

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10 - Q**

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

For the quarterly period ended June 29, 2003

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 **333-62615**

**ROMACORP, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation  
or organization)

**13-4010466**

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

**9304 Forest Lane, Suite 200, Dallas, Texas 75243**

(Address of principal executive offices)

**(214) 343-7800**

(Registrant's telephone number, including area code)

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 is an accelerated filer (as defined in Exchange Act Rule 12-b-2).

Yes ☐ No ☒

As of August 1, 2003, 100 shares of Common Stock, \$.01 par value, were outstanding and held by Roma Restaurant Holdings, Inc.

# ROMACORP, INC.

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**PART 1. FINANCIAL INFORMATION**  
**ITEM 1. Financial Statements**

**ROMACORP, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(Dollars in Thousands)**

**ASSETS**

	(UNAUDITED)	
	June 29, 2003	March 30, 2003
Current Assets:		
Cash and cash equivalents:		
Restricted .....	\$ 622	\$ 622
Unrestricted.....	11,275	6,191
Accounts receivable, net .....	1,847	1,495
Inventories of food and supplies .....	1,964	2,081
Prepaid expenses .....	643	996
Property held for sale .....	—	4,682
Income taxes receivable .....	170	192
Other current assets .....	36	31
Total current assets .....	16,557	16,290
Facilities and equipment, net .....	28,477	28,898
Goodwill .....	12,325	12,325
Other assets .....	185	194
Debt issuance costs, net of accumulated amortization of \$1,550 and \$1,427, respectively .....	1,773	1,753
Total assets .....	<u>\$ 59,317</u>	<u>\$ 59,460</u>

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**ROMACORP, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS — (Continued)**  
**(Dollars in Thousands)**

**LIABILITIES AND STOCKHOLDER'S DEFICIT**

	(UNAUDITED) June 29, 2003	March 30, 2003
Current Liabilities:		
Accounts payable .....	\$ 2,609	\$ 2,385
Accrued interest.....	3,401	1,748
Current portion of store closure reserve .....	502	502
Other accrued liabilities.....	6,822	8,038
Current maturities of long-term debt.....	<u>1,750</u>	<u>1,750</u>
Total current liabilities .....	15,084	14,423
Senior notes .....	55,000	55,000
Long-term debt, less current maturities.....	19,020	19,420
Store closure reserve .....	604	476
Deferred gain on sale of assets .....	<u>704</u>	<u>718</u>
Total liabilities.....	<u>90,412</u>	<u>90,037</u>
Stockholder's Deficit:		
Common stock, \$.01 par value; 2,000 shares authorized; 100 shares issued and outstanding .....	—	—
Additional paid-in capital.....	66,469	66,469
Retained deficit:		
Dividend to Holdings .....	(75,368)	(75,368)
Other.....	<u>(22,196)</u>	<u>(21,678)</u>
Total .....	<u>(97,564)</u>	<u>(97,046)</u>
Total stockholder's deficit .....	<u>(31,095)</u>	<u>(30,577)</u>
Total liabilities and stockholder's deficit.....	<u>\$ 59,317</u>	<u>\$ 59,460</u>

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**ROMACORP, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Dollars in Thousands)**  
**(UNAUDITED)**

	Thirteen Weeks Ended	
	<u>June 29, 2003</u>	<u>June 23, 2002</u>
Restaurant sales.....	\$ 25,192	\$ 27,788
Franchise fees and royalties .....	<u>2,965</u>	<u>2,858</u>
Total revenues.....	28,157	30,646
Cost of sales .....	8,165	9,009
Direct labor .....	8,592	9,406
Other .....	7,231	8,187
General and administrative expenses.....	<u>2,517</u>	<u>2,844</u>
Total operating expenses.....	<u>26,505</u>	<u>29,446</u>
Operating income.....	1,652	1,200
Other income (expense):		
Interest expense.....	(2,055)	(2,022)
Miscellaneous .....	<u>(11)</u>	<u>88</u>
Loss before income taxes.....	(414)	(734)
Income tax expense (benefit).....	104	(256)
Net loss .....	<u>\$ (518)</u>	<u>\$ (478)</u>

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**ROMACORP, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Dollars in Thousands)  
(UNAUDITED)

	Thirteen Weeks Ended	
	June 29, 2003	June 23, 2002
<b>Operating Activities:</b>		
Net loss .....	\$ (518)	\$ (478)
Non-cash items included in net loss:		
Depreciation and amortization.....	903	1,331
Amortization of debt issuance costs .....	123	96
Deferred income taxes .....	—	(325)
Provision for doubtful accounts.....	45	30
Amortization of deferred gain on sale of assets.....	(14)	(14)
Loss (gain) on disposal of assets .....	126	(45)
Changes in assets and liabilities:		
Accounts receivable.....	(397)	69
Notes receivable .....	—	(77)
Inventories of food and supplies.....	117	169
Other current assets .....	348	371
Accounts payable.....	224	(1,158)
Accrued interest.....	1,653	1,697
Other accrued liabilities .....	(1,088)	2,422
Income taxes receivable.....	22	(106)
Net cash flows provided by operating activities .....	<u>1,544</u>	<u>3,982</u>
<b>Investing Activities:</b>		
Capital expenditures, net .....	(580)	(683)
Proceeds from sale of assets .....	4,654	1,079
Changes in other assets, net.....	9	1
Net cash flows provided by investing activities .....	<u>4,083</u>	<u>397</u>
<b>Financing Activities:</b>		
Net repayments under line-of-credit agreement .....	(400)	(3,199)
Debt issuance costs .....	(143)	—
Net cash flows used in financing activities.....	<u>(543)</u>	<u>(3,199)</u>
<b>Net Increase in Cash and Cash Equivalents.....</b>	<b>5,084</b>	<b>1,180</b>
<b>Cash and Cash Equivalents At Beginning of Period .....</b>	<b>6,191</b>	<b>977</b>
<b>Cash and Cash Equivalents At End of Period .....</b>	<b><u>\$ 11,275</u></b>	<b><u>\$ 2,157</u></b>

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**ROMACORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**Note 1 - Basis of Consolidation and Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to the Quarterly Report on Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The operating results for the quarter ended June 29, 2003 are not necessarily an indication of the results that may be expected for the fiscal year ending March 28, 2004. Except as disclosed herein, there has been no material change in the information disclosed in the notes to the consolidated financial statements included in the Annual Report on Form 10-K for Romacorp, Inc. (the "Company" or "Romacorp") for the fiscal year ended March 30, 2003. Therefore, it is suggested that the accompanying financial statements be read in conjunction with the Company's March 30, 2003 consolidated financial statements.

The condensed consolidated financial statements of Romacorp and its subsidiaries include Romacorp's operation of its owned restaurants and franchise revenue from franchisees' use of trademarks and other proprietary information in the operation of Tony Roma's restaurants. Romacorp maintains its corporate office in Dallas, Texas, and, through its subsidiaries, provides menu development, training, marketing and other administrative services related to the operation of the Tony Roma's restaurant concept. All inter-company transactions between Romacorp and its subsidiaries have been eliminated.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires Romacorp's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Note 2 - Recapitalization**

The Company (then the former Romacorp, Inc.) was acquired in June 1993 by NPC International, Inc. ("NPC"). On April 24, 1998, a recapitalization agreement (the "Recapitalization"), effective June 28, 1998, was executed, pursuant to which the former Romacorp, Inc. was renamed Roma Restaurant Holdings, Inc. ("Holdings") and the assets, liabilities and operations of Holdings were contributed to its newly-created, wholly-owned subsidiary, Romacorp, Inc. In the Recapitalization, which was executed by Holdings, NPC and Sentinel Capital Partners, L.P. ("Sentinel"), Holdings redeemed stock held by NPC and NPC forgave and contributed to the capital of the Company a payable to NPC in the amount of \$33,731,000. After the Recapitalization, NPC held 20% and Sentinel, through certain affiliates, held 80% of the equity of Holdings. In conjunction with this transaction, \$75,000,000 of 12% Senior Notes due July 1, 2006 (the "Senior Notes") were issued by the Company. The Company paid Holdings a dividend of \$75,351,000, consisting primarily of the proceeds from the Senior Notes, which was used by Holdings, along with Sentinel's equity contribution, to effect the Recapitalization. This transaction was accounted for as a leveraged recapitalization with the assets and liabilities of the Company retaining their historical value.

### **Note 3 - Long-term Debt**

As of June 29, 2003, Romacorp's long-term debt consisted of a note payable to GE Capital Franchise Financial under a Revolving Credit Facility, which is secured by substantially all of the assets of Romacorp.

The Revolving Credit Facility provides for borrowings in an aggregate principal amount up to \$25.0 million and includes annual reductions in the maximum borrowing capacity ranging from \$1.75 million in the first year up to \$3.25 million in later years. To the extent Romacorp has not utilized \$5 million of the borrowing capacity to repurchase Senior Notes by December 31, 2003, the maximum borrowing capacity of the Revolving Credit Facility will be reduced on that date by the difference between \$5 million and the amount borrowed pursuant to the Revolving Credit Facility to repurchase Senior Notes. The maximum borrowing capacity is also limited by funded debt covenants that require Romacorp to maintain a Funded Debt to EBITDA ratio of 3.5:1.0 excluding the Senior Notes and 7.5:1.0 including the Senior Notes. The Revolving Credit Facility will expire in December 2012 and bears interest at the one-month LIBOR plus 4.5%. The interest rate is subject to maintaining certain financial covenants and interest is paid monthly.

### **Note 4 - Senior Notes**

In conjunction with the Recapitalization, on June 28, 1998, Romacorp issued the Senior Notes. Interest on the Senior Notes accrues from the date of issuance and is payable in arrears on January 1 and July 1 of each year, commencing January 1, 1999. As of both June 29, 2003 and March 30, 2003, the principal amount of Senior Notes outstanding was \$55.0 million.

The Company believes the opportunity to refinance the current obligation with similar publicly traded unsecured debt instruments is remote. Therefore, the Company has engaged Houlihan Lokey Howard & Zukin to assess the potential for refinancing the debt and to provide other restructuring alternatives. While various alternatives are currently being evaluated, the payment of the semi-annual interest payment of \$3.3 million due July 1, 2003 was not made. The grace period to make the interest payment expired on July 31, 2003 creating an event of default under the terms of the indenture. The Company is unable to predict the likelihood of success of this restructuring effort. To the extent Romacorp is not successful in the restructuring effort, the holders of the Senior Notes could force the Company into bankruptcy, which could lead to a material adverse affect.

### **Note 5 - Income Taxes**

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes," which requires that deferred tax assets and liabilities be recognized for the effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. SFAS No. 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. Management considers a number of factors including projected future taxable income and tax planning strategies, in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods that the deferred tax assets are expected to be deductible, a valuation allowance has been provided for 100 percent of the deferred tax assets since management can not determine that it is more likely than not that the deferred tax assets will be realized. When realization of the deferred tax assets is deemed more likely than not to occur, the benefit related to the deductible temporary differences will be recognized as a reduction of income tax expense.

The Company expenses foreign taxes and taxes assessed at the state level for states which the Company does not have any available net operating losses available on a current basis.



**Note 6 - Summarized Financial Information**

Summarized financial information for Romacorp and its wholly-owned subsidiaries is as follows (in thousands):

**Condensed Consolidating Balance Sheet**  
**June 29, 2003**  
**(Unaudited)**

	<u>Romacorp</u>	<u>Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Assets</b>				
Current assets .....	\$ 14,040	\$ 2,517	\$ —	\$ 16,557
Due from affiliates .....	—	51,623	(51,623)	—
Facilities and equipment, net .....	25,169	3,308	—	28,477
Investment in subsidiaries .....	63,609	—	(63,609)	—
Goodwill .....	882	11,443	—	12,325
Other assets .....	1,942	16	—	1,958
Total assets .....	<u>\$ 105,642</u>	<u>\$ 68,907</u>	<u>\$ (115,232)</u>	<u>\$ 59,317</u>
<b>Liabilities and Equity (Deficit)</b>				
Current liabilities .....	\$ 9,786	\$ 5,298	\$ —	\$ 15,084
Due to affiliates .....	51,623	—	(51,623)	—
Senior notes .....	55,000	—	—	55,000
Long-term debt .....	19,020	—	—	19,020
Other long-term liabilities .....	1,308	—	—	1,308
Total liabilities .....	<u>136,737</u>	<u>5,298</u>	<u>(51,623)</u>	<u>90,412</u>
Equity (deficit) .....	(31,095)	63,609	(63,609)	(31,095)
Total liabilities and equity (deficit)....	<u>\$ 105,642</u>	<u>\$ 68,907</u>	<u>\$ (115,232)</u>	<u>\$ 59,317</u>

**Condensed Consolidating Balance Sheet**  
**March 30, 2003**  
**(Unaudited)**

	<u>Romacorp</u>	<u>Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Assets</b>				
Current assets .....	\$ 13,826	\$ 2,464	\$ —	\$ 16,290
Due from affiliates .....	—	49,747	(49,747)	—
Facilities and equipment, net .....	25,494	3,404	—	28,898
Investment in subsidiaries .....	61,561	—	(61,561)	—
Goodwill .....	882	11,443	—	12,325
Other assets .....	1,931	16	—	1,947
Total assets .....	<u>\$ 103,694</u>	<u>\$ 67,074</u>	<u>\$ (111,308)</u>	<u>\$ 59,460</u>
<b>Liabilities and Equity (Deficit)</b>				
Current liabilities .....	\$ 8,910	\$ 5,513	\$ —	\$ 14,423
Due to affiliates .....	49,747	—	(49,747)	—
Senior notes .....	55,000	—	—	55,000
Long-term debt .....	19,420	—	—	19,420
Other long-term liabilities .....	1,194	—	—	1,194
Total liabilities .....	<u>134,271</u>	<u>5,513</u>	<u>(49,747)</u>	<u>90,037</u>
Equity (deficit) .....	(30,577)	61,561	(61,561)	(30,577)
Total liabilities and equity (deficit) .....	<u>\$ 103,694</u>	<u>\$ 67,074</u>	<u>\$ (111,308)</u>	<u>\$ 59,460</u>

**Condensed Consolidating Statement of Operations**  
**For the Thirteen Weeks Ended June 29, 2003**  
(Unaudited)

	<u>Romacorp</u>	<u>Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Total revenues .....	\$ 23,569	\$ 5,596	\$ (1,008)	\$ 28,157
Total operating expenses.....	24,330	3,183	(1,008)	26,505
Operating income (loss) .....	(761)	2,413	—	1,652
Other income (expense) .....	(2,804)	738	—	(2,066)
Income from subsidiaries .....	3,151	—	(3,151)	—
Income (loss) before income taxes.....	(414)	3,151	(3,151)	(414)
Provision (benefit) for income taxes .....	104	1,103	(1,103)	104
Net income (loss) .....	<u>\$ (518)</u>	<u>\$ 2,048</u>	<u>\$ (2,048)</u>	<u>\$ (518)</u>

**Condensed Consolidating Statement of Operations**  
**For the Thirteen Weeks Ended June 23, 2002**  
(Unaudited)

	<u>Romacorp</u>	<u>Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Total revenues .....	\$ 26,310	\$ 5,448	\$ (1,112)	\$ 30,646
Total operating expenses.....	27,835	2,723	(1,112)	29,446
Operating income (loss) .....	(1,525)	2,725	—	1,200
Other income (expense) .....	(2,447)	513	—	(1,934)
Income from subsidiaries .....	3,238	—	(3,238)	—
Income (loss) before income taxes.....	(734)	3,238	(3,238)	(734)
Provision (benefit) for income taxes .....	(256)	1,133	(1,133)	(256)
Net income (loss) .....	<u>\$ (478)</u>	<u>\$ 2,105</u>	<u>\$ (2,105)</u>	<u>\$ (478)</u>

**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Introduction**

Romacorp is the operator and franchisor of the largest national casual dining chain specializing in ribs, with 257 restaurants located in 28 states in the United States and in 27 foreign countries and territories. As of June 29, 2003, Romacorp operated 43 Company-owned restaurants in 13 states and, through its subsidiaries, franchised 110 restaurants in 21 states and 104 restaurants in international locations.

**Results of Operations**

Romacorp receives revenues from restaurant sales, franchise fees and royalties. Cost of sales includes food and beverage costs. Direct labor costs include salaries, benefits, bonuses and related taxes for restaurant personnel. Other operating expenses include rent, depreciation, advertising, utilities, supplies, paper, property taxes and insurance and other costs directly associated with operating a restaurant facility.

The table below sets forth the percentage relationship to total revenues, unless otherwise indicated, of certain items included in Romacorp's condensed consolidated statements of operations for the periods indicated:

	Thirteen Weeks Ended	
	June 29, 2003	June 23, 2002
	(Unaudited)	
Restaurant sales .....	89.5 %	90.7 %
Franchise fees and royalties.....	10.5 %	9.3 %
	<u>100.0 %</u>	<u>100.0 %</u>
<b>COST AND EXPENSES:</b>		
Cost of sales (1) .....	32.4 %	32.4 %
Direct labor (1) .....	34.1 %	33.8 %
Other (1) .....	28.7 %	29.5 %
General and administrative expenses.....	8.9 %	9.3 %
Operating income .....	5.9 %	3.9 %

(1) As a percentage of restaurant sales.

#### **Comparison of Operating Results for the Thirteen Weeks Ended June 29, 2003 with the Thirteen Weeks Ended June 23, 2002**

*Restaurant sales.* Restaurant sales for the quarter ended June 29, 2003 were \$25.2 million, representing a decrease of \$2.6 million, or 9.3% from the \$27.8 million reported during the same period of the prior year. Of this decrease, \$2.0 million is due to the sale of 11 restaurants to a franchisee and the closure of one restaurant in the quarter ending June 29, 2003 and the closure of one restaurant during the prior fiscal year, and the remaining decrease is due to a 1.5% decrease in sales at comparable restaurants versus the same period of the prior year. There were 43 company-owned restaurants at June 29, 2003 compared to 56 Company-owned restaurants at June 23, 2002.

*Franchise fees and royalties.* Franchise fees and royalties increased \$107,000 to \$3.0 million for the quarter due to increases in royalties, franchise fees and retail royalties. Comparable sales at franchisee-operated restaurants decreased 1.8% for the quarter. During the quarter ended June 29, 2003, six franchise restaurants were opened, five franchise restaurants were closed and eleven company operated restaurants were transferred to a new franchisee.

*Cost of sales.* Cost of sales as a percentage of restaurant sales was 32.4% for the quarters ended June 29, 2003 and June 23, 2002.

*Direct labor costs.* Direct labor costs as a percentage of restaurant sales increased to 34.1% from 33.8% for the same quarter of the prior year due primarily to higher hourly labor costs and increased restaurant management bonuses.

*Other.* Other operating expenses as a percentage of restaurant sales decreased to 28.7% from 29.5% for the same quarter of the prior year due primarily to lower depreciation and advertising expenses, partially offset by higher paper and utility costs.

*General and administrative expenses.* General and administrative expenses for the quarter were \$2.5 million, representing a decrease of \$327,000 from the \$2.8 million reported during the same quarter of the prior year. The decrease is due primarily to decreases in the number of field supervisory staff, lower management training wages and the favorable variance in the current year that resulted from expense incurred in the prior year related to the exchange offer that was announced on May 14, 2002 and expired on June 18, 2002.

*Interest expense.* Interest expense for the quarter was \$2.1 million, representing an increase of \$33,000 from the same quarter of the prior year. The increase is due to an increase in the balance of the Revolving Credit Facility.

*Miscellaneous.* Miscellaneous expense of \$11,000 for the quarter was \$99,000 lower than the same quarter of the prior year due primarily to the loss recognized on the sale of closed or transferred restaurant properties.

*Income tax.* Income tax expense for the quarter represents foreign tax expense and income taxes assessed at the state level for states which the Company does not have any net operating losses available. During the fourth quarter of the prior fiscal year, the Company recorded a valuation allowance for 100% of its deferred tax assets and has adjusted the valuation allowance accordingly during the quarter to maintain a full valuation allowance. During the first quarter of the prior year, the Company recorded a tax benefit of \$256,000.

## **Liquidity and Capital Resources**

Romacorp has a working capital surplus of \$1.5 million as the Company has maximized its borrowing capacity under the Revolving Credit Facility and has cash and cash equivalents on hand of \$11.9 million as of June 29, 2003. The working capital surplus includes \$1.75 million in current maturities of long-term debt. The working capital surplus decreased from \$1.9 million at March 30, 2003.

As of March 30, 2003, Romacorp's long-term debt consisted of a note payable under the Revolving Credit Facility, which is secured by substantially all of the assets of Romacorp. The Revolving Credit Facility provides for borrowings in an aggregate principal amount up to \$25.0 million and includes annual reductions in the maximum borrowing capacity ranging from \$1.75 million in the first year up to \$3.25 million in later years. To the extent Romacorp has not utilized \$5 million of the borrowing capacity to repurchase Senior Notes by December 31, 2003, the maximum borrowing capacity of the Revolving Credit Facility will be reduced on that date by the difference between \$5 million and the amount borrowed pursuant to the Revolving Credit Facility to repurchase Senior Notes. The maximum borrowing capacity is also limited by funded debt covenants that require Romacorp to maintain a Funded Debt to Adjusted EBITDA ratio of 3.5:1.0 excluding the Senior Notes and 7.5:1.0 including the Senior Notes. The Revolving Credit Facility will expire in December 2012 and bears interest at the one-month LIBOR plus 4.5%. The interest rate is subject to maintaining certain financial covenants and is paid monthly.

The Company's Senior Notes mature on July 1, 2006. If no additional Senior Notes are purchased on the open market, the current outstanding balance of \$55.0 million will become due at that time. The Company believes the opportunity to refinance the current obligation with similar publicly traded unsecured debt instruments is remote. Therefore, the Company has engaged Houlihan Lokey Howard & Zukin to assess the potential for refinancing the debt and to provide other restructuring alternatives. While various alternatives are currently being evaluated, the payment of the semi-annual interest payment of \$3.3 million due July 1, 2003 was not made. The grace period to make the interest payment expired on July 31, 2003 creating an event of default under the terms of the indenture. The Company is unable to predict the likelihood of success of this restructuring effort. To the extent Romacorp is not successful in the restructuring effort, the holders of the Senior Notes could force the Company into bankruptcy, which could lead to a material adverse affect.

Romacorp's ability to refinance its debt and generate cash flow from operations sufficient to make scheduled payments on its debt as they become due will depend on Romacorp's future performance and ability to successfully implement its business and growth strategies. Romacorp's performance will be affected by prevailing economic conditions and financial, business and other factors. Many of these factors are beyond Romacorp's control. In the event that Romacorp is unable to refinance its debt, Romacorp may be left without sufficient liquidity and may not be able to meet its debt service requirements. In such case, an event of default would occur under the Revolving Credit Facility and could result in all of our indebtedness becoming immediately due and payable.

Romacorp believes cash flow generated from operations and working capital are principal indicators of its liquidity condition. Romacorp's principal sources of liquidity on both a long-term and short-term basis are cash flow generated from operations and the Revolving Credit Facility.

Cash flow provided by operating activities for the 13 weeks ended June 29, 2003 was \$1.5 million compared to \$4.0 million during the same period of the prior year. Capital expenditures were \$580,000 for the 13 weeks ended June 29, 2003 and were funded through cash flow from operations. Romacorp received net proceeds of \$4.7 million related to the sale of eleven properties to a franchisee and one property that was closed pursuant to a lease termination agreement during the 13 weeks ended June 29, 2003.

During the 13 weeks ended June 29, 2003, franchisees opened 6 restaurants and closed 5 restaurants.

### **Forward-Looking Statements**

The statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other statements that are not historical facts contained herein are forward-looking statements that involve estimates, risks and uncertainties, including but not limited to: consumer demand and the potential impact of the events of September 11, 2001 on consumer demand; market acceptance risk; the level of and the effectiveness of marketing campaigns by Romacorp; training and retention of skilled management and other restaurant personnel; Romacorp's ability to locate and secure acceptable restaurant sites; the effect of economic conditions, including interest rate fluctuations; the impact of competing restaurants and concepts; new product introductions; product mix and pricing; the cost of commodities and other food products; labor shortages and costs and other risks detailed in Romacorp's filings with the Securities and Exchange Commission.

### **ITEM 3. Quantitative and Qualitative Disclosures about Market Risk**

Romacorp is exposed to market risk from changes in interest rates on debt and changes in commodity prices, particularly baby-back rib prices.

Romacorp's exposure to interest rate risk relates to the variable rate Revolving Credit Facility, which is benchmarked to United States and European short-term interest rates. Romacorp does not use derivative financial instruments to manage overall borrowing costs or reduce exposure to adverse fluctuations in interest rates. The impact on Romacorp's results of operations of a one point interest rate change on the outstanding balance of the variable rate debt as of June 29, 2003 would be immaterial.

Baby-back ribs represent approximately 25% of Romacorp's cost of sales. Because baby-back ribs are a by-product of pork processing, their price is influenced largely by the demand for boneless pork. Historically, the cost of baby-back ribs has been volatile. Significant changes in the price of baby-back ribs and other ribs sold by Romacorp could materially increase the Company's cost of sales and adversely affect the business, results of operations and financial condition of Romacorp. Romacorp actively manages its rib costs through supply commitments in advance of a specific need. However, the arrangements are terminable at will at the option of either party without prior notice. Therefore, there can be no assurance that any of the supply commitments will not be terminated in the future. As a result, Romacorp is subject to the risk of substantial and sudden price increases, shortages or interruptions in supply of such items, which could have a material adverse effect on the business, financial condition and results of operations of Romacorp.

Romacorp purchases certain other commodities used in food preparation. These commodities are generally purchased based upon market prices established with vendors. These purchase arrangements may contain contractual features that limit the price paid by establishing certain price floors or caps. Romacorp does not use financial instruments to hedge commodity prices because these purchase arrangements help control the ultimate cost paid and any commodity price aberrations are generally short term in nature.

This market risk discussion contains forward-looking statements. Actual results may differ materially from this discussion based upon general market conditions and changes in domestic and global financial markets and the factors discussed under "Forward-Looking Statements" above.

#### **ITEM 4. Controls and Procedures**

(a) *Evaluation of disclosure controls and procedures.* The Company carried out an evaluation as of the end of the period covered by this report under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, pursuant to Exchange Act Rule 13(a)-15d. Based upon that evaluation, the Company's President and Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective in timely alerting them to material information relating to the Company required to be included in the Company's periodic SEC filings.

(b) *Changes in internal controls.* There were no significant changes in the Company's internal control over financial reporting identified in connection with the evaluation described in paragraph (a) above, that have materially affected or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1. Legal Proceedings.**

The Company is party to various lawsuits arising in the normal course of business. Management believes that the ultimate outcome of these matters will not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

### **ITEM 2. Changes in Securities.**

Not applicable.

### **ITEM 3. Defaults Upon Senior Securities.**

Not applicable.

### **ITEM 4. Submission of Matters to a Vote of Security Holders.**

Not applicable.

### **ITEM 5. Other Information.**

Not applicable.

### **ITEM 6. Exhibits and Reports on Form 8-K.**

(a) Exhibits

10.22 Letter of employment and agreement dated as of May 27, 2003 by and among Romacorp and David W. Head.

31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

The following report on Form 8-K was filed during the quarter covered by this report:

On June 23, 2003, Romacorp issued a news release entitled "Romacorp, Inc., Operator of Tony Roma's Restaurants, Names David Head CEO and President."

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ROMACORP, INC.

Date: August 13, 2003

By: /s/David W. Head  
David W. Head  
President & Chief Executive Officer

Date: August 13, 2003

By: /s/Richard A. Peabody  
Richard A. Peabody  
Vice President & Chief Financial Officer  
(Principal Financial and Accounting Officer)