

KONA GRILL INC
Form 10-Q
August 10, 2016

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, 2016

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

(State or other jurisdiction of incorporation or organization)

20-0216690

(I.R.S. Employer Identification No.)

7150 East Camelback Road, Suite 333
Scottsdale, Arizona 85251
(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

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 August 9, 2016, there were 10,480,912 shares of the registrant’s common stock outstanding.

KONA GRILL, INC.

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EXPLANATORY NOTE

The unaudited interim financial information presented in this Quarterly Report on Form 10-Q has not been reviewed by an independent registered public accounting firm within the required period, solely as a result of an ongoing evaluation of an auditor independence matter by its independent registered public accounting firm, Ernst & Young LLP (“EY”). As a result, the Quarterly Report on Form 10-Q is considered deficient. On August 8, 2016, EY, a member firm of Ernst & Young Global Limited (“EYG”), advised the Company that it discovered that RBC Global Asset Management (U.S.) Inc. (“RBC GAM”) has become the holder of greater than 10% of the Company’s outstanding common stock. An affiliate of RBC GAM is one of the bank lenders to another member firm of EYG, and this matter has raised a question as to whether EY’s independence has been impaired. EY and the Company are currently in the process of assessing whether there has been an impairment of EY’s independence.

The CEO and CFO believe, to the best of their knowledge, that the financial statements accurately portray the financial condition of the Company. To that end, they have provided the certifications under Section 302 of the Sarbanes-Oxley Act of 2002 (“SOX”). The SOX Section 906 certifications have been omitted from this filing only because, as a result of the question regarding EY’s independence as described above, the financial statements accompanying this report have not been reviewed by an independent public accountant under AS 4105. The Company believes that this report otherwise meets all of the qualifications of the Exchange Act and the rules and regulations thereunder governing the preparation and filing of periodic reports as referenced in the certifications. Before the Company’s officers can make a SOX Section 906 certification, the Company’s independent public accounting firm must complete its review of the consolidated financial statements appearing elsewhere in this report under AS 4105, as required by SEC rules.

As soon as practicable after a determination that EY has met its professional independence requirements and completed its review of the Company’s condensed consolidated financial statements, the Company intends to file an amended Form 10-Q, in accordance with Rule 10-01(d) of Regulation S-X promulgated under the Securities Exchange Act of 1934, as amended.

See Note 1, *Basis of Presentation*, to the Condensed Consolidated Financial Statements for additional information on the matters discussed above.

PART I – FINANCIAL INFORMATION**Item 1. Financial Statements****KONA GRILL, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except share data)

(unaudited and unreviewed)

	June 30,	December
	2016	31,
		2015
		(Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$3,688	\$9,055
Short-term investments	178	178
Receivables	2,178	1,574
Inventory	1,964	1,865
Prepaid expenses and other current assets	633	774
Total current assets	8,641	13,446
Other assets	1,124	1,146
Property and equipment, net	100,566	87,252
Total assets	\$110,331	\$101,844
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$3,677	\$4,548
Accrued expenses	12,580	14,282
Total current liabilities	16,257	18,830
Long term debt	18,000	—
Deferred rent and other long term liabilities	24,877	20,323
Total liabilities	59,134	39,153
Commitments and contingencies (Note 10)		
Stockholders' equity:		

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Preferred stock, \$0.01 par value, 2,000,000 shares authorized, none issued	—	—
Common stock, \$0.01 par value, 30,000,000 shares authorized, 10,597,112 shares issued and 10,480,912 shares outstanding at June 30, 2016; 11,387,724 shares issued and 11,271,524 shares outstanding at December 31, 2015	106	114
Additional paid-in capital	89,187	98,182
Accumulated deficit	(37,096)	(34,605)
Treasury stock, at cost, 116,200 shares at June 30, 2016 and December 31, 2015	(1,000)	(1,000)
Total stockholders' equity	51,197	62,691
Total liabilities and stockholders' equity	\$110,331	\$ 101,844

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 and unreviewed)

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2016	2015	2016	2015
Restaurant sales	\$43,296	\$36,225	\$82,573	\$69,032
Costs and expenses:				
Cost of sales	11,213	9,678	21,714	18,740
Labor	15,479	12,396	29,597	23,784
Occupancy	3,258	2,501	6,507	4,858
Restaurant operating expenses	6,065	4,978	11,704	9,586
General and administrative	3,337	3,143	6,853	6,426
Preopening expenses	1,302			