

## Max & Erma's Restaurants, Inc. Fiscal 2007 Sales Decline

2008-01-23

---

Max & Erma's Restaurants, Inc. Reports Fiscal 2007 Results

### **Fourth Quarter and Year-End Highlights:**

Operations and remodeling program help reduce same-store sales decline during fourth quarter,

Two Company-owned restaurants opened with one opening in early 2008,

Franchise fees and royalties up 22% from four 2007 franchised openings,

Eight franchised openings planned for 2008,

Company continues to pursue strategic alternatives,

Impairment and other charges totaling \$2.6 million impact fourth quarter results.

Max & Erma's Restaurants, Inc. (Nasdaq/NMS: MAXE) today reported fourth quarter and fiscal 2007 year-end results.

Max & Erma's reported fiscal 2007 revenues of \$174.9 million, down 3.0% from \$180.3 million for fiscal 2006. The Company reported a net loss of \$3,530,000 or \$(1.38) per diluted share for 2007 versus a net loss of \$579,000 or \$(0.23) per diluted share for 2006. The net loss for 2007 includes impairment and other, primarily non-cash, charges totaling over \$2.0 million and a \$1.3 non-cash write-down of a deferred tax asset. The net loss for 2006 included an after tax charge of \$115,000 or \$0.05 per diluted share for the cumulative effect of a change in accounting principle recorded during the fourth quarter of 2006 related to the adoption of FIN 47, 'Accounting for Conditional Asset Retirement Obligations.'

For the fourth quarter of 2007, revenues declined less than 1% to \$39.0 million from \$39.2 million for the fourth quarter of 2006. The Company reported a net loss of \$3,209,000 or \$(1.26) per diluted share for the fourth quarter of 2007 as compared to a net loss of \$413,000 or \$(0.16) per diluted share for the fourth quarter of 2006. The net loss for the fourth quarter of 2007 includes \$1.3 million in impairment and other charges and the \$1.3 million write-down of the deferred tax asset, referred to above. The net loss for the fourth quarter of 2006 included the after tax charge for the adoption of FIN 47, discussed above.

Rob Lindeman, President and Chief Executive Officer of Max & Erma's, said: 'Sales continue to be sluggish but improved during the fourth quarter. Same-store sales declined 3.5% for the year, but the decline was cut in half during the fourth quarter to a decline of 1.8%.' Mr. Lindeman added that: 'The Company took steps to continue building our business in the fourth quarter of 2007. To increase the focus on operations, in September the Company hired Michael Nahkunst, an experienced industry operations executive, as Chief Operating Officer. We have since restructured operations to put more responsibility for achieving results at the restaurant unit level, and we believe that we are already seeing positive results from this change. We believe that our increased emphasis on restaurant operations, the impact of our restaurant remodeling program and a shift in our marketing efforts to a more community based marketing combined to reduce same-store sales declines in the fourth quarter.'

As previously reported, the Company has entered into agreements with its lenders, which are designed to allow sufficient time for the Company to re-capitalize or sell itself. Under the agreements, financial covenants have been eased and the Company has agreed to halt new restaurant development and limit capital expenditures. Mr. Lindeman stated that: 'Stopping growth for the time being and refocusing on existing operations is being viewed in a positive light for the Company, and we are seeing improved operations and guest experiences. Thus while we continue the process of exploring strategic alternatives for the future, we believe we are continuing to strengthen the appeal of the Company to investors and customers by improving operations.'

'During the rest of fiscal 2008 and into fiscal 2009,' Mr. Lindeman stated, 'our growth will shift entirely to the opening of franchised restaurants. Four franchised restaurants opened during 2007 resulting in a 22% increase in franchise fees and royalties to \$2.2 million for 2007. Eight franchised openings are planned for 2008. At year-end, three franchised locations were under construction and five were in the planning or permitting stage.'

In discussing results for the year and the fourth quarter, Mr. Lindeman said: 'The bright spots were the performance of locations remodeled to the Company's new prototype look and the opening of two restaurants late in the fourth quarter and one early in the first quarter of 2008. All three new restaurants are off to excellent starts. Remodeled locations reported positive same-store sales of 3% for both the third and fourth quarters of 2007 while remaining Company-owned restaurants were off 3%.'

Mr. Lindeman commented on other steps to improve operating results: 'In addition to a shift in marketing focus, the Company expects to reduce corporate overhead by almost \$1.5 million in 2008 through the restructuring of its operations department and a reduction in other corporate staff positions. The contribution from the three recently opened Company-owned restaurants and additional franchise fees and royalties will also aid operating results.'

The fourth quarter of 2007 contained several charges and expenses, most of which were non-cash items totaling over \$1.3 million. During the fourth quarter, the Company recorded an asset impairment charge (non-cash) of \$284,000, wrote-off new site development costs (non-cash) of \$310,000, wrote-off costs associated with a financing transaction that was terminated totaling \$172,000 and expensed \$600,000 of pre-opening expense associated with the three new restaurants that opened around year-end. On a year-to-date basis, these items totaled more than \$2.0 million due primarily to an earlier impairment charge. Additionally, during the fourth quarter of 2007, the Company recorded a \$1.3 million non-cash charge against a deferred tax asset due to the likelihood that a portion of the asset related to the FICA tax on tips credit may not be fully realized. These credits begin to expire in 2023 and there is no assurance that the Company will be able to fully utilize the credits before they expire. The \$1.3 million charge was included in the Company's income tax expense for the fourth quarter of 2007.

At October 28, 2007, Max & Erma's owns and operates 79 casual dining full-service restaurants under the Max & Erma's name in Akron, Columbus, Cleveland, Cincinnati, Toledo, Dayton, and Niles, Ohio, Indianapolis, Indiana, Detroit, Ann Arbor, Grand Rapids, and Lansing, Michigan, Pittsburgh, Erie and Washington, Pennsylvania, Crestview Hills, Lexington, and Louisville, Kentucky, Chicago, Illinois, Charlotte, North Carolina, Atlanta, Georgia and Norfolk and Virginia Beach, Virginia. The Company also franchises 24 restaurants in Chillicothe, Cincinnati, Cleveland, Columbus, Dayton, Findlay, Sandusky and Wilmington, Ohio, St. Louis, Missouri, Philadelphia, Pennsylvania, Richmond, Norfolk and Virginia Beach, Virginia, Huntington, West Virginia, Detroit, Michigan and the State of Indiana. The Company's common shares are traded on the NASDAQ National Market System under the symbol MAXE.

This article comes from Hotel News Resource

<http://www.hotelnewsresource.com>

The URL for this story is:

<http://www.hotelnewsresource.com/article30867.html>

© 1998 - 2008 Nevistas and the author.

Brought to you by Hotel News Resource

*Distribute your news on our Network*

See what all the buzz is about at:

[http://www.hotelnewsresource.com/Info-news\\_account\\_info.html](http://www.hotelnewsresource.com/Info-news_account_info.html)