

Kona Grill Reports Second Quarter Results; Second Quarter Same-Store Sales Increased 5.8%

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Diluted EPS of (\$0.05); Company Raises 2006 Earnings Guidance

Kona Grill, Inc. (Nasdaq: KONA), an American grill and sushi bar, today reported results for its second quarter ended June 30, 2006.

Highlights for the second quarter of 2006 include:

- Opened restaurants in Dallas, TX; and Lincolnshire, IL; bringing total to eleven
- Revenue increased 33.2% to \$11.9 million
- Same-store sales increased 5.8%
- Restaurant operating profit increased 23.9% to \$2.7 million
- Net loss of (\$0.3) million, or (\$0.05) per diluted share, including non-cash stock-based compensation expense of \$0.2 million, or \$0.04 per diluted share

Highlights for the first six months of 2006 include:

- Revenue increased 30.4% to \$22.1 million
- Same-store sales increased 6.0%
- Restaurant operating profit increased 23.9% to \$4.7 million
- Net loss of (\$1.2) million, or (\$0.21) per diluted share, including previously announced separation charges of \$0.4 million, or \$0.08 per diluted share and non-cash stock-based compensation expense of \$0.4 million, or \$0.07 per diluted share

"Second quarter results exceeded our expectations, due to a robust top line which reflects the strength of the Kona Grill brand. We are pleased with the continued progress we achieved in the second quarter, including the opening of our restaurants in Dallas, TX; and Lincolnshire, IL. Both of these restaurants are performing well and we hope to maintain this momentum during the second half of the year as we open three new restaurants. We believe our ability to successfully execute our growth strategy provides a solid foundation on which we can build shareholder value over time," said Marcus E. Jundt, Chairman of the Board, President and Chief Executive Officer of Kona Grill.

Second Quarter Financial Results

Revenue increased 33.2% to \$11.9 million during the second quarter of 2006 from \$8.9 million during the same period last year, primarily as a result of \$2.6 million in incremental revenue associated with the opening of four new restaurants since August 2005, and a 5.8% increase in same-store sales due to increased customer traffic coupled with higher menu prices.

Average weekly sales for the five restaurants in the comparable base were \$108,453 during the second quarter of 2006, compared to \$102,545 in the prior year period. Average weekly sales for restaurants not in the comparable base that were open the entire quarter were \$76,595 during the second quarter this year versus \$86,685 last year. Average weekly sales for restaurants not in the comparable base during the second quarter of 2006 were impacted by lower sales volumes at the Sugarland, TX restaurant. Excluding the Sugarland restaurant, average weekly sales for restaurants not in the comparable base that were open the entire quarter were \$88,350 during the second quarter of 2006.

Net loss for the second quarter of 2006 was (\$0.3) million, or (\$0.05) per diluted share, based upon 5.8 million diluted shares, versus net income of \$0.2 million, or \$0.10 per diluted share last year, based upon 3.0 million diluted shares.

First Six Months Financial Results

Revenue increased 30.4% to \$22.1 million during the first half of 2006 from \$16.9 million in the same period last year. Same-store sales increased 6.0%.

Net loss for the six months ended June 30, 2006 was (\$1.2) million, or (\$0.21) per diluted share based upon 5.8 million shares. This compares to a net loss of (\$0.1) million, or (\$0.09) per diluted share, in the prior year period.

Financial Guidance

For the third quarter of 2006, the Company expects revenue of \$12.7 million to \$13.0 million and a net loss per share of (\$0.10) to (\$0.16). This range includes the estimated impact of adopting Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" (SFAS No. 123R), which requires the expensing of stock options issued to employees. The impact of SFAS No. 123R is estimated to be \$0.03 to \$0.04 per diluted share for the third quarter of 2006. The Company expects to open a restaurant at the Galleria in Houston, TX in August 2006.

For fiscal year 2006, the Company continues to anticipate revenue of \$50 million to \$51 million and anticipates an improved net loss per share of (\$0.49) to (\$0.58) versus prior guidance. This amount includes the previously discussed charge of \$0.08 per diluted share related to the resignation of the Company's former CEO. This range also includes the estimated impact of adopting SFAS No. 123R which is estimated to be \$0.13 to \$0.15 per diluted share in 2006. The Company intends to open five restaurants in 2006, of which two have already opened. The Company anticipates being profitable in fiscal year 2007.

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