

KONA GRILL INC
Form 10-Q
August 02, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2017

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 001-34082

Kona Grill, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware **20-0216690**
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

15059 North Scottsdale Road, Suite 300

Scottsdale, Arizona 85254

(480) 922-8100

(Address, including zip code, and telephone number, including area code, of principal executive offices)

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 31, 2017, there were 10,102,027 shares of the registrant’s common stock outstanding.

KONA GRILL, INC.

TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets as of June 30, 2017 (Unaudited) and December 31, 2016	2
Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three and Six Months Ended June 30, 2017 and 2016 (Unaudited)	3
Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2017 and 2016 (Unaudited)	4
Notes to Unaudited Condensed Consolidated Financial Statements	5
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	13
Item 3. Quantitative and Qualitative Disclosures About Market Risk	23
Item 4. Controls and Procedures	24
 PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	24
Item 1A. Risk Factors	24
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	24
Item 3. Defaults Upon Senior Securities	24
Item 4. Mine Safety Disclosures	24
Item 5. Other Information	24
Item 6. Exhibits	25
Signatures	26

PART I – FINANCIAL INFORMATION**Item 1. Financial Statements****KONA GRILL, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(in thousands, except share data)**

	June 30, 2017 (Unaudited)	December 31, 2016 (Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,593	\$ 3,476
Short-term investments	178	178
Receivables	2,483	1,850
Inventory	1,949	2,176
Prepaid expenses and other current assets	810	1,052
Total current assets	8,013	8,732
Other assets	1,059	1,383
	97,577	98,268
Property and equipment, net		
Total assets	\$ 106,649	\$ 108,383
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,344	\$ 4,115
Accrued expenses	12,719	14,450
Current portion of long-term debt	703	712
Total current liabilities	16,766	19,277
Long term debt	36,380	25,921
Deferred rent and other long term liabilities	32,476	31,610
Total liabilities	85,622	76,808
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 2,000,000 shares authorized, none issued	—	—
	102	106

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Common stock, \$0.01 par value, 30,000,000 shares authorized, 10,218,827 shares issued and 10,102,027 shares outstanding at June 30, 2017; 10,568,230 shares issued and 10,452,030 shares outstanding at December 31, 2016

Additional paid-in capital	85,859	88,703
Accumulated deficit	(63,934)	(56,234)
Treasury stock, at cost, 116,200 shares at June 30, 2017 and December 31, 2016	(1,000)	(1,000)
Total stockholders' equity	21,027	31,575
Total liabilities and stockholders' equity	\$ 106,649	\$ 108,383

See accompanying notes to condensed consolidated financial statements.

KONA GRILL, INC.**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(in thousands, except per share data)****(unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Restaurant sales	\$46,977	\$43,296	\$92,202	\$82,573
Costs and expenses:				
Cost of sales	12,996	11,213	25,549	21,714
Labor	17,104	15,479	33,829	29,597
Occupancy	4,201	3,258	8,281	6,507
Restaurant operating expenses	7,532	6,065	14,815	11,704
General and administrative	3,084	3,337	6,716	6,853
Preopening expenses	461	1,302	797	2,013
Depreciation and amortization	3,637	3,380	7,295	6,501
Lease termination and exit costs	1,384	—	1,384	—
Total costs and expenses	50,399	44,034	98,666	84,889
Income (loss) from operations	(3,422)	(738)	(6,464)	(2,316)
Write-off of deferred financing costs	472	—	472	—
Interest expense, net	408	72	714	125
Income (loss) before income taxes	(4,302)	(810)	(7,650)	(2,441)
Income tax expense	25	25	50	50
Net income (loss)	\$(4,327)	\$(835)	\$(7,700)	\$(2,491)
Net income (loss) per share:				
Basic	\$(0.43)	\$(0.08)	\$(0.76)	\$(0.22)
Diluted	\$(0.43)	\$(0.08)	\$(0.76)	\$(0.22)
Weighted average shares used in computation:				
Basic	10,099	10,932	10,138	11,095
Diluted	10,099	10,932	10,138	11,095
Comprehensive income (loss)	\$(4,327)	\$(835)	\$(7,700)	\$(2,491)

See accompanying notes to condensed consolidated financial statements.

KONA GRILL, INC.**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

	Six Months Ended June 30,	
	2017	2016
Operating activities		
Net income (loss)	\$(7,700)	\$(2,491)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	7,295	6,501
Stock-based compensation	482	623
Amortization of deferred financing costs	84	41
Write-off of deferred financing costs	472	—
Lease termination and exit costs	1,384	—
Change in operating assets and liabilities:		
Receivables	(633)	(604)
Inventory	227	(99)
Prepaid expenses and other current assets	287	141
Accounts payable	39	99
Accrued expenses	(2,249)	51
Deferred rent and other long term liabilities	1,376	4,554
Net cash provided by operating activities	1,064	8,816
Investing activities		
Purchase of property and equipment	(8,789)	(22,538)
Change in other assets	(52)	(19)
Net cash used in investing activities	(8,841)	(22,557)
Financing activities		
Borrowings from revolving credit facility	12,500	18,000
Repayments on revolving credit facility	(1,750)	—
Repayments on term loan	(375)	—
Fees paid for credit facility	(151)	—
Purchase and retirement of common stock	(3,572)	(9,773)
Proceeds from issuance of common stock under the Employee Stock Purchase Plan and exercise of stock options	242	147
Net cash provided by financing activities	6,894	8,374
Net change in cash and cash equivalents	(883)	(5,367)
Cash and cash equivalents at the beginning of the period	3,476	