cost	Total Stockholder's Equity (Deficit)
Predecessor Period:						
Balance at December 31, 2000, as reported	\$ 68	\$ 63,077	\$ (17,084)	\$ (150)	\$ (46,834)	\$ (923)
Prior period adjustment			(1,090)			(1,090)
Balance at December 31, 2000, as restated (see Note 3)	68	63,077	(18,174)	(150)	(46,834)	(2,013)
Comprehensive income (loss):						
Net income, as restated			402			
Foreign currency translation adjustments				(202)		
Unrealized loss on swap agreements				(555)		