

## Max & Erma's Restaurants, Inc. Reports Third Quarter Results

2006-09-06

110 basis point restaurant margin improvement leads to \$277,000 improvement in operating income for third quarter

### Third Quarter Highlights:

- 110 basis point restaurant margin improvement leads to \$277,000 improvement in operating income for third quarter;
- Net loss for quarter and YTD periods cut significantly;
- One company-owned restaurant planned for fourth quarter of fiscal 2006;
- Two to three Company-owned and seven to eight franchised restaurants planned for fiscal 2007;
- \$8.25 million sale-leaseback commitment for three new locations signed.

### Financial Summary (Unaudited)

(In thousands, except per share data)

	12 Weeks Ended		40 Weeks Ended	
	8/6/06	8/7/05	8/6/06	8/7/05
Revenues	\$40,646	\$42,813	\$141,045	\$143,108
Operating Income (Loss)	\$14	\$(263)	\$1,001	\$21
Loss Before Taxes	\$(811)	\$(846)	\$(1,333)	\$(1,826)
Net Loss	\$(295)	\$(946)	\$(165)	\$(1,236)
Net Loss per Diluted Common Share	\$(0.12)	\$(0.37)	\$(0.06)	\$(0.49)
Diluted Shares Outstanding	2,552	2,547	2,551	2,534

Max & Erma's Restaurants, Inc. (Nasdaq:MAXE) today reported third quarter 2006 financial results.

Revenues for the third quarter of 2006 declined 5% to \$40.6 million from \$42.8 million for the third quarter of 2005. Net loss and net loss per share decreased from (\$946,000) or \$(0.37) per diluted share for the third quarter of 2005 to \$(295,000) or \$(0.12) per diluted share for the third quarter of 2006. Third quarter 2006 results are after a \$339,000 pre-tax asset impairment charge.

Year-to-date revenues decreased 1.4% from \$143.1 million for 2005 to \$141.0 million for 2006. Year-to-date net loss and net loss per share declined from \$(1,236,000) or \$(0.49) per diluted share for 2005 to \$(165,000) or \$(0.06) per diluted share for 2006. Results for 2006 and 2005 include \$844,000 and \$1,450,000 asset impairment charges, respectively

Todd Barnum, Chairman and Chief Executive Officer of Max & Erma's said that: "Both the quarter and year-to-date periods reflect significant margin improvement at both the restaurant and corporate level, but the soft sales environment has negated much of the effect of our efforts. Excluding the asset impairment charge recorded during the third quarter of 2006 operating income increased over \$600,000 from the third quarter of last year. Mr. Barnum said that the third quarter 2006 impairment charge was primarily for the write-off of restaurant assets at two restaurants scheduled to close in anticipation of their leases ending within the next six months."

Mr. Barnum added "It remains a difficult sales environment. Same-store sales were off 5.4% for the third quarter of 2006 and 3.2% year-to-date. Much of the decline is a result of the loss of sales associated with reduced couponing and discounting and that those sales were not profitable. Higher gasoline prices, utilities and health care costs have also cut into our customer's discretionary income."

The Company has recently received a \$8.25 million sale-leaseback commitment for three future restaurant locations. In addition to one opening scheduled for the fourth quarter of 2006, the Company plans to open two to three locations in 2007. Mr. Barnum said that even more exciting are the plans for franchised openings. In 2007, the Company anticipates seven to eight franchised openings. He said one, possibly two restaurants will open in Las Vegas, Nevada. Franchisees are also expected to open locations in Merrillville, Indiana; Norfolk and Virginia Beach, Virginia; St. Louis, Missouri; and Findlay and Sharonville, Ohio during 2007.

As of August 6, 2006, Max & Erma's owns and operates 77 casual dining full-service restaurants in Akron, Canton, Columbus, Cleveland, Cincinnati, Dayton, Niles, and Toledo, Ohio; Indianapolis, Indiana; Detroit, Ann Arbor, Grand Rapids, and Lansing, Michigan; Pittsburgh and Erie, Pennsylvania; Lexington, Louisville, and Crestview Hills, Kentucky; Chicago, Illinois; Charlotte, North Carolina; Atlanta, Georgia; Virginia Beach and Norfolk, Virginia. The Company also currently franchises 21 restaurants in Cleveland, Columbus, Cincinnati, Wilmington, Chillicothe, Dayton, and Sandusky, Ohio; St.

Louis, Missouri; Green Bay, Wisconsin; Philadelphia, Pennsylvania; Edinburgh, Evansville, Seymour, and Mishawaka, Indiana; Richmond, Virginia; and Detroit, Michigan. During 2006, Franchisees closed three locations, two of which were test locations on the Ohio Turnpike involving limited table service and no alcoholic beverages. A Company-owned restaurant is under construction in Springboro, Ohio. Franchised restaurants are under construction in Norfolk, Virginia and Findlay, Ohio. The Company's common shares are traded on the NASDAQ National Market System under the symbol MAXE.

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