

MORTONS RESTAURANT GROUP INC  
Form S-1  
December 02, 2005  
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As filed with the Securities and Exchange Commission on December 1, 2005

Registration No. 333-

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

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**Form S-1**  
**REGISTRATION STATEMENT**  
**UNDER THE SECURITIES ACT OF 1933**

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**MORTON S RESTAURANT GROUP, INC.**

(Exact name of registrant as specified in Its Charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**5812**  
(Primary Standard Industrial  
Classification Code Number)

**13-3490149**  
(I.R.S. Employer Identification Number)

3333 New Hyde Park Road, Suite 210

New Hyde Park, New York 11042

(516) 627-1515

(Address, including Zip Code, and Telephone Number, including Area Code, of Registrant's Principal Executive Office)

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**Thomas J. Baldwin**

**Executive Vice President and Chief Financial Officer**

**Morton s Restaurant Group, Inc.**  
**3333 New Hyde Park Road, Suite 210**  
**New Hyde Park, New York 11042**  
**(516) 627-1515**

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)

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**Approximate Date of Commencement of Proposed Offer to the Public:** As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this form are being offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the Securities Act ), check the following box: "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: "

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering: "

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier registration statement for the same offering: "

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box: "

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CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1)(2)	Amount of Registration Fee(3)
<b>Common Stock, par value \$0.01 per share</b>	<b>\$150,000,000</b>	<b>\$16,050</b>

- (1) Includes shares of common stock issuable upon exercise of an over-allotment option granted to the underwriters.
- (2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457 of the Securities Act.
- (3) Calculated pursuant to Rule 457(o) under the Securities Act.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

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**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

SUBJECT TO COMPLETION, DATED DECEMBER 1, 2005.

**PROSPECTUS**

**Shares**

**MORTON S RESTAURANT GROUP, INC.**

**Common Stock**

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This is Morton s Restaurant Group, Inc. s initial public offering. We are offering \_\_\_\_\_ shares of our common stock and the selling stockholders identified in this prospectus are offering an additional \_\_\_\_\_ shares of our common stock. We will not receive any of the proceeds from the sale of the shares of our common stock offered by the selling stockholders. We expect the initial public offering price of our common stock to be between \$ \_\_\_\_\_ and \$ \_\_\_\_\_ per share.

Prior to this offering there has been no public market for our common stock. We intend to apply to have our common stock listed on the New York Stock Exchange under the symbol MRT.

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**Investing in our common stock involves risks. See Risk Factors beginning on page 10.**

<u>Per Share</u>	<u>Total</u>
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Public Offering Price	\$	\$
Underwriting Discount and Commissions	\$	\$
Proceeds to Morton's Restaurant Group, Inc.	\$	\$
Proceeds to the Selling Stockholders	\$	\$

Delivery of the shares of our common stock will be made on or about \_\_\_\_\_, 2005.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

We have granted the underwriters the option to purchase a maximum of \_\_\_\_\_ additional shares of our common stock to cover over-allotments of shares, if any, exercisable at any time until 30 days after the date of this prospectus.

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**Wachovia Securities**

\_\_\_\_\_

**Piper Jaffray**

\_\_\_\_\_

**RBC Capital Markets**

**SG Cowen & Co.**

**Jefferies & Company**

The date of this prospectus is \_\_\_\_\_, 2005.

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**Artwork to be filed by amendment**

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You should rely only on the information contained in this prospectus. Neither we nor any of the underwriters have authorized anyone to provide information different from that contained in this prospectus. When you make a decision about whether to invest in our common stock, you should not rely upon any information other than the information in this prospectus. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of our common stock. This prospectus is not an offer to sell or solicitation of an offer to buy these shares of our common stock in any circumstances under which or in any jurisdiction where the offer or solicitation is unlawful.

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**TRADEMARKS AND SERVICE MARKS**

We own or have the rights to various trademarks and trade names used in this prospectus, including Morton's and Morton's of Chicago. This prospectus also includes trade names and trademarks of other companies. Our use or display of other parties' trade names or trademarks is not intended to and does not imply a relationship with, or endorsement or sponsorship of us by, the trade name or trademark owners.

**INDUSTRY AND MARKET DATA**

Industry, market and demographic data appearing throughout this prospectus, including information relating to our relative position in the restaurant industry, the projected growth of sales in the U.S. restaurant industry, projected increases in real disposable personal income and projected population growth, are derived principally from publicly available information, industry publications, U.S. government data, data made available by market research firms, our own data and similar sources. Although we believe that this information is reliable, we do not guarantee the accuracy or completeness of this information, and we have not independently verified this information. Information in this prospectus concerning the average check at our restaurants excludes tax and tip.

**GENERAL ASSUMPTIONS**

Unless otherwise expressly stated or the context otherwise requires, the information in this prospectus:

gives effect to the merger of Morton's Holding Company, Inc., or MHCI, our direct parent, into us and the subsequent distribution of shares of our common stock by Morton's Holdings, LLC, or MHLLC, our indirect parent and the holder of all of the outstanding shares of common stock of MHCI, to its unitholders, both of which transactions will occur prior to the consummation of this offering;

assumes that we are the obligor on the 14% senior secured notes of MHCI, which notes will become our obligation upon consummation of the merger described above;

assumes the adoption and filing of our new amended and restated certificate of incorporation, which we refer to as our certificate of incorporation, and the adoption of our new amended and restated bylaws, which we refer to as our bylaws, which will be effected prior to the consummation of this offering and which will, among other things, increase our authorized capital stock and provide for certain anti-takeover provisions as described in Description of Capital Stock;

gives effect to a \_\_\_\_\_ for one split of our outstanding common stock that will be effected prior to the consummation of this offering;

is based upon the number of shares of our common stock outstanding as of October 2, 2005;

gives effect to the appointment of the applicable persons named in Management to serve as members of our board of directors and board committees and the changes to our management described therein, each of which will occur prior to the consummation of this offering;



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gives effect to the termination of our current \$15 million working capital facility and the effectiveness of a new \$           million senior revolving credit facility, which will occur in connection with this offering;

assumes the effectiveness of an equity incentive plan that we plan to adopt prior to the consummation of this offering;

gives effect to the termination of the management agreement between MHLLC and Castle Harlan, Inc.; and

assumes no exercise of the underwriters' over-allotment option to purchase up to           additional shares of our common stock from us.

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**PROSPECTUS SUMMARY**

*This summary highlights information contained elsewhere in this prospectus. This summary does not contain all of the information that may be important to you. You should carefully read this prospectus in its entirety before making an investment decision. In particular, you should read the section entitled "Risk Factors" and our consolidated financial statements and notes related to those statements included elsewhere in this prospectus. In this prospectus, unless otherwise expressly stated or the context requires otherwise, we, us, our and the Company refer to Morton's Restaurant Group, Inc. and its subsidiaries, Morton's refers to our steakhouses operated under the Morton's brand name, MHCI refers to Morton's Holding Company, Inc., our immediate parent, which we anticipate will merge into Morton's Restaurant Group, Inc. prior to the consummation of this offering, and MHLLC refers to Morton's Holdings, LLC, our indirect parent, whose unitholders we anticipate will become our direct stockholders upon the expected distribution by MHLLC of shares of Morton's Restaurant Group, Inc. to them prior to the consummation of this offering.*

**Our Company**

We are the world's largest owner and operator of company-owned upscale steakhouse restaurants, based on the number of restaurants owned and operated by us as compared to our known competitors. Our founders Arnie Morton and Klaus Fritsch opened the original Morton's steakhouse in downtown Chicago on December 21, 1978. Since then, we have expanded to a total of 69 Morton's steakhouses, including 65 domestic restaurants located in 60 cities across 28 states, along with two restaurants in Canada, one in Hong Kong and one in Singapore. We also own and operate four upscale Italian restaurants, which are designed as white tablecloth, authentic Italian trattorias. We own and operate all of our restaurants and do not have any franchisees. In fiscal 2004, we had total revenues of \$276.3 million and operating income of \$21.2 million, representing increases from fiscal 2003 of 6.8% and 8.8%, respectively. In the nine month period ended October 2, 2005, we had total revenues of \$217.1 million and operating income of \$12.8 million, representing increases of 8.7% and 23.9%, respectively, over the comparable period in fiscal 2004.

Morton's steakhouses have remained true to our founders' original vision of combining generous portions of high quality food prepared to exacting standards with exceptional service in an enjoyable dining environment. We have traditionally catered primarily to business clientele but have recently implemented strategies to broaden our appeal to local fine-dining guests. While our menu's emphasis is on USDA prime aged steaks, we also feature other fresh premium items including veal, chicken, lobster and other varieties of seafood, complemented by our extensive award winning premium wine list. By owning and operating all Morton's steakhouses, each with a similar menu, we believe that we are better able to provide a consistently high quality dining experience across all our locations.

Morton's steakhouses average approximately 8,300 square feet in size, including the kitchen area, and on average have seating for approximately 200 guests. All Morton's steakhouses have a similar style, concept and decor, and are designed to convey an image of sophistication, warmth and a premium dining experience. All but one Morton's steakhouse have on-premises, private dining and meeting facilities that we refer to as Boardrooms.

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### **Our Business Strengths**

We believe the following strengths have helped drive the growth of our business:

*Premier Fine-Dining Brand.* We believe that Morton's, with its 27-year history and 69 steakhouses located in 60 cities across 28 states and four international locations, is a premier fine-dining brand. We believe that our brand recognition is supported by our distinctive food and high service standards, which are exemplified by numerous awards and favorable reviews. In addition, we believe that our brand is enhanced by the sophisticated interior design of our Morton's steakhouses, which are consistent in terms of style, concept and decor, and by the typical location of our restaurants in upscale retail, hotel, commercial and office complexes in major metropolitan and urban centers and surrounding suburban areas.

*High Quality Cuisine.* We strive to provide guests at Morton's steakhouses with generous portions of high quality cuisine prepared to exacting standards. Morton's steakhouses feature USDA prime aged beef in the United States and Canada and comparable high quality aged beef in our steakhouses in Asia. While the emphasis is on our steaks, we believe our menu selection is broad enough to appeal to many taste preferences and desires. In addition, each Morton's steakhouse has a fully stocked bar and extensive premium wine list and every Morton's steakhouse open at the end of 2004 received the Wine Spectator Award of Excellence, which was awarded for our well chosen selections of quality wines. During fiscal 2004 and the nine month period ended October 2, 2005, the average per-person Morton's steakhouse check was approximately \$84.70 and \$86.25, respectively.

*Consistency of Our Service, Experience and Atmosphere.* We seek to consistently provide guests with the same fine-dining steakhouse experience at all Morton's steakhouses. Among the key aspects of the experience is our signature tableside presentation of many of our menu items. Our servers conduct this presentation to our dining room guests in all Morton's steakhouses. We believe this visual presentation allows our guests to see the freshness and quality of our food, and enhances our guests' experience. In addition, all Morton's steakhouses feature common design elements, including rich woods, a wine display wall, LeRoy Neiman artwork and private wine lockers. All Morton's steakhouses also feature an open display kitchen where our chefs and broilers are visible, which we believe increases the energy level of the restaurant and further enhances our guests' experience. Our typical table to server ratio is three to one, which helps us provide our guests with personal, attentive service.

*Strong Restaurant-Level Economics.* Morton's steakhouses have strong restaurant-level operating margins, which we define as revenues less food and beverage costs, restaurant operating expenses and marketing and promotional expenses as a percentage of revenues. This is as a result of strong average restaurant revenue coupled with what we believe are effective cost controls. Morton's steakhouses open for all of fiscal 2004 generated average revenues of approximately \$4.0 million per restaurant and average restaurant-level operating margins of approximately 16.4%. In the case of the four new Morton's steakhouses that we opened during the nine month period ended October 2, 2005, our average initial cash investment, net of landlord contributions and equipment financing, was approximately \$2.0 million, including pre-opening costs of approximately \$0.5 million, which are expensed under U.S. generally accepted accounting principles, which we refer to as GAAP.

*Effective Cost Control Mechanisms.* We believe that our operations and cost control systems, which we have developed and refined over our 27-year history, enable us to maintain a high degree of control over operating expenses and allow us to better adjust our cost structure to changes in revenues. We also believe that centralized sourcing from our primary suppliers of beef and other products gives us significant cost and availability advantages over many independent steakhouses.

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*Highly Experienced Management Team.* Our executive management team has an average of 23 years of experience in the restaurant industry. Thomas J. Baldwin, who we anticipate will become our Chairman, Chief Executive Officer and President prior to the consummation of this offering, has been with us since 1989 and has over 21 years of experience in the restaurant industry, including as our Chief Financial Officer from 1989 to 2005. In addition, our 12 regional managers average 25 years of restaurant experience, including eight years of experience with us.

### **Our Growth Strategy**

Our objectives are to further leverage our experience in operating our Morton's steakhouses to increase the revenues and operating income of our existing restaurants, and to open new Morton's steakhouses in existing markets and selected new domestic and international markets.

*Continue to Broaden Our Appeal.* Traditionally, the primary target market of our Morton's steakhouses has been business-oriented guests. Recently, we also have increased our focus on local fine-dining guests. We have developed several marketing initiatives, including the addition of new menu items developed through market testing, new wine selections and the use of targeted direct mailings, as part of our strategy to increase the appeal and awareness of our fine-dining steakhouse experience with local fine-dining guests. In addition, we have recently introduced a new bar concept, Bar 12:21, which we believe has further broadened our appeal, increased revenues and increased dining capacity in the restaurants where it has been implemented.

*Expand Bar 12:21 Concept.* Our new bar concept, named Bar 12:21 to commemorate the date that our original Morton's steakhouse opened, is intended to provide a comfortable, warm atmosphere to meet friends or business associates and enjoy a large selection of fine spirits, wines and appetizers. The redesign typically includes opening the bar area to the restaurant and reconfiguring the bar top and adjacent tables to create more comfortable seating and what we believe is a more inviting area for gathering and dining. We feature our Bar 12:21 concept in all new Morton's steakhouses opened after fiscal 2003, and we have remodeled the bar area in three existing Morton's steakhouses to include our Bar 12:21 concept. During fiscal 2006, we plan to remodel the bar area in at least six other Morton's steakhouses to provide a similar atmosphere. We currently expect to remodel the bar area in approximately four to six other Morton's steakhouses in each of the next several years.

*Expand Our Boardroom Business.* All but one of our Morton's steakhouses have on-premises, private dining and meeting facilities that we refer to as Boardrooms, which generated approximately 18.7% of revenues generated by our Morton's steakhouses for fiscal 2004. We seek to increase the utilization of our Boardrooms because they typically generate a higher average check than our dining rooms and allow us to better leverage our fixed costs and achieve higher margins on those revenues. In addition to promoting our current Boardrooms, during fiscal 2006 we are planning to add additional Boardrooms in three of our existing Morton's steakhouses. We are currently evaluating other Morton's steakhouses for increased Boardroom capacity.

*Pursue Disciplined New Restaurant Growth.* We plan to expand our Morton's concept and strong brand name by opening new Morton's steakhouses in our existing markets that we believe can support additional restaurants. We also plan to enter new markets selectively when we believe that those markets can successfully support a Morton's steakhouse. We currently expect to open five new Morton's steakhouses in 2006 and approximately five to seven new Morton's steakhouses in each of the next several years.

### **Our Equity Sponsor**

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Castle Harlan, Inc. is a New York-based private equity investment firm founded in 1987 specializing in investments in middle-market companies through leveraged buyouts, industry consolidations and divestitures. Since its inception, Castle Harlan has invested, on behalf of the private equity funds that it

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manages, in 45 companies with a total enterprise value in excess of \$7.5 billion. On July 25, 2002, Castle Harlan acquired us in a going private transaction, which included an initial equity investment by Castle Harlan of approximately \$93.7 million. Immediately prior to this offering, Castle Harlan owned a majority of our outstanding common stock. We refer to Castle Harlan, Inc. and its affiliates and associates (excluding us and other companies it owns through private equity funds it manages) in this prospectus as Castle Harlan.

**Risk Factors**

You should carefully consider all of the information set forth in this prospectus and, in particular, the information under the heading Risk Factors, prior to purchasing the shares of common stock offered hereby.

**Corporate Information**

We are a Delaware corporation, incorporated on October 3, 1988, and our principal executive offices are located at 3333 New Hyde Park Road, Suite 210, New Hyde Park, New York 11042. Our telephone number is (516) 627-1515. Our website address is <http://www.mortons.com>. The information contained on our website does not constitute part of, nor is it incorporated into, this prospectus.



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The number of shares of our common stock to be outstanding immediately after this offering is based on the number of shares outstanding on October 2, 2005 and excludes the following:

up to        shares of our common stock that may be issued by us if the underwriters exercise their over-allotment option to purchase additional shares;



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options to purchase \_\_\_\_\_ shares of common stock at a weighted average exercise price of \$ \_\_\_\_\_ per share that we intend to issue and \_\_\_\_\_ shares of restricted stock that we intend to issue, prior to the consummation of this offering, under an equity incentive plan we intend to implement prior to the consummation of this offering; and

an aggregate of \_\_\_\_\_ additional shares of our common stock that will initially be available for future awards pursuant to the equity incentive plan referred to above, plus potential future increases in the number of shares available for issuance under that equity incentive plan.

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**SUMMARY CONSOLIDATED FINANCIAL DATA**

The following table contains summary consolidated financial data as of October 2, 2005 and for fiscal 2002, 2003, 2004 and for the nine month periods ended October 3, 2004 and October 2, 2005. The following table also contains summary consolidated balance sheet financial data as of October 2, 2005, as adjusted, to give effect to this offering and the other transactions described in the first paragraph under the caption "Capitalization" as if they had occurred as of October 2, 2005. Interim period summary financial data are not indicative of results for the full fiscal year. The summary financial data for fiscal 2002, 2003 and 2004 are derived from our audited consolidated financial statements contained elsewhere in this prospectus. The summary financial data as of October 2, 2005 and for the nine month periods ended October 3, 2004 and October 2, 2005 are derived from our unaudited consolidated financial statements contained elsewhere in this prospectus, which, in our opinion, include all adjustments, consisting of only usual recurring adjustments, necessary for the fair presentation of that information for these periods. The summary financial data should be read in conjunction with "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the notes thereto contained elsewhere in this prospectus.

On July 25, 2002, MHLLC acquired all of our outstanding stock in a business combination accounted for under the purchase method of accounting. As a result of the acquisition, our capital structure and our basis of accounting under the push down method for the period prior to the acquisition, which we sometimes refer to as the Predecessor Period, differ from our capital structure and our basis of accounting for the periods after the acquisition, which we sometimes refer to as the Successor Period. Therefore, our financial data as of dates and for periods prior to July 25, 2002 are not comparable to our financial data as of dates or for periods on or after July 25, 2002. As a result of the acquisition, our consolidated statements of operations for the Successor Period include amortization expense relating to debt issuance costs and management fees that did not exist prior to the acquisition. Further, as a result of purchase accounting, the fair values of our fixed assets on the date of acquisition became their new cost basis. Accordingly, the depreciation of these assets for the Successor Period is based upon their newly established cost basis. Other effects of purchase accounting in the Successor Period are not considered significant.

The unaudited as adjusted balance sheet data as of October 2, 2005 are derived from the balance sheet of such date and gives effect to this offering and the transactions related thereto as if they had occurred as of October 2, 2005. The unaudited as adjusted financial data are subject to a number of assumptions and uncertainties and do not purport to reflect what our financial position would have been had these transactions taken place on the date indicated and are not intended to project our financial position for any future date.

We use a 52 or 53-week fiscal year that ends on the Sunday closest to January 1. In this prospectus, we sometimes refer to the fiscal years ended December 29, 2002, January 4, 2004 and January 2, 2005 as fiscal 2002, fiscal 2003 and fiscal 2004, respectively. Approximately every six or seven years a 53<sup>rd</sup> week is added to our fiscal year. Fiscal 2002 and 2004 each consisted of 52 weeks, while fiscal 2003 consisted of 53 weeks. As a result, some of the differences in our results of operations between those fiscal years are attributable to the different lengths of the fiscal years. The nine month periods ended October 3, 2004 and October 2, 2005 each consisted of 39 weeks.

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	Fiscal Year 2002					
	Predecessor		Successor Period			
	Period		Fiscal Year		Nine Month	
	Dec. 31, 2001 to July 24, 2002 Restated(1)	July 25, 2002 to Dec. 29, 2002 Restated(1)	2003	2004	(unaudited) Oct. 3, 2004 Oct. 2, 2005	
	(dollars in thousands)					
<b>Statement of Operations Data: (2)(3)</b>						
Revenues	\$ 132,433	\$ 105,704	\$ 258,668	\$ 276,334	\$ 199,682	\$ 217,122
Food and beverage costs	45,566	35,797	86,265	93,222	67,566	72,328
Restaurant operating expenses	60,111	51,134	124,051	127,000	95,457	104,109
Pre-opening costs	703	1,254	904	1,059	553	2,050
Depreciation and amortization	6,593	1,913	5,360	6,435	4,766	5,327
General and administrative expenses	8,483	6,369	16,680	18,949	14,011	16,431
Marketing and promotional expenses	3,005	3,597	5,933	8,472	7,002	4,082
Operating income	7,972	5,640	19,475	21,197	10,327	12,795
(Gain) loss on insurance proceeds (4)	(1,443)			(986)		
Costs associated with the repayment of certain debt (5)			2,349	264	264	174
(Gain) loss on sale of investment (6)						(664)
Costs associated with strategic alternatives and proxy contest (7)	9,078					
Restaurant closing (credit) costs (8)	(300)					
Interest expense, net	4,647	2,876	8,862	14,989	10,671	12,945
Management fee paid to related party (9)		1,243	2,800	2,800	2,100	2,100
(Loss) income before income taxes	(4,010)	1,521	5,464	4,130	(2,708)	(1,760)
Income tax expense (benefit)	818	642	1,224	4,868	86	(1,355)
Net (loss) income	\$ (4,828)	\$ 879	\$ 4,240	\$ (738)	\$ (2,794)	\$ (405)
Net (loss) income per share						
Basic						
Diluted						
Shares used in computing net (loss) income per share (10)						
Basic						
Diluted						
<b>Other Financial Data (dollars in thousands):</b>						
Average restaurant revenues (11)		\$ 3,574	\$ 3,790	\$ 4,016	\$ 3,316	\$ 3,613
Change in comparable restaurant revenues (12)		3.0%	+4.6%	+6.7%	+9.4%	+2.3%

As of Oct. 2, 2005

(unaudited)	
As	
Actual	Adjusted

(dollars in thousands)

<b>Balance Sheet Data: (2)</b>		
Cash and cash equivalents		\$ 5,887
Current assets		40,450
Property and equipment, net		65,370
Total assets		269,700

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Current liabilities	44,839
7.5% senior secured notes	93,122
14.0% senior secured notes, less current maturities	40,000
Obligations to financial institutions, less current maturities	3,497
Stockholders' equity (deficit)	57,569

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- (1) During fiscal 2003, we restated our consolidated financial statements for fiscal 2002. See Note 3 to our consolidated financial statements included elsewhere herein.
- (2) Prior to the consummation of this offering, MHCI will be merged into Morton's Restaurant Group, Inc. The consolidated financial statements included elsewhere herein and the consolidated financial data set forth in the above table include the financial data of MHCI from March 10, 2004, the date on which MHCI was incorporated.
- (3) Certain items that were previously reported in specific statement captions have been reclassified to conform to the fiscal 2004 presentation. See Note 2(s) to our consolidated financial statements included elsewhere herein.
- (4) During fiscal 2002 and fiscal 2004, we received \$3,125 and \$986, respectively, relating to property insurance and recorded a gain of approximately \$1,443 and \$986 in the 2002 Predecessor Period and fiscal 2004, respectively, relating to the insurance contract for the restaurant that was located at 90 West Street, New York, New York. Such losses were sustained in connection with the September 11, 2001 attacks.
- (5) During fiscal 2003, we used a portion of the net proceeds from the issuance of our 7.5% senior secured notes to repay our previously existing credit facility, capital leases and certain mortgages. During fiscal 2003, we expensed \$2,349 representing: (1) the write-off of deferred financing costs of \$718 relating to our previously existing credit facility; (2) prepayment penalties of \$463 incurred with the repayment of capital leases and one mortgage; and (3) the write-off of the accumulated other comprehensive loss of \$711 and deferred tax assets for \$457 which were previously recognized in connection with two interest rate swap agreements. Costs associated with the repayment of certain debt of \$264 for both fiscal 2004 and the nine month period ended October 3, 2004 and \$174 for the nine month period ended October 2, 2005, represent prepayment penalties that we incurred with the repayment of certain mortgages.
- (6) Gain on sale of investment of \$664 in the nine month period ended October 2, 2005 represents a gain from the sale of stock in a privately owned company.
- (7) Costs associated with strategic alternatives and proxy contest for the 2002 Predecessor Period of \$9,078 represent legal costs, investment banking and bank costs, printing, investor relations and proxy solicitation costs and other costs.
- (8) Restaurant closing credit of \$300 in the 2002 Predecessor Period represents the recovery of assets previously written-down.
- (9) Management fee paid to related party of \$1,243, \$2,800, \$2,800, \$2,100 and \$2,100 for the fiscal 2002 Successor Period, fiscal 2003, fiscal 2004 and for the nine month periods ended October 3, 2004 and October 2, 2005, respectively, was paid pursuant to MHLLC's management agreement with Castle Harlan, Inc.
- (10) These numbers give effect to the \_\_\_\_\_ for one split of our outstanding common stock that will be effected prior to the consummation of this offering as if that transaction had occurred as of the first day of the respective periods presented.
- (11) Average restaurant revenues represents average revenues for restaurants open for the entire period being measured.
- (12) Change in comparable restaurant revenues represents the percentage increase or decrease in period-over-period revenues for restaurants open all of the period indicated and all of the prior period.

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**RISK FACTORS**

*You should carefully consider the risk factors set forth below as well as the other information included in this prospectus before buying shares of our common stock. The risks described below are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also impair our business operations. Any of these risks may have a material adverse effect on our business, financial condition, results of operations and cash flows. In that case, you may lose all or part of your investment.*

**Risks Related to our Business**

*Changing discretionary spending patterns and general economic conditions could have an adverse effect on our business.*

Purchases at our restaurants are discretionary for consumers and, therefore, we are susceptible to economic slowdowns. In particular, our Morton's steakhouses cater primarily to business clientele and local fine-dining guests. We believe that the vast majority of our weekday revenues and a substantial portion of our weekend revenues from these restaurants are derived from business people using expense accounts and, accordingly, we believe that our business is particularly susceptible to any factors that cause a reduction in expense account dining by our business clientele. We also believe that consumers generally are more willing to make discretionary purchases, including high-end restaurant meals, during periods in which favorable economic conditions prevail. Changes in spending habits as a result of an economic slowdown or a reduction in consumer confidence are likely to adversely affect our sales.

The future performance of the U.S. economy is uncertain and is directly affected by numerous global and national political and other factors that are beyond our control. These factors, which also affect discretionary consumer spending, include national, regional and local economic conditions, disposable consumer income, consumer confidence, terrorist attacks and the United States' participation in military actions. We believe that these factors have adversely impacted our business and, should these conditions continue or worsen or should similar conditions occur in the future, we would expect them to continue to adversely impact our business.

*Our continued growth depends on our ability to open new restaurants and operate new restaurants profitably.*

A substantial majority of our historical growth has been due to opening new restaurants. Our ability to open new restaurants is dependent upon a number of factors, many of which are beyond our control, including our ability to:

find quality locations;

reach acceptable agreements regarding the lease or purchase of locations;

comply with applicable zoning, land use and environmental regulations;

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raise or have available an adequate amount of money for construction and opening costs;

timely hire, train and retain the skilled management and other employees necessary to meet staffing needs;

obtain, for an acceptable cost, required permits and approvals; and

efficiently manage the amount of time and money used to build and open each new restaurant.

We are reviewing additional sites for potential future Morton's steakhouses. Historically, there is a ramp-up period of time before we expect a new Morton's steakhouse to achieve our targeted level of performance. This is due to higher operating costs caused by start-up and other temporary inefficiencies associated with opening new restaurants such as lack of market familiarity and acceptance when we enter new markets and unavailability of experienced staff.

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We may not be able to attract enough customers to new restaurants because potential customers may be unfamiliar with our restaurants or the atmosphere or the menus of our restaurants might not appeal to them. As a result, the operating results generated at new restaurants may not equal the operating results generated at our existing restaurants. The restaurants may even operate at a loss, which could have a significant adverse effect on our overall operating results. In addition, opening a new restaurant in an existing market could reduce the revenue of our existing restaurants in that market.

For these same reasons, many markets would not successfully support one of our restaurants. Furthermore, our ability to expand into non-U.S. markets also may be impacted by legal considerations such as restrictions on importing USDA prime beef from the United States. For example, we currently are not able to export U.S. beef to our restaurants in Asia.

Our existing senior personnel levels, restaurant management systems, financial controls, information systems and other systems and procedures may be inadequate to support our expansion, which could require us to incur substantial expenditures that could adversely affect our operating results.

### ***Our restaurants may not be able to compete successfully with other restaurants.***

If our restaurants are unable to compete successfully with other restaurants in new and/or existing markets, we may not achieve our projected revenue and profitability targets. Our industry is intensely competitive with respect to price, quality of service, restaurant location, ambiance of facilities and type and quality of food. We compete with national and regional restaurant chains and independently owned restaurants for customers, restaurant locations and qualified management and other restaurant staff. Compared to our business, some of our competitors have greater financial and other resources, have been in business longer, have greater name recognition and are better established in the markets where our restaurants are located or are planned to be located. Our inability to compete successfully with other restaurants may force us to close one or more of our restaurants. We have closed in the past, and may close in the future, one or more of our restaurants. Closing a restaurant would reduce our revenues, and could subject us to construction and other costs including severance, legal costs and the write-down of leasehold improvements, equipment, furniture and fixtures. In addition, we could remain liable for remaining future lease obligations.

In addition, our continued success depends in part upon the continued popularity of upscale steakhouses. Shifts in consumer preferences away from this type of concept could materially adversely affect our operating results. The restaurant industry is characterized by the continual introduction of new concepts and is subject to rapidly changing consumer preferences, tastes and eating and purchasing habits. Our success depends in part on our ability to anticipate and respond to changing consumer preferences, as well as other factors affecting the restaurant industry, including new market entrants and demographic changes.

### ***Continued expansion by our competitors in the upscale steakhouse segment of the restaurant industry could prevent us from realizing anticipated benefits from new restaurant growth or continued growth in existing restaurant revenues.***

Our competitors have opened many upscale steakhouses in recent years and a key element of our strategy is to open new steakhouses in both new and existing markets. If we overestimate demand for Morton's steakhouses or underestimate the popularity of our competitors' restaurants, we may be unable to realize anticipated revenues from new steakhouses. Similarly, if one or more of our competitors open new restaurants in any of our existing or anticipated markets, sales in our steakhouses may be lower than we expect. Any unanticipated slowdown in demand in any of our restaurants due to industry growth could reduce our revenues, which could cause the price of our common stock to decline substantially.





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***Restaurant companies, including ours, have been the target of class actions and other lawsuits alleging, among other things, violations of federal and state law.***

Our results of operations may be adversely affected by legal or governmental proceedings brought by or on behalf of our employees or customers. In recent years, a number of restaurant companies, including ours, have been subject to lawsuits, including class action lawsuits, alleging violations of federal and state law regarding workplace and employment matters, discrimination and similar matters. A number of these lawsuits have resulted in the payment of substantial damages by the defendants. Similar lawsuits have been instituted against us from time to time and we are also a defendant in a number of pending lawsuits alleging violations of state and federal wage and hour laws regarding the sharing of tips with other employees and failure to pay for all hours worked. An arbitration decision with respect to the wage and hour laws regarding the sharing of tips with other employees in connection with a proceeding involving 88 claimants with respect to two of our Morton's steakhouses located in New York is expected in the near future. See Business Legal Proceedings. We have not established any accruals for judgments, and insurance is not available to cover any liabilities, with respect to these matters. Accordingly, we cannot assure you that we will not incur substantial damages and expenses resulting from lawsuits, which could have a material adverse effect on our business.

***Increases in the prices of, or reductions in the availability of, USDA prime beef could reduce our operating margins and our revenues.***

We purchase large quantities of beef, particularly USDA prime beef, which is subject to extreme price fluctuations due to seasonal shifts, climate conditions, industry demand and other factors. Our beef costs represented approximately 48% of our food and beverage costs during fiscal 2004 and approximately 48% of our food and beverage costs during the nine month period ended October 2, 2005. The market for USDA prime beef is particularly volatile. For example, in late 2003, increased demand, together with the impact of supply rationing during late 2001 and 2002, resulted in shortages of USDA prime beef, requiring us to pay significantly higher prices for the USDA prime beef we purchased. Because Morton's steakhouses feature USDA prime beef, we generally would expect to purchase USDA prime beef even if the price increased significantly. If prices for the types of beef we use in our restaurants increase in the future and we choose not to pass, or cannot pass, these increases on to our guests, our operating margins would decrease.

***We may experience higher operating costs, including increases to supply prices and employee salaries and benefits, which will adversely affect our operating results if we cannot increase menu prices to cover them.***

If we increase the compensation or benefits to our employees or pay higher prices for food items or other supplies, we may have an increase in our operating costs. If we are unable or unwilling to increase our menu prices or take other actions to offset increased operating costs, our operating results will suffer. Many factors affect the prices that we pay for the various food and other items that we use to operate our restaurants, including seasonal fluctuations, longer term cycles and other fluctuations in livestock markets, changes in weather or demand and inflation. Factors that may affect the salaries and benefits that we pay to our employees include local unemployment rates and changes in minimum wage and employee benefits laws. Other factors that could cause our operating costs to increase include fuel prices, occupancy and related costs, maintenance expenditures and increases in other day-to-day expenses.

***Our operating results may fluctuate significantly due to the seasonality of our business.***

Our business is subject to seasonal fluctuations that may vary greatly depending upon the region in which a particular restaurant is located. These fluctuations can make it more difficult for us to predict accurately and address in a timely manner factors that may have a negative impact on our business. Accordingly, results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for any year. See Management's Discussion and Analysis of Financial Condition and Results of Operations Seasonality.



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*Our results of operations are volatile.*

Our results of operations have fluctuated significantly in the past and can be expected to continue to fluctuate significantly in the future. Our results of operations are affected by a variety of factors, including:

the timing of new restaurant openings, the cost of opening new restaurants and the relative proportion of new restaurants to mature restaurants;

changes in consumer preferences;

general economic conditions;

severe weather conditions; and

actions by our competitors.

Some of our restaurants are located in regions that may be susceptible to severe weather conditions. As a result, adverse weather conditions in any of these areas could damage these restaurants, result in fewer guest visits to these restaurants and otherwise have a material adverse impact on our business. For example, our business was adversely impacted in the third quarter of fiscal 2005 and continues to be adversely affected by hurricanes and severe weather in New Orleans and Florida.

*Negative publicity surrounding our restaurants or the consumption of beef generally could adversely affect consumer taste, which could reduce sales in one or more of our restaurants and make our brand less valuable.*

Because our competitive strengths include the quality of our food and our restaurant facilities, we believe that adverse publicity relating to these factors or other similar concerns affects us more than it would restaurants that compete primarily on other factors. Any shifts in consumer preferences away from the kinds of food we offer, particularly beef, whether because of dietary or other health concerns or otherwise, would make our restaurants less appealing and adversely affect our revenues. Adverse changes involving any of these factors could further reduce our guest traffic and/or impose practical limits on pricing, which could further reduce our revenues and operating income.

*Instances of food-borne illness and outbreaks of disease, as well as negative publicity relating thereto, could result in reduced demand for our menu offerings and reduced traffic in our restaurants and negatively impact our business.*

Instances of food-borne illness, including Bovine Spongiform Encephalopathy, which is also known as BSE or mad cow disease, aphthous fever, which is also known as hoof and mouth disease, as well as hepatitis A, lysteria, salmonella and e-coli, whether or not traced to our restaurants, could reduce demand for our menu offerings. Outbreaks of disease, including severe acute respiratory syndrome, which is also known as SARS, as well as influenza, could reduce traffic in our restaurants. Any of these events would negatively impact our business. In addition, any negative publicity relating to these and other health-related matters may affect consumers' perceptions of our restaurants and the

food that we offer, reduce guest visits to our restaurants and negatively impact demand for our menu offerings. Because our competitive strengths include the quality of our food, adverse publicity relating to these matters or other similar concerns affects us more than it would restaurants that compete primarily on other factors. For example, the outbreak of SARS in 2003 materially impacted the results of our three restaurants located in Hong Kong, Singapore and Toronto.

*We depend upon frequent deliveries of food and other supplies.*

Our ability to maintain consistent quality throughout our restaurants depends in part upon our ability to acquire fresh food products, including USDA prime beef, and related items from reliable sources in accordance with our specifications and in sufficient quantities. We have relatively short-term contracts with a

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limited number of suppliers for the distribution of most meat, food and other supplies for our restaurants. Our dependence on a small number of suppliers, as well as the limited number of available suppliers of USDA prime beef, subject us to the possible risks of shortages, interruptions and price fluctuations. If any of these suppliers do not perform adequately or otherwise fail to distribute products or supplies to our restaurants, we may be unable to replace the suppliers in a short period of time on acceptable terms. Our inability to replace our suppliers in a short period of time on acceptable terms could increase our costs and could cause shortages at our restaurants of food and other items that may cause us to remove certain items from a restaurant's menu or temporarily close a restaurant. If we temporarily close a restaurant or remove popular items from a restaurant's menu, that restaurant may experience a significant reduction in revenue during the time affected by the shortage and thereafter, as our customers may change their dining habits as a result. We have no long-term contracts for any food items used in our restaurants. We currently do not engage in futures contracts or other financial risk management strategies with respect to potential price fluctuations in the cost of food and other supplies, which we purchase at prevailing market or contracted prices.

*We may incur additional costs or liabilities and lose revenues as a result of litigation and government regulation.*

Our business is subject to extensive federal, state and local government regulation, including regulations related to the preparation and sale of food, the sale of alcoholic beverages, the sale and use of tobacco, zoning and building codes, land use and employee, health, sanitation and safety matters.

Typically our restaurants' licenses to sell alcoholic beverages must be renewed annually and may be suspended or revoked at any time for cause. Alcoholic beverage control regulations relate to various aspects of daily operations of our restaurants, including the minimum age of patrons and employees, hours of operation, advertising, wholesale purchasing and inventory control, handling and storage. The failure of any of our restaurants timely to obtain and maintain liquor or other licenses, permits or approvals required to serve alcoholic beverages or food could delay or prevent the opening of, or adversely impact the viability of, and any negative publicity related thereto could have an adverse effect on, the restaurant and we could lose significant revenue.

Our restaurants are subject in each state in which we operate to dram shop laws, which generally allow a person to sue us if that person was injured by a legally intoxicated person who was wrongfully served alcoholic beverages at one of our restaurants. A judgment against us under a dram shop law could exceed our liability insurance coverage policy limits and could result in substantial liability for us and have a material adverse effect on our results of operations. Our inability to continue to obtain such insurance coverage at reasonable costs also could have a material adverse effect on us.

To the extent that governmental regulations impose material additional obligations on our suppliers, including, without limitation, regulations relating to the inspection or preparation of meat, food and other products used in our business, product availability could be limited and the prices that our suppliers charge us could increase. We cannot assure you that we would be able to offset these costs through increased menu prices, which could have a material adverse effect on our business. If any of our restaurants were unable to serve particular food products, even for a short period of time, we could experience a reduction in our overall revenue, which could have a material adverse effect on us. In addition, further government regulation including laws restricting smoking in restaurants and bars may adversely impact our business.

One or more of our restaurants could be subject to litigation and governmental fine, censure or closure in connection with issues relating to our food and/or our facilities. The food products that we serve, including meat and seafood, are susceptible to food borne illnesses. We and other restaurant companies have been named as defendants in actions seeking damages as a result of food borne illnesses and actions brought under state laws regarding notices with respect to chemicals contained in food products and regarding excess moisture in the business premises. To date, none of these matters has had a material adverse effect on our business, but we cannot assure you that that will continue to be the case.



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The costs of operating our restaurants may increase if there are changes in laws governing minimum hourly wages, working conditions, overtime and tip credits, health care, workers' compensation insurance rates, unemployment tax rates, sales taxes or other laws and regulations such as those governing access for the disabled, including the Americans with Disabilities Act. If any of these costs were to increase and we were unable to offset the increase by increasing our menu prices or by other means, this could have a material adverse effect on our business and results of operations. Because we have a significant number of restaurants located in various states, including eight in California, six in Florida and five in Illinois, regulatory changes in these states could have a disproportionate impact on our business. See *Business Government Regulation* for a discussion of certain regulations affecting our business.

*The failure to enforce and maintain our intellectual property rights could enable others to use names confusingly similar to Morton's, Morton's of Chicago and other names and marks used by our restaurants.*

We have registered the names Morton's, Morton's of Chicago and certain other names used by our restaurants as trade names, trademarks or service marks with the United States Patent and Trademark Office and in certain foreign countries. The success of our business depends on our continued ability to use our existing trade names, trademarks and service marks in order to increase our brand awareness. In that regard, we believe that our trade names, trademarks and service marks are valuable assets that are critical to our success. The unauthorized use or other misappropriation of our trade names, trademarks or service marks could diminish the value of our brands and restaurant concepts and may cause a decline in our revenue. We are aware of names similar to those of our restaurants used by third parties in certain limited geographical areas.

*We occupy most of our restaurants under long-term non-cancelable leases and we may be unable to renew leases at the end of their terms.*

Most of our restaurants are located in leased premises. Many of our current leases are non-cancelable and typically have terms ranging from 10 to 15 years with renewal options for terms ranging from five to 15 years. We believe that leases that we enter into in the future likely will also be long-term and non-cancelable and have similar renewal options. If we close a restaurant, we generally remain committed to perform our obligations under the applicable lease, which would include, among other things, payment of the base rent for the balance of the lease term. Our obligation to continue making rental payments in respect of leases for closed restaurants could have a material adverse effect on our business and results of operations. Alternatively, at the end of the lease term and any renewal period for a restaurant, we may be unable to renew the lease without substantial additional cost, if at all. If we are unable to renew our restaurant leases, we may close or relocate a restaurant, which could subject us to construction and other costs and risks, and could have a material adverse effect on our business and results of operations. For example, closing a restaurant, even during the time of relocation, will reduce the sales that the restaurant would have contributed to our revenues. Additionally, the revenue and profit, if any, generated at a relocated restaurant may not equal the revenue and profit generated at the existing restaurant.

*Rental payments account for a significant portion of our operating expenses.*

Payments under our operating leases account for a significant portion of our operating expenses. For example, total rental expenses, including additional rental payments based on sales at some of our restaurants, under operating leases were approximately \$19.7 million (7.1% of our revenues) and \$15.7 million (7.2% of our revenues) for fiscal 2004 and the nine month period ended October 2, 2005, respectively. In addition, as of October 2, 2005, we were a party to operating leases requiring future minimum lease payments aggregating approximately \$84.0 million through fiscal 2009 and approximately \$124.0 million thereafter. We expect that new restaurants we open will typically be leased by us under operating leases. Our substantial operating lease obligations could have significant negative consequences, including:

increasing our vulnerability to general adverse economic and industry conditions;



limiting our ability to obtain additional financing;

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requiring a substantial portion of our available cash to be applied to pay our rental obligations, thus reducing cash available for other purposes;

limiting our flexibility in planning for or reacting to changes in our business or the industry in which we compete; and

placing us at a disadvantage with respect to some of our competitors.

We depend on cash flow from operations to pay our lease obligations and to fulfill our other cash needs. If our business does not generate sufficient cash flow from operating activities and sufficient funds are not otherwise available to us from borrowings under bank loans or from other sources, we may not be able to service our operating lease obligations, grow our business, respond to competitive challenges or fund our other liquidity and capital needs, which would have a material adverse affect on us.

***Our level of indebtedness could adversely affect our financial condition.***

In connection with this offering, we plan to enter into a new senior revolving credit facility. Our new senior revolving credit facility, and other debt instruments we may enter into in the future, may have important consequences to you, including the following:

our ability to obtain additional financing for working capital, capital expenditures, acquisitions or general corporate purposes may be impaired;

we may use a substantial portion of our cash flows from operations to pay interest on our indebtedness, which will reduce the funds available to us for operations and other purposes;

our level of indebtedness could place us at a competitive disadvantage compared to our competitors that may have proportionately less debt;

our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate may be limited; and

our level of indebtedness may make us more vulnerable to economic downturns and adverse developments in our business.

We expect to obtain the money to pay our expenses and to pay any amounts due under our anticipated new senior revolving credit facility and our other indebtedness primarily from our operations. Our ability to make these payments depends on our future performance, which will be affected by financial, business, economic and other factors, many of which we cannot control. Our business may not generate sufficient cash flows from operations in the future and our currently anticipated growth in revenues and cash flows may not be realized, either or both of which could result in our being unable to repay indebtedness, including our anticipated new senior revolving credit facility, or to fund other liquidity needs. If we do not have enough money, we may be required to refinance all or part of our then existing debt, sell assets or borrow more money. We cannot assure you that we will be able to accomplish any of these alternatives on terms acceptable to us, or at all. In addition, the terms of existing or future debt agreements, including our new senior revolving credit facility, may restrict us from adopting any of these alternatives.

*The anticipated terms of our new senior revolving credit facility will impose significant operating and financial restrictions on us that may impair our ability to respond to changing business and economic conditions.*

In connection with this offering, we plan to enter into a new senior revolving credit facility. We anticipate that the credit agreement governing such indebtedness will be secured by substantially all of our assets and contain a number of significant restrictions and covenants that will generally limit our ability to, among other things:

pay dividends or purchase stock or make other restricted payments to our stockholders;

incur additional indebtedness;

borrow money or issue guarantees;

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make investments;

use assets as security in other transactions;

sell assets or merge with or into other companies;

enter into transactions with affiliates;

sell stock in our subsidiaries; and

create or permit restrictions on our subsidiaries' ability to make payments to us.

We anticipate that the credit agreement will limit our ability to engage in these types of transactions even if we believed that a specific transaction would contribute to our future growth or improve our operating results. We also anticipate that the credit agreement will require us to achieve specified financial and operating results and maintain compliance with specified financial ratios. Our ability to comply with these provisions may be affected by events outside of our control. A breach of any of these provisions or our inability to comply with required financial ratios in our new senior revolving credit facility could result in a default under the credit facility. If that were to occur, we expect that the lenders will have the right to declare all borrowings to be immediately due and payable. In addition, we expect that the lenders will have the right to demand immediate repayment of all borrowings upon the occurrence of certain change of control events relating to us. We anticipate that if we are unable to repay all borrowings when due, whether at maturity or if declared due and payable following a default or change of control event, the lenders would have the right to proceed against the collateral granted to secure the indebtedness. There can be no assurance that we will not breach these covenants or fail to comply with the terms of our new senior revolving credit facility, or that a change of control event allowing the lenders to demand immediate repayment of all borrowings will not occur, any of which could have a material adverse effect on our business.

***We could face labor shortages that could slow our growth and adversely impact our existing restaurants.***

Our success depends in part upon our ability to attract, motivate and retain a sufficient number of qualified employees, including restaurant managers, kitchen staff and servers, necessary to keep pace with our anticipated expansion schedule and meet the needs of our existing restaurants. A sufficient number of qualified individuals of the requisite caliber to fill these positions may be in short supply in some areas. Any future inability to recruit and retain qualified individuals may delay the planned openings of new restaurants and could adversely impact our existing restaurants. Any such delays, any material increases in employee turnover rates in existing restaurants or any widespread employee dissatisfaction could have a material adverse effect on our business and results of operations. Additionally, competition for qualified employees could require us to pay higher wages, which could result in higher labor costs, which could have a material adverse effect on our results of operations.

***We depend on the services of key executives, the loss of whom could materially harm our business.***

Some of our senior executives are important to our success because they have been instrumental in setting our strategic direction, operating our business, identifying, recruiting and training key personnel, identifying expansion opportunities and arranging necessary financing. Losing the services of any of these individuals could adversely affect our business until a suitable replacement could be found. We also believe that they

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could not quickly be replaced with executives of equal experience and capabilities. We cannot guarantee that their successors would be effective. Although we have an employment agreement with our Chief Executive Officer, we could not prevent him from terminating his employment with us. Other executives are not bound by employment agreements with us. We do not maintain key person life insurance policies on any of our executives. See Management.

*We expect to incur substantial additional expenses to meet our reporting obligations as a public company. In addition, failure to maintain adequate financial and management processes and controls could lead to errors in our financial reporting and could harm our ability to manage our expenses.*

Reporting obligations as a public company and our anticipated growth are likely to continue to place a considerable strain on our financial and management systems, processes and controls, as well as on our

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personnel. In addition, as a public company we will be required to document and test our internal controls over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 so that our management can certify as to the effectiveness of our internal controls and our independent registered public accounting firm can render an opinion on management's assessment and on the effectiveness of our internal control over financial reporting by the time our annual report for fiscal 2007 is due and thereafter, which will require us to document and may require us to make significant changes to our internal controls over financial reporting. As a result, we may be required to improve our financial and managerial controls, reporting systems and procedures and incur substantial expenses to test our systems and to make such improvements. If our management is unable to certify the effectiveness of our internal controls or if our independent registered public accounting firm cannot render an unqualified opinion on management's assessment and on the effectiveness of our internal control over financial reporting, or if material weaknesses in our internal controls are identified, or if we fail to comply with other obligations imposed by the Sarbanes-Oxley Act or New York Stock Exchange rules relating to corporate governance matters, we could be subject to regulatory scrutiny and a loss of public confidence, which could have a material adverse effect on our business and our stock price. In addition, if we do not maintain adequate financial and management personnel, processes and controls, we may not be able to accurately report our financial performance on a timely basis, which could cause a decline in our stock price and adversely affect our ability to raise capital.

*Our current insurance policies may not provide adequate levels of coverage against all claims.*

We believe we maintain insurance coverage that is customary for businesses of our size and type. However, there are types of losses we may incur that cannot be insured against or that we believe are not commercially reasonable to insure. For example, we believe that insurance covering liability for violations of wage and hour laws is generally not available. These losses, if they occur, could have a material adverse effect on our business and results of operations.

## **Risks Related to the Offering**

*Our stock price may be volatile, the market price of our common stock may decline and you could lose all or a significant part of your investment. In addition, there is no existing market for our common stock, and we do not know if one will develop to provide you with adequate liquidity.*

Prior to this offering, there has not been a public market for our common stock. We cannot predict the extent to which investor interest in our company will lead to the development of an active trading market on the New York Stock Exchange or otherwise or how liquid any trading market might become. If an active trading market does not develop, you may have difficulty selling any of our common stock that you buy.

The initial public offering price for our common stock was determined by negotiations between us, the selling stockholders and the underwriters and does not purport to be indicative of prices that will prevail in the open market following this offering. The market price of our common stock may be influenced by many factors, some of which are beyond our control, including:

the failure of securities analysts to cover our common stock after this offering or changes in financial estimates by analysts of us, our competitors or the restaurant industry in general;

announcements by us or our competitors of new locations or menu items, capacity changes, strategic investments or acquisitions;

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actual or anticipated variations in our or our competitors' operating results;

our and our competitors' growth rates;

failure by us or our competitors to meet analysts' projections or guidance that we or our competitors may give the market;

general economic conditions;

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fluctuations in operating results;

terrorist acts;

future sales of our common stock; and

investor perceptions of us, our competitors and our industry.

As a result of these factors, investors in our common stock may experience a decrease, which could be substantial, in the value of their investment, including decreases unrelated to our operating performance or prospects. In addition, the stock market in general, and the market for stocks of some restaurant companies in particular, has experienced extreme price and volume fluctuations. These broad market and industry factors may materially reduce the market price of our common stock, regardless of our operating performance. In the past, following periods of volatility in the market price of publicly traded shares of a company, securities class-action litigation has often been instituted against that company. Such litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources, which could materially and adversely harm our financial condition and results of operations.

*No assurance can be given that we will redeem or repurchase all of our outstanding notes.*

In connection with this offering, we intend to redeem or repurchase our 7.5% senior secured notes and our 14% senior secured notes and to terminate our current working capital facility with the proceeds from this offering and borrowings that we anticipate making under a new senior revolving credit facility. However, there can be no assurance that we will receive sufficient proceeds from this offering and have sufficient available funds under our new senior revolving credit facility to enable us to redeem or repurchase any portion of our 7.5% senior secured notes or our 14% senior secured notes. In addition, we intend to repurchase our outstanding 7.5% senior secured notes by means of a tender offer. It is possible that not all of the outstanding 7.5% senior secured notes will be tendered for purchase by their holders, in which case we plan to redeem or defease the remaining notes.

*Castle Harlan owns a substantial portion of our common stock and may have conflicts of interest with other stockholders in the future.*

Immediately after this offering, Castle Harlan will own approximately % (or % if the underwriters' over-allotment option is exercised in full) of our outstanding common stock, and our officers and directors and those of our stockholders holding more than 5.0% of our common stock prior to this offering, including Castle Harlan, will together own approximately % (or % if the underwriters' over-allotment option is exercised in full) of our outstanding common stock, in each case based on shares outstanding as of October 2, 2005. As a result, these stockholders, acting individually or together, could exert significant influence over, and acting together may be able to control, matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. In addition, this concentration of ownership may delay or prevent a change in control of our company and make some transactions more difficult or impossible without the support of these stockholders. The interests of these stockholders may not always coincide with our interests as a company or the interests of other stockholders. Accordingly, these stockholders could cause us to enter into transactions or agreements of which you would not approve or make decisions with which you would disagree.

*Future sales of our common stock in the public market could cause our stock price to fall.*



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If our existing stockholders sell substantial amounts of our common stock in the public market following this offering, the market price of our common stock could decrease significantly. The perception in the public market that our existing stockholders might sell substantial amounts of our common stock could also depress the market price of our common stock.

Immediately after completion of this offering, we will have \_\_\_\_\_ shares of common stock outstanding, including approximately \_\_\_\_\_ shares that will be beneficially owned by Castle Harlan, in each case based on shares outstanding as of October 2, 2005 and assuming no exercise of the underwriters' over-allotment option.

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In general, the shares sold in this offering will be freely transferable without restriction or additional registration under the Securities Act of 1933, or the Securities Act. In addition, all of the remaining shares of our common stock that will be outstanding immediately after completion of this offering will be available for sale in the public markets, pursuant to Rule 144 or Rule 701 under the Securities Act, 180 days (subject to extension for up to an additional 34 days under limited circumstances as described under "Underwriting") after the completion of this offering following the expiration of lock-up agreements entered into by the holders of substantially all of our common stock outstanding immediately prior to the consummation of this offering, including our directors and executive officers, for the benefit of the underwriters. Furthermore, immediately after completion of this offering and based on shares outstanding as of October 2, 2005, the holders of substantially all of those shares of our outstanding common stock, including Castle Harlan, will have the right to demand that we file a registration statement with respect to those shares, and will have the right to include those shares in any registration statement that we file with the SEC, subject to exceptions, which would enable those shares to be sold in the public market, subject to the restrictions under the lock-up agreements referred to above.

Wachovia Capital Markets, LLC may, in its sole discretion and at any time or from time to time, without notice, release all or any portion of the shares of common stock subject to the lock-up agreements for sale in the public and private markets prior to the expiration of the lock-up. The market price for shares of our common stock may drop significantly when the restrictions on resale by our existing stockholders lapse or if those restrictions on resale are waived. A decline in the price of shares of our common stock might impede our ability to raise capital through the issuance of additional shares of our common stock or other equity securities.

***If you purchase shares of common stock sold in this offering, you will experience immediate and substantial dilution.***

Prior investors have paid substantially less per share for our common stock than the initial public offering price. Accordingly, if you purchase shares of our common stock in this offering at an assumed initial public offering price of \$ \_\_\_\_\_ per share, which is the midpoint of the estimated price range set forth on the cover page of this preliminary prospectus, you will experience immediate and substantial dilution of \$ \_\_\_\_\_ in net tangible book value per share of common stock because the price that you pay will be substantially greater than the net tangible book value per share of common stock of the shares you acquire. For a description of how we compute dilution in net tangible book value per share, see "Dilution."

***We plan to issue options and/or restricted stock, which have the potential to dilute stockholder value and cause the price of our common stock to decline.***

We expect to offer stock options, restricted stock and/or other forms of stock-based compensation to our directors, officers and employees. If the options that we issue are exercised, or the restricted stock that we issue vests, and those shares are sold into the public market, the market price of our common stock may decline. In addition, the availability of shares of common stock for award under our equity incentive plan, or the grant of stock options, restricted stock or other forms of stock-based compensation, may adversely affect the market price of our common stock.

***Provisions of our charter documents, Delaware law and other documents could discourage, delay or prevent a merger or acquisition at a premium price.***

Our certificate of incorporation and bylaws include provisions that:

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permit us to issue preferred stock in one or more series and, with respect to each series, fix the number of shares constituting the series and the designation of the series, the voting powers (if any) of the shares of the series and the preferences and other special rights, if any, and any qualifications, limitations or restrictions, of the shares of the series;

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restrict the ability of stockholders to act by written consent or to call special meetings;

limit the ability of stockholders to amend our certificate of incorporation and bylaws, including stockholder supermajority voting requirements;

require advance notice for nominations for election to the board of directors and for stockholder proposals; and

establish a classified board of directors with staggered three-year terms.

These provisions may discourage, delay or prevent a merger or acquisition of our company, including a transaction in which the acquiror may offer a premium price for our common stock.

We are subject to Section 203 of the Delaware General Corporation Law, or the DGCL, which imposes restrictions on mergers and other business combinations between us and any holder of 15% or more of our common stock. In addition, our equity incentive plan will provide for vesting of stock options and/or restricted stock, and/or payments to be made to the employees thereunder, if their employment is terminated in connection with a change of control of our company, which could discourage, delay or prevent a merger or acquisition at a premium price. In addition, we expect that our new senior revolving credit facility will include, and other debt instruments we may enter into in the future may include, provisions entitling the lenders to demand immediate repayment of all borrowings upon the occurrence of certain change of control events relating to our company, which also could discourage, delay or prevent a business combination transaction. See Description of Capital Stock Provisions of Our Certificate of Incorporation and Bylaws and Delaware Law That May Have an Anti-Takeover Effect.

***We do not intend to pay dividends on our common stock for the foreseeable future, and the instruments governing our indebtedness contain various covenants that may limit our ability to pay dividends.***

It is our present intention not to pay dividends on our common stock for the foreseeable future. Although our board of directors may, at its discretion, modify or repeal our dividend policy, future dividends, if any, with respect to shares of our common stock will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions, provisions of applicable law and other factors that our board of directors may deem relevant. Accordingly, we cannot assure you that we will pay dividends in the future.

We expect that our new senior revolving credit agreement will contain, and debt instruments that we enter into in the future may contain, covenants that place limitations on the amount of dividends we may pay. In addition, under Delaware law, our board of directors may declare dividends only to the extent of our surplus (which is defined as total assets at fair market value minus total liabilities, minus statutory capital) or, if there is no surplus, out of our net profits for the then current and/or immediately preceding fiscal years.

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus includes forward-looking statements. Forward-looking statements are those that do not relate solely to historical fact. They include, but are not limited to, any statement that may predict, forecast, indicate or imply future results, performance, achievements or events. They may contain words such as believe, expect, anticipate, estimate, intend, plan, target, project, likely, will, would, could, or other words of similar meaning. They may relate to, among other things:

our liquidity and capital resources;

competitive pressures and trends in the restaurant industry;

prevailing interest rates;

legal proceedings and regulatory matters;

general economic conditions;

our development and expansion plans and expectations for the futures; and

the matters described in Risk Factors.

All forward-looking statements involve risks and uncertainties, including, but not limited to, economic, competitive and governmental factors outside of our control, that may cause actual results to differ materially from trends, plans or expectations set forth in the forward-looking statements. These risks and uncertainties may include those discussed in Risk Factors. Given these risks and uncertainties, we urge you to read this prospectus completely with the understanding that actual future results may be materially different from what we plan or expect. These factors and the other risk factors described in this prospectus are not necessarily all of the important factors that could cause actual results or developments to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors also could harm our results. Consequently, there can be no assurance that actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, us. Given these uncertainties, prospective investors are cautioned not to place undue reliance on forward-looking statements.

All future written and verbal forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking statements made in this prospectus may not prove to be correct.

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**USE OF PROCEEDS**

Our net proceeds from this offering will be approximately \$ (or approximately \$ if the underwriters exercise in full their over-allotment option to purchase up to additional shares of our common stock), based on an assumed initial public offering price of \$ per share, which is the midpoint of the estimated price range appearing on the cover page of this preliminary prospectus, after deducting underwriting discounts and commissions and other estimated offering expenses payable by us.

In connection with this offering, we intend to enter into a new \$ million senior revolving credit facility. We intend to use the net proceeds from this offering, together with approximately \$ million of borrowings under this new senior revolving credit facility, as follows:

approximately \$ million to repay all of our currently outstanding 7.5% senior secured notes, including a prepayment premium of approximately \$ million;

approximately \$ million to repay all of the currently outstanding 14% senior secured notes, including a prepayment premium of approximately \$ million;

approximately \$ million to pay the termination fee in connection with the termination of MHLLC's management agreement with Castle Harlan, Inc.;

approximately \$ million to collateralize outstanding letters of credit issued under our current working capital facility; and

the remainder for general corporate purposes.

However, as discussed below, the amount we expend to repay our 7.5% senior secured notes may be greater than the estimated amounts set forth above.

We will not receive any of the proceeds from the selling stockholders' sale of shares of common stock in this offering.

Pending use for the purposes set forth above, we intend to invest the net proceeds in short-term, investment-grade, interest-bearing securities. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources for additional information regarding our sources and uses of capital.

As of October 2, 2005, approximately \$93.1 million of aggregate accreted principal amount of our 7.5% senior secured notes remained outstanding. We intend to repurchase our outstanding 7.5% senior secured notes by means of a tender offer made to the holders of those notes, and we intend to offer to repurchase those outstanding notes for a total of approximately \$ million, including accrued interest and a premium. To the extent that the amount we pay in the tender offer exceeds that estimated amount, we intend to pay that excess through borrowings under our new senior revolving credit facility. It is possible that not all of the outstanding 7.5% senior secured notes will be tendered for purchase by their holders, in which case we plan to redeem or defease the notes. Accordingly, the amount that we pay in connection with the

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repayment of the 7.5% senior secured notes may be greater or less than the estimated amount appearing above, and it is possible that we may not repay all of the outstanding 7.5% senior secured notes.

As a result of the expected merger of MHCI into us prior to the consummation of this offering, we will become liable for MHCI's existing 14% senior secured notes. As of October 2, 2005, approximately \$44.3 million of aggregate principal amount of 14% senior secured notes remained outstanding, including interest paid in the form of additional notes, which we refer to as PIK notes. We intend to use approximately \$ million of the net proceeds of this offering to repurchase those outstanding notes, including accrued interest and a premium.

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The interest rate and maturity of the indebtedness that we intend to repay using the net proceeds from this offering are described below:

*7.5% Senior Secured Notes.* Our 7.5% senior secured notes were issued at a discount of 15% and a yield to maturity of 12.005% including the accretion of the discount and the amortization of the related deferred financing costs. The notes are fully and unconditionally guaranteed on a senior secured basis by all of our present and future domestic restricted subsidiaries and are secured by substantially all of our and our domestic restricted subsidiaries' tangible and intangible assets, as well as by a pledge of a portion of the stock of the subsidiaries owned by us and by our domestic restricted subsidiaries, in each case subject to the prior ranking claims on such assets by the lender under our current working capital facility and certain other secured indebtedness. Our domestic restricted subsidiaries presently consist of all of our domestic subsidiaries that either own restaurants or own subsidiaries that own restaurants. The 7.5% senior secured notes mature on July 1, 2010.

*14% Senior Secured Notes.* Interest on our 14% senior secured notes is payable in cash or by the issuance of PIK notes in lieu of cash interest payments. Pursuant to the notes, if at the end of a fiscal quarter we meet certain financial tests, we are required to repay, to the extent permitted, outstanding PIK notes. The 14% senior secured notes are secured by a pledge of all of MHCI's assets, which include the stock of Morton's Restaurant Group, Inc. The 14% senior secured notes mature on December 30, 2010.



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Dilution represents the difference between the amount per share paid by investors in this offering and the pro forma net tangible book value per share of our common stock immediately after this offering. Net tangible book value per share is equal to our total tangible assets less the amount of our total liabilities, divided by the sum of the number of shares of common stock outstanding. Our net tangible book value (deficit) as of October 2, 2005 was \$(96.0) million, or \$ \_\_\_\_\_ per share of common stock.

After giving effect to our receipt of the estimated net proceeds from our sale of common stock in this offering at an assumed offering price of \$ \_\_\_\_\_ per share, the midpoint of the range set forth on the cover page of this preliminary prospectus, and after deducting the underwriting discounts and commissions and other estimated offering expenses payable by us, our net tangible book value, as adjusted, as of October 2, 2005 would have been \$ \_\_\_\_\_ million, or \$ \_\_\_\_\_ per share of common stock. This represents an immediate increase in net tangible book value to our existing stockholders of \$ \_\_\_\_\_ per share and an immediate dilution to new investors in this offering of \$ \_\_\_\_\_ per share. This calculation does not give effect to our use of proceeds from this offering or any borrowings under our new senior revolving credit facility. The following table illustrates this per share dilution:

Assumed initial public offering price	\$
Net tangible book value per share of common stock as of October 2, 2005	\$
Increase in net tangible book value per share of common stock attributable to new investors	_____
As adjusted net tangible book value per share of common stock after this offering	_____
Dilution per share of common stock to new investors in this offering	\$ _____

The following table summarizes, as of October 2, 2005, on an as adjusted basis, the total number and percentage of shares of common stock purchased from us, the aggregate consideration paid to us and the average price per share paid by existing stockholders and by new investors, based on the assumed initial public offering price of \$ \_\_\_\_\_ per share, the midpoint of the range set forth on the cover page of this preliminary prospectus, before deducting the underwriting discounts and commissions and other estimated offering expenses payable by us:

	Shares of Common Stock Purchased		Total Consideration		Average Price Per Share of Common Stock
	Number	Percent	Amount	Percent	
Existing common stockholders		%	\$	%	\$
New investors					
<b>Total</b>		<b>100%</b>	<b>\$</b>	<b>100%</b>	

Excluding options and/or restricted stock grants that we intend to issue in connection with this offering, the total number of shares of common stock purchased by our existing stockholders would be \_\_\_\_\_, the aggregate cash consideration paid by our existing stockholders would be \$ \_\_\_\_\_ and the average price per share paid by our existing stockholders would be approximately \$ \_\_\_\_\_. In addition, you will incur

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additional dilution if we grant more options and/or restricted stock in the future with exercise prices below the initial public offering price.

If the underwriters exercise their over-allotment option in full, our existing stockholders would own approximately % and our new investors would own approximately % of the total number of shares of our common stock outstanding immediately after this offering, based on shares outstanding as of October 2, 2005.

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**DIVIDEND POLICY**

It is our present intention not to pay dividends on our common stock for the foreseeable future. Although our board of directors may, at its discretion, modify or repeal our dividend policy, future dividends, if any, with respect to shares of our common stock will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions, provisions of applicable law and other factors that our board of directors may deem relevant. Accordingly, we cannot assure you that we will pay dividends in the future.

We expect that our new senior revolving credit agreement will contain, and debt instruments that we enter into in the future may contain, covenants that place limitations on the amount of dividends we may pay. In addition, under Delaware law, our board of directors may declare dividends only to the extent of our surplus (which is defined as total assets at fair market value minus total liabilities, minus statutory capital) or, if there is no surplus, out of our net profits for the then current and/or immediately preceding fiscal years.

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**CAPITALIZATION**

The following table sets forth our consolidated cash and cash equivalents and our consolidated capitalization as of October 2, 2005 on an actual basis and on an as adjusted basis. The as adjusted data appearing below give effect to the following transactions as if they had occurred as of October 2, 2005:

Our issuance and sale of common stock in this offering and our receipt of approximately \$        million in net proceeds, based on an assumed initial public offering price of \$        per share, which is the mid-point of the estimated price range appearing on the cover page of this preliminary prospectus, after deducting underwriting discounts and commissions and estimated offering expenses payable by us;

the effectiveness of our new \$        million senior revolving credit facility and the incurrence of approximately \$        million of borrowings under that credit facility and the termination of our existing senior secured working capital facility;

the application of the estimated net proceeds we receive from this offering, together with the proceeds from the borrowings under our new credit facility referred to above, to repay all of our currently outstanding 7.5% senior secured notes for an estimated total cost of \$        million, to repay all of our currently outstanding 14% senior secured notes for an estimated cost of \$        million, to terminate MHLLC's management agreement with Castle Harlan, Inc. for a cost of approximately \$        million, and to collateralize outstanding letters of credit for a total cost of approximately \$        million.

However, the amounts that we may be required to expend to repay our outstanding 7.5% senior secured notes and 14% senior secured notes may differ from the amounts that we have assumed for purposes of preparing this as adjusted data and it is possible that we may not repay all of our outstanding 7.5% senior secured notes. Moreover, the as adjusted data are subject to a number of other uncertainties and assumptions. Accordingly, the as adjusted data appearing below do not purport to reflect what our consolidated cash and cash equivalents or our consolidated capitalization would have been had these transactions occurred as of October 2, 2005.

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You should read this table together with the information in this prospectus under "Use of Proceeds," "Selected Consolidated Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Description of Capital Stock" and together with the consolidated financial statements and accompanying notes included elsewhere in this prospectus.

	As of October 2, 2005	
	(unaudited)	
	As	
	Actual	Adjusted
	(\$ in millions)	
Cash and cash equivalents	\$ 5.9	\$
Long-term debt, including current maturities (1):		
New senior revolving credit facility		
7.5% senior secured notes	93.1	
14% senior secured notes	44.3	
Obligations to financial institutions	3.6	
Total long-term debt, including current maturities	\$ 141.0	\$
Stockholder's Equity:		
Common Stock, \$0.01 par value; actual:        shares authorized,        shares issued and outstanding; as adjusted:        shares authorized,        shares issued and outstanding		
Preferred Stock, \$0.01 par value; actual: no shares authorized, issued or outstanding; as adjusted:        shares authorized, no shares issued and outstanding		
Additional paid-in capital		
Accumulated other comprehensive income		
Accumulated deficit		
Stockholder's equity		
Total capitalization	\$	\$

(1) We currently have a \$15.0 million senior secured working capital facility with Wells Fargo Foothill, Inc. As of October 2, 2005, we had no borrowings outstanding under our current working capital facility and \$0.3 million was restricted for letters of credit issued by the lender.

The share information in the table above excludes:

up to        shares of our common stock that may be issued by us if the underwriters exercise their over-allotment option to purchase additional shares;

options to purchase        shares of common stock at a weighted average exercise price of \$        per share that we intend to issue and        shares of restricted stock that we intend to issue, prior to the consummation of this offering, under an equity incentive plan we intend to implement prior to the consummation of this offering; and

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an aggregate of additional shares of our common stock that will initially be available for future awards pursuant to the equity incentive plan referred to above, plus potential future increases in the number of shares available for issuance under that equity incentive plan.

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**SELECTED CONSOLIDATED FINANCIAL DATA**

The following table contains selected consolidated financial data as of and for fiscal 2000, 2001, 2002, 2003 and 2004 and as of and for the nine month periods ended October 3, 2004 and October 2, 2005. The selected financial data as of and for fiscal 2000, 2001, 2002, 2003 and 2004 have been derived from our audited consolidated financial statements. Audited consolidated financial data for fiscal 2002, 2003 and 2004, and audited consolidated balance sheet data as of the end of fiscal 2003 and 2004, are derived from our consolidated financial statements contained elsewhere in this prospectus. The selected financial data as of and for the nine month periods ended October 3, 2004 and October 2, 2005 have been derived from our unaudited consolidated financial statements contained elsewhere in this prospectus, which, in our opinion, include all adjustments, consisting of only usual recurring adjustments, necessary for the fair presentation of that information for such periods. The interim period selected financial data are not necessarily indicative of the results for the full year. The selected financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the notes thereto contained elsewhere in this prospectus.

On July 25, 2002, MHLLC acquired all of our outstanding stock in a business combination accounted for under the purchase method of accounting. As a result of the acquisition, our capital structure and our basis of accounting under the push down method for the periods prior to the acquisition, which we sometimes refer to as the Predecessor Period, differ from our capital structure and our basis of accounting for the periods after the acquisition, which we sometimes refer to as the Successor Period. Therefore, our financial data as of dates and for periods prior to July 25, 2002 are not comparable to our financial data as of dates or for periods on or after July 25, 2002. As a result of the acquisition, our consolidated statements of operations for the Successor Period include amortization expense relating to debt issuance costs and management fees that did not exist prior to the acquisition. Further, as a result of purchase accounting, the fair values of our fixed assets on the date of acquisition became their new cost basis. Accordingly, the depreciation of these assets for the Successor Period is based upon their newly established cost basis. Other effects of purchase accounting in the Successor Period are not considered significant.

We use a 52 or 53-week fiscal year that ends on the Sunday closest to January 1. In this prospectus, we sometimes refer to the fiscal years ended December 29, 2002, January 4, 2004 and January 2, 2005 as fiscal 2002, fiscal 2003 and fiscal 2004, respectively. Approximately every six or seven years a 53<sup>rd</sup> week is added to our fiscal year. Fiscal 2002 and 2004 each consisted of 52 weeks, while fiscal 2003 consisted of 53 weeks. As a result, some of the differences in our results of operations between those fiscal years are attributable to the different lengths of the fiscal years. The nine month periods ended October 3, 2004 and October 2, 2005 each consisted of 39 weeks.

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	Predecessor Period		Successor Period					
	Fiscal Year	Fiscal Year 2002	Fiscal Year	Fiscal Year	Nine Month Periods Ended			
			Dec. 31,	July 25,			(unaudited)	
			2001 to	2002 to				
	2000	2001	July 24, 2002	Dec. 29, 2002	2003	2004	Oct. 3, 2004	Oct. 2, 2005
	Restated(1)	Restated(1)	Restated(1)	Restated(1)				
	(dollars in thousands)							
<b>Statement of Operations Data (2)(3):</b>								
Revenues	\$ 247,510	\$ 236,163	\$ 132,433	\$ 105,704	\$ 258,668	\$ 276,334	\$ 199,682	\$ 217,122
Food and beverage costs	84,224	82,150	45,566	35,797	86,265	93,222	67,566	72,328
Restaurant operating expenses	105,580	107,905	60,111	51,134	124,051	127,000	95,457	104,109
Pre-opening costs	4,008	3,700	703	1,254	904	1,059	553	2,050
Depreciation, amortization and non-cash charges	7,079	8,978	6,593	1,913	5,360	6,435	4,766	5,327
General and administrative expenses	19,811	17,201	8,483	6,369	16,680	18,949	14,011	16,431
Marketing and promotional expenses	6,879	6,927	3,005	3,597	5,933	8,472	7,002	4,082
Operating income	19,929	9,302	7,972	5,640	19,475	21,197	10,327	12,795
(Gain) loss on insurance proceeds (4)			(1,443)			(986)		
Costs associated with the repayment of certain debt (5)					2,349	264	264	174
(Gain) loss on sale of investment (6)								(664)
Costs associated with strategic alternatives and proxy contest (7)		730	9,078					
Restaurant closing costs (credit) (8)		1,625	(300)					
Interest expense, net	6,427	7,617	4,647	2,876	8,862	14,989	10,671	12,945
Management fee paid to related party (9).				1,243	2,800	2,800	2,100	2,100
Income (loss) before income taxes	13,502	(670)	(4,010)	1,521	5,464	4,130	(2,708)	(1,760)
Income tax expense (benefit)	3,993	(1,072)	818	642	1,224	4,868	86	(1,355)
Net income (loss)	\$ 9,509	\$ 402	\$ (4,828)	\$ 879	\$ 4,240	\$ (738)	\$ (2,794)	\$ (405)
Net income (loss) per share								
Basic								
Diluted								
Shares used in computing net income (loss) per share (10)								
Basic								
Diluted								



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	As of Dec. 31, 2000	As of Dec. 30, 2001	As of Dec. 29, 2002	As of Jan. 4, 2004	As of Jan. 2, 2005	As of Oct. 2, 2005
	(dollars in thousands)					(unaudited)
<b>Balance Sheet Data:(2)(3)</b>						
Cash and cash equivalents	\$ 2,296	\$ 4,827	\$ 1,703	\$ 17,997	\$ 10,688	\$ 5,887
Current assets	24,392	25,680	24,219	44,165	40,831	40,450
Property and equipment, net	110,987	117,251	55,759	55,724	61,487	65,370
Total assets	156,486	168,092	245,552	263,320	267,305	269,700
Current liabilities	37,539	33,247	43,802	35,020	39,587	44,839
7.5% senior secured notes				90,013	91,717	93,122
14.0% senior secured notes, less current maturities					41,852	40,000
Obligations to financial institutions less current maturities	85,012	100,232	82,542	12,274	6,636	3,497
Stockholder s (deficit) equity	(2,013)	(1,887)	97,413	102,322	57,958	57,569

- (1) During fiscal 2003, we restated our consolidated financial statements for fiscal 2000, 2001 and 2002. See Note 3 to our consolidated financial statements included elsewhere herein.
- (2) Prior to the consummation of this offering, MHCI will be merged into Morton s Restaurant Group, Inc. The consolidated financial statements included elsewhere herein and the consolidated financial data set forth in the above table include the financial data of MHCI from March 10, 2004, the date on which MHCI was incorporated.
- (3) Certain items that were previously reported in specific statement captions have been reclassified to conform to the fiscal 2004 presentation. See Note 2(s) to our consolidated financial statements included elsewhere herein.
- (4) During fiscal 2002 and fiscal 2004, we received \$3,125 and \$986, respectively, relating to property insurance and recorded a gain of approximately \$1,443 and \$986 in the 2002 Predecessor Period and fiscal 2004, respectively, relating to the insurance contract for the restaurant that was located at 90 West Street, New York, New York. Such losses were sustained in connection with the September 11, 2001 attacks.
- (5) During fiscal 2003, we used a portion of the net proceeds from the issuance of our 7.5% senior secured notes to repay our previously existing credit facility, capital leases and certain mortgages. During fiscal 2003, we expensed \$2,349 representing: (1) the write-off of deferred financing costs of \$718 relating to our previously existing credit facility; (2) prepayment penalties of \$463 incurred with the repayment of capital leases and one mortgage; and (3) the write-off of the accumulated other comprehensive loss of \$711 and deferred tax assets for \$457 which were previously recognized in connection with two interest rate swap agreements. Costs associated with the repayment of certain debt of \$264 for both fiscal 2004 and the nine month period ended October 3, 2004 and \$174 for the nine month period ended October 2, 2005, represent prepayment penalties that we incurred with the repayment of certain mortgages.
- (6) Gain on sale of investment of \$664 in the nine month period ended October 2, 2005 represents a gain from the sale of stock in a privately owned company.
- (7) Costs associated with strategic alternatives and proxy contest for fiscal 2001 and the 2002 Predecessor Period of \$730 and \$9,078, respectively, represent legal costs, investment banking and bank costs, printing, investor relations and proxy solicitation costs and other costs.
- (8) Restaurant closing costs of \$1,625 in fiscal 2001 represents costs associated with the closing of the Morton s Steakhouse restaurant that was located in Sydney, Australia. The \$1,625 consisted of the write-down of the net book value of the restaurant, consisting of property and equipment of approximately \$1,300 (which included an unpaid invoice of \$120 related to the construction of the restaurant), inventory and smallwares of approximately \$100, security deposits of approximately \$45, accrued legal costs of approximately \$100 and certain exit costs of approximately \$60 associated with the closing of the restaurant. Restaurant closing credit of \$300 in the 2002 Predecessor Period represents the recovery of assets previously written-down.
- (9) Management fee paid to related party of \$1,243, \$2,800, \$2,800, \$2,100 and \$2,100 for the fiscal 2002 Successor Period, fiscal 2003, fiscal 2004 and for the nine month periods ended October 3, 2004 and October 2, 2005, respectively, was paid pursuant to MHLLC s management agreement with Castle Harlan, Inc.
- (10) These numbers give effect to the for one split of our outstanding common stock that will be effected prior to the consummation of this offering as if that transaction had occurred as of the first day of the respective periods presented.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS**

*The following discussion and analysis of our consolidated financial condition and results of operations should be read in conjunction with Selected Consolidated Financial Data and our consolidated financial statements and related notes thereto included elsewhere in this prospectus. The following discussion includes forward-looking statements that involve certain risks and uncertainties. See Cautionary Statement Regarding Forward-Looking Statements.*

*We use a 52 or 53-week fiscal year that ends on the Sunday closest to January 1. We sometimes refer to our fiscal years ended December 31, 2000, December 30, 2001, December 29, 2002, January 4, 2004 and January 2, 2005 as fiscal 2000, fiscal 2001, fiscal 2002, fiscal 2003 and fiscal 2004, respectively. Approximately every six or seven years a 53<sup>rd</sup> week is added to our fiscal year. Fiscal 2002 and 2004 each consisted of 52 weeks while fiscal 2003 consisted of 53 weeks. Accordingly, some of the changes in our results of operations discussed below are due to the different lengths of these fiscal years. The nine month periods ended October 3, 2004 and October 2, 2005, each consisted of 39 weeks.*

**Restatement of Consolidated Financial Statements**

During fiscal 2003, we restated our consolidated financial statements for fiscal 2002, 2001, 2000, 1999 and 1998 as a result of having incorrectly provided estimates for expirations and non-redemption of gift certificates that we had sold. The effect of the restatement was to reduce revenues for the period from the beginning of fiscal 2002 until July 25, 2002, and for the period from July 25, 2002 until the end of fiscal 2002, by the amounts of \$0.3 million and \$0.3 million, respectively, and to reduce revenues for fiscal 2001, fiscal 2000, fiscal 1999 and fiscal 1998 by \$0.9 million, \$0.9 million, \$0.4 million and \$0.4 million, respectively. We recorded an adjustment to retained earnings of \$1.1 million at December 31, 2000 for the cumulative effect of these restatement adjustments in prior periods. The restatement had no effect on our net operating cash position. See Note 3 to our consolidated financial statements included elsewhere herein.

**Company**

We are the world's largest owner and operator of company-owned upscale steakhouse restaurants, based on the number of restaurants owned and operated by us as compared to our known competitors. Our founders Arnie Morton and Klaus Fritsch opened the original Morton's steakhouse in downtown Chicago on December 21, 1978. Since then, we have expanded to a total of 69 Morton's steakhouses, including 65 domestic restaurants located in 60 cities across 28 states, along with two restaurants in Canada, one in Hong Kong and one in Singapore. We also own and operate four upscale Italian restaurants, which are designed as white tablecloth, authentic Italian trattorias. We own and operate all of our restaurants and do not have any franchisees. On July 25, 2002, Castle Harlan acquired us in a going-private transaction, which included an initial equity investment by Castle Harlan of approximately \$93.7 million.

Morton's steakhouses have remained true to our founders' original vision of combining generous portions of high quality food prepared to exacting standards with exceptional service in an enjoyable dining environment. We have traditionally catered primarily to business clientele but have recently implemented strategies to broaden our appeal to local fine-dining guests. While our menu's emphasis is on USDA prime aged steaks, we also feature other fresh premium items including veal, chicken, lobster and other varieties of seafood, complemented by our extensive award winning premium wine list. By owning and operating all Morton's steakhouses, each with a similar menu, we believe that we are better able to provide a consistently high quality dining experience across all our locations.

**Our Going-Private Transaction**

On July 25, 2002, Castle Harlan acquired us in a going private transaction. We accounted for the July 25, 2002 acquisition under the purchase method of accounting in accordance with Statement of Financial Accounting Standards, or SFAS, No. 141, Business Combinations, issued by the Financial Accounting Standards Board, or FASB. As a result of the acquisition, our capital structure and basis of accounting under

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the push down method for the periods prior to the acquisition, which we sometimes refer to as the Predecessor Period, differ from our capital structure and our basis of accounting for the periods after the acquisition, which we sometimes refer to as the Successor Period. Therefore, our financial data as of dates and for periods prior to July 25, 2002 are not comparable to our financial data as of dates or for periods on or after July 25, 2002. As a result of the acquisition, our consolidated statements of operations for the Successor Period include amortization expense relating to debt issuance costs and management fees that did not exist prior to the acquisition. Further, as a result of purchase accounting, the fair values of our fixed assets on the date of acquisition became their new cost basis. Accordingly, the depreciation of these assets for the Successor Period is based upon their newly established cost basis. Other effects of purchase accounting in the Successor Period are not considered significant.

## **Results of Operations**

Subsequent to October 2, 2005, we announced that Allen J. Bernstein, our Chairman, Chief Executive Officer and President will retire effective by December 31, 2005. We also announced that Thomas J. Baldwin, currently our Executive Vice President, Chief Financial Officer, Secretary and Treasurer will replace Mr. Bernstein. On the effective date of Mr. Bernstein's departure, Mr. Baldwin will become our Chairman, Chief Executive Officer and President. At the same time, Ronald M. DiNella, currently Senior Vice President, Finance for Morton's of Chicago, Inc., one of our subsidiaries, will become our Senior Vice President, Chief Financial Officer, Secretary and Treasurer. We are currently negotiating a separation agreement with Mr. Bernstein. Upon completion of the agreement, we expect to incur a charge with respect to separation payments to Mr. Bernstein. See *Certain Relationships and Related Transactions* - *Agreements with Former Executive Officer*.

Although various Morton's steakhouses have temporarily closed in the past due to weather conditions, the impact of severe weather on us was more significant in the third quarter of fiscal 2005. As a result of the impact of Hurricane Katrina, the Morton's steakhouse in New Orleans remains closed. We currently expect to re-open the restaurant during the first quarter of fiscal 2006, although we cannot assure you that this will occur. As a result of the impact of Hurricane Wilma, the Morton's steakhouses in Boca Raton, Miami, North Miami and Palm Beach Florida were temporarily closed for an average of 9 days in October 2005. These events have adversely affected our results of operations in the third and fourth quarters of fiscal 2005.

### ***Nine Month Period Ended October 2, 2005 Compared to Nine Month Period Ended October 3, 2004***

Our net loss for the nine month period ended October 2, 2005 was \$0.4 million compared to \$2.8 million for the nine month period ended October 3, 2004. The increase is primarily due to an increase in revenues from restaurants open all of both periods and the impact of new restaurants, net of the related food and beverage costs, and a decrease in marketing and promotional expenses partially offset by increases in pre-opening costs as discussed below.

Revenues increased \$17.4 million, or 8.7%, to \$217.1 million for the nine month period ended October 2, 2005 from \$199.7 million for the nine month period ended October 3, 2004. Revenues increased \$4.4 million due to an increase in revenues from restaurants open all of both periods. Revenues increased \$13.0 million due to the opening of five new restaurants (four in the nine month period ended October 2, 2005 and one in fiscal 2004). Average revenue per restaurant open all of either period increased 2.9%. Revenues for the nine month period ended October 2, 2005 also reflect the impact of aggregate menu price increases of approximately 3% in February 2004 and approximately 0.5% in May 2005.

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Percentage changes in restaurant revenues for the nine month period ended October 2, 2005 versus October 3, 2004 for restaurants open all of both periods are as follows:

	<b>Percentage Change</b>
	<b>Nine Month Period Ended October 2, 2005 vs. October 3, 2004</b>
Morton s	2.3%
Bertolini s	2.7%
Total	2.3%

Our business is somewhat seasonal in nature, with revenues generally being less in the third quarter primarily due to our reduced summer volume.

Food and beverage costs increased \$4.8 million, or 7.0%, to \$72.3 million for the nine month period ended October 2, 2005 from \$67.6 million for the nine month period ended October 3, 2004. This increase was primarily due to the opening of four additional restaurants in the nine month period ended October 2, 2005. These costs as a percentage of revenues decreased by 0.5% to 33.3% for the nine month period ended October 2, 2005 from 33.8% for the nine month period ended October 3, 2004. During fiscal 2004 high demand for U.S. beef products decreased the availability of USDA prime beef which resulted in increased food costs. We were generally able to offset such cost increases with the benefit of menu price increases, which resulted in a slight increase in food and beverage costs as a percentage of revenues for fiscal 2004. We cannot be sure that we will be able or willing to increase menu prices or take other actions to offset increases in these costs in the future.

Restaurant operating expenses, which include labor, occupancy and other operating expenses, increased \$8.7 million, or 9.1%, to \$104.1 million for the nine month period ended October 2, 2005 from \$95.5 million for the nine month period ended October 3, 2004. These increases were primarily due to the opening of four additional restaurants in the nine month period ended October 2, 2005 and increases in labor and benefit costs. Restaurant operating expenses as a percentage of revenues increased 0.1% to 47.9% for the nine month period ended October 2, 2005 from 47.8% for the nine month period ended October 3, 2004. Included in the nine month periods ended October 2, 2005 and October 3, 2004 is non-cash rent recorded in accordance with SFAS No. 13 of \$0.7 million and \$1.2 million, respectively.

Pre-opening costs, depreciation and amortization increased \$2.1 million, or 38.7%, to \$7.4 million for the nine month period ended October 2, 2005 from \$5.3 million for the nine month period ended October 3, 2004. These costs as a percentage of revenues increased by 0.7% to 3.4% for the nine month period ended October 2, 2005 from 2.7% for the nine month period ended October 3, 2004. We expense all costs incurred during start-up activities, including pre-opening costs, as incurred. Pre-opening costs incurred and recorded as expense increased \$1.5 million to \$2.1 million for the nine month period ended October 2, 2005 from \$0.6 for the nine month period ended October 3, 2004. The number of restaurants opened, the timing of restaurant openings and the costs per restaurant opened affected the amount of these costs.

General and administrative expenses increased \$2.4 million, or 17.3%, to \$16.4 million for the nine month period ended October 2, 2005 from \$14.0 million for the nine month period ended October 3, 2004. These costs as a percentage of revenues increased 0.6% to 7.6% for the nine month period ended October 2, 2005 from 7.0% for the nine month period ended October 3, 2004. These increases were primarily due to increased legal and professional costs and salary, bonus and benefit costs.

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Marketing and promotional expenses decreased \$2.9 million, or 41.7%, to \$4.1 million for the nine month period ended October 2, 2005 from \$7.0 million for the nine month period ended October 3, 2004. These costs as a percentage of revenues decreased 1.6% to 1.9% for the nine month period ended October 2, 2005 from 3.5% for the nine month period ended October 3, 2004. These decreases were primarily due to decreased spending for print media advertising.

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Costs associated with the repayment of certain debt of \$0.2 million and \$0.3 million for the nine month periods ended October 2, 2005 and October 3, 2004, respectively, represent prepayment penalties that were incurred with the early repayment of certain mortgages.

Gain on sale of investment of \$0.7 million for the nine month period ended October 2, 2005 represents a gain from the sale of stock in a privately owned company.

Interest expense, net, increased \$2.3 million, or 21.3%, to \$12.9 million for the nine month period ended October 2, 2005 from \$10.7 million for the nine month period ended October 3, 2004. These increases are primarily due to the interest relating to the 14% senior secured notes offset by the repayment of certain mortgages in April 2004 and February 2005. Interest income was not significant in any of these periods.

Management fee paid to related party was \$2.1 million for the nine month periods ended October 2, 2005 and October 3, 2004. We paid this fee pursuant to MHLLC's management agreement with Castle Harlan, Inc. As discussed above, this management agreement will be terminated in connection with this offering.

Provision for income taxes consisted of income tax benefit of \$1.4 million and income tax expense of \$0.1 million for the nine month periods ended October 2, 2005 and October 3, 2004, respectively. Our 2005 effective tax rate differs from the statutory rate due to non-deductible interest relating to our 7.5% senior secured notes and our 14% senior secured notes, and other non-deductible items. Our 2005 effective tax rate differs from our 2004 effective tax rate due to the fact that during the third quarter of fiscal 2004, the Company determined it would elect to treat certain of its employee-portion FICA tax payments as current income tax deductions rather than income tax credits.

### ***Fiscal Year Ended January 2, 2005 (52 weeks) Compared to Fiscal Year Ended January 4, 2004 (53 weeks)***

Our net income decreased \$4.9 million, or 117.4%, to a net loss of \$0.7 million for fiscal 2004 from net income of \$4.2 million for fiscal 2003. The decrease is due, in part, to increases in general and administrative expenses, marketing and promotional expenses, interest expense, net and income tax expense discussed below. These decreases were partially offset by an increase in comparable restaurant revenues plus the impact of new restaurants, less food and beverage costs and restaurant operating expenses, a decrease in cost associated with the repayment of certain debt and a gain on insurance proceeds. Some of the changes from fiscal 2003 to fiscal 2004 were also due to the fact that there were 53 weeks in fiscal 2003 compared to 52 weeks in fiscal 2004.

Revenues increased \$17.7 million, or 6.8%, to \$276.3 million for fiscal 2004 from \$258.7 million for fiscal 2003. Revenues increased \$16.9 million due to an increase in comparable revenues from restaurants open all of both fiscal years. Revenues increased \$2.5 million due to the opening of one new Morton's steakhouse in fiscal 2004. Revenues declined \$1.3 million primarily due to the closing of the Morton's steakhouses formerly located in Hong Kong (Central) (closed since January 2003) and Addison, Texas (closed since August 2003). These steakhouses were closed due to their comparatively low revenues and negative cash flows. Revenues decreased \$0.4 million due to a decline in revenues attributable to one new restaurant opened in fiscal 2003. Average revenue per restaurant open all of either period increased 6.0%. Revenues for fiscal 2004 also reflect the impact of aggregate menu price increases of approximately 3% in November 2003 and approximately 3% in February 2004.

Percentage changes in restaurant revenues for fiscal 2004 (52 weeks) versus fiscal 2003 (53 weeks) for restaurants open all of both periods are as follows:

	<b>Percentage Change</b>
	<b>Fiscal 2004 (52 weeks) vs. Fiscal 2003 (53 weeks)</b>
Morton's	6.8%
Bertolini's	4.7%
Total	6.7%



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During the first and second quarters of fiscal 2003, we believe that the war in Iraq and the weak economic environment adversely affected many of the markets in which we operate which, in turn, contributed to weak revenue trends and negative comparable restaurant revenues. Additionally, during the first and second quarters of fiscal 2003, we believe the outbreak of severe acute respiratory syndrome materially affected the results of our three restaurants located in Hong Kong, Singapore and Toronto. During the first and second quarters of fiscal 2004, an improved economy contributed to stronger revenue trends. During the third quarter of fiscal 2004, we believe that revenues were adversely impacted by hurricanes and severe weather in Florida and the southeastern United States.

Food and beverage costs increased \$7.0 million, or 8.1%, to \$93.2 million for fiscal 2004 from \$86.3 million for fiscal 2003. These costs as a percentage of revenues increased by 0.4% to 33.7% for fiscal 2004 from 33.3% for fiscal 2003. During fiscal 2004 high demand for U.S. beef products decreased the availability of USDA prime beef which resulted in increased food costs. We were generally able to offset such cost increases with the benefit of menu price increases, which resulted in a slight increase in food and beverage costs as a percentage of revenues for fiscal 2004 compared to fiscal 2003. We cannot be sure that we will be able or willing to increase menu prices or take other actions to offset increases in these costs in the future.

Restaurant operating expenses, which include labor, occupancy and other operating expenses, increased \$2.9 million, or 2.4%, to \$127.0 million for fiscal 2004 from \$124.1 million for fiscal 2003. This increase was primarily due to increases in labor and benefit costs and the opening of additional restaurants. Restaurant operating expenses as a percentage of revenues decreased 2.0% to 46.0% for fiscal 2004 from 48.0% for fiscal 2003. The decrease in restaurant operating expenses as a percentage of revenues is primarily due to the benefit of menu price increases and the increase in recoveries for business interruption insurance. Included in fiscal 2004 and fiscal 2003 are recoveries of approximately \$2.8 million and \$0.9 million for business interruption insurance benefits related to the closing of the Morton's steakhouse formerly located at 90 West Street, New York, New York, two blocks from the World Trade Center, which was closed permanently due to structural damages. On December 23, 2004, we entered into a Settlement Agreement and General Release with St. Paul Fire and Marine Insurance Company, or St. Paul, pursuant to which we agreed to settle our claims against St. Paul for losses sustained in connection with the September 11, 2001 attacks. The terms of the Settlement Agreement and General Release included payment to us of approximately \$4.3 million and a mutual release and discharge with respect to the insurance contract between us and St. Paul for the property located at 90 West Street, New York, New York. The payment of approximately \$4.3 million was received in December 2004. There will be no future insurance recoveries relating to the 90 West Street restaurant. See Note 4(b) to our consolidated financial statements included elsewhere herein. Also included in fiscal 2004 and fiscal 2003 is non-cash rent recorded in accordance with SFAS No. 13 of \$1.4 million and \$1.3 million, respectively.

Pre-opening costs, depreciation and amortization increased \$1.2 million, or 19.6%, to \$7.5 million for fiscal 2004 from \$6.3 million for fiscal 2003. These costs increased as a percentage of revenues by 0.3% to 2.7% for fiscal 2004 from 2.4% for fiscal 2003. We expense all costs incurred during start-up activities, including pre-opening costs, as incurred. Pre-opening costs incurred and recorded as expense increased to \$1.1 million for fiscal 2004 from \$0.9 million for fiscal 2003. The number of restaurants opened, the timing of restaurant openings and the costs per restaurant opened affected the amount of these costs.

General and administrative expenses increased \$2.3 million, or 13.6%, to \$18.9 million for fiscal 2004 from \$16.7 million for fiscal 2003. These costs as a percentage of revenues increased 0.5% to 6.9% for fiscal 2004 from 6.4% for fiscal 2003. The increases were primarily due to increased salary, bonus and benefit costs and legal and professional costs.

Marketing and promotional expenses increased \$2.5 million, or 42.8%, to \$8.5 million for fiscal 2004 from \$5.9 million for fiscal 2003. These costs as a percentage of revenues increased 0.8% to 3.1% for fiscal

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2004 from 2.3% for fiscal 2003. These increases were primarily due to increased spending for print media advertising in conjunction with our Savor the Good Life theme in 2004.

Gain on insurance proceeds of \$1.0 million for fiscal 2004 represents the amount of insurance proceeds received for property coverage relating to the Morton's steakhouse formerly located at 90 West Street, New York, New York. There was no comparable gain on insurance proceeds in fiscal 2003. See Note 4(b) to our consolidated financial statements included elsewhere herein.

Costs associated with the repayment of certain debt of \$0.3 million for fiscal 2004 represent prepayment penalties that were incurred with the early repayment of two of our mortgages. Costs associated with the repayment of certain debt of \$2.3 million for fiscal 2003 represent: (1) the write-off of deferred financing costs of \$0.7 million relating to our previously existing capital facility; (2) prepayment penalties of \$0.5 million that we incurred with the repayment of our capital leases and one mortgage; and (3) the write-off of the accumulated other comprehensive loss of \$0.7 million and deferred tax assets of \$0.4 million previously recognized in connection with two interest rate swap agreements, one which expired on October 24, 2004 and one which expired on October 24, 2005, which due to the repayment of our previously existing capital facility were accounted for as speculative instruments. See Note 9 to our consolidated financial statements included elsewhere herein. Changes in their fair market value were charged or credited to interest expense, net in the consolidated statements of operations.

Interest expense, net, increased \$6.1 million, or 69.1%, to \$15.0 million for fiscal 2004 from \$8.9 million for fiscal 2003. The increase is primarily due to the issuance of the 7.5% senior secured notes in July 2003 and 14% senior secured notes in June 2004. Interest income was not significant in any of these periods.

Management fee paid to related party was \$2.8 million for fiscal 2004 and fiscal 2003. We paid this fee pursuant to MHLLC's management agreement with Castle Harlan, Inc.

Provision for income taxes consisted of income tax expense of \$4.9 million for fiscal 2004 and \$1.2 million for fiscal 2003. Our 2004 effective tax rate differs from the statutory rate due to the change in utilization of 2003 FICA tax payments from a credit to a deduction and certain non-deductible interest expense related to our 7.5% senior secured notes and our 14% senior secured notes. The impact of this change resulted in recording additional tax expense of approximately \$1.7 million to our income tax expense for fiscal 2004. See Note 10 to our consolidated financial statements included elsewhere herein. Our 2003 effective tax rate differs from the statutory rate due to the establishment of additional deferred tax assets relating to FICA and other tax credits.

### ***Fiscal Year Ended January 4, 2004 (53 weeks) Compared to Fiscal Year Ended December 29, 2002 (52 weeks)***

Revenues increased \$20.5 million, or 8.6%, to \$258.7 million for fiscal 2003 from \$238.1 million for fiscal 2002. Revenues increased \$13.3 million due to the opening of five new restaurants (one in fiscal 2003 and four in fiscal 2002). Revenues increased \$10.5 million due to an increase in comparable revenues from restaurants open all of both fiscal years. Revenues declined \$3.3 million due to the closing of the Morton's steakhouse formerly located in Hong Kong (Central) (closed since January 2003) and Addison, Texas (closed since August 2003). These steakhouses were closed due to their comparatively low revenues and negative cash flows. Average revenue per restaurant open all of either period increased 6.0%. Revenues for fiscal 2003 also reflect the impact of aggregate menu price increases of approximately 2% in January 2003 and 3% in November 2003. Some of the changes from fiscal 2002 to fiscal 2003 were also due to the fact that there were 52 weeks in fiscal 2002 compared to 53 weeks in fiscal 2003. In addition, we were acquired by Castle Harlan on July 25, 2002, which, as described above, resulted in accounting changes that affect the comparability of results between fiscal 2003 and fiscal 2002.



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Percentage changes in restaurant revenues for fiscal 2003 (53 weeks) versus fiscal 2002 (52 weeks) for restaurants open all of both periods are as follows:

	<b>Percentage Change</b>
	<b>Fiscal 2003 (53 weeks) vs. Fiscal 2002 (52 weeks)</b>
Morton's	4.3%
Bertolini's	8.1%
Total	4.6%

During the first and second quarters of fiscal 2003, we believe that the war in Iraq and the weak economic environment adversely affected many of the markets in which we operate which, in turn, contributed to weak revenue trends and negative comparable restaurant revenues. Additionally, during the first and second quarters of fiscal 2003, we believe the outbreak of severe acute respiratory syndrome materially affected the results of our three restaurants located in Hong Kong, Singapore and Toronto.

Food and beverage costs increased \$4.9 million, or 6.0%, to \$86.3 million for fiscal 2003 from \$81.4 million for fiscal 2002. These costs as a percentage of revenues decreased by 0.9% to 33.3% for fiscal 2003 from 34.2% for fiscal 2002. This percentage decrease was primarily due to the benefit of menu price increases.

Restaurant operating expenses, which include labor, occupancy and other operating expenses, increased \$12.9 million, or 11.5%, to \$124.1 million for fiscal 2003 from \$111.2 million for fiscal 2002. This increase was primarily due to the opening of additional restaurants and increases in labor and benefit costs. Restaurant operating expenses as a percentage of revenues increased 1.3% to 48.0% for fiscal 2003 from 46.7% for fiscal 2002. Included in both fiscal 2003 and fiscal 2002 are recoveries of approximately \$0.9 million and \$1.9 million, respectively from business interruption insurance benefits related to the closing of the Morton's steakhouse formerly located at 90 West Street, New York, New York, two blocks from the World Trade Center, which was closed permanently due to structural damages. As of January 4, 2004, cumulative benefits recorded were \$3.6 million and cumulative amounts received were \$2.6 million for this insurance.

Pre-opening costs, depreciation, amortization and non-cash charges were \$6.3 million, or 2.4% as a percentage of revenues, for fiscal 2003. Pre-opening costs, depreciation, amortization and non-cash charges were \$3.2 million, or 3.0% as a percentage of revenues, for the Successor Period from July 25, 2002 to December 29, 2002. Pre-opening costs, depreciation, amortization and non-cash charges were \$7.3 million, or 5.5% as a percentage of revenues, for the Predecessor Period from December 31, 2001 to July 24, 2002. We expense all costs incurred during start-up activities, including pre-opening costs, as incurred. Pre-opening costs incurred and recorded as an expense were \$0.9 million for fiscal 2003. Pre-opening costs incurred and recorded as an expense were \$1.3 million for the Successor Period from July 25, 2002 to December 29, 2002. Pre-opening costs incurred and recorded as an expense were \$0.7 million for the Predecessor Period from December 31, 2001 to July 24, 2002. The number of restaurants opened, the timing of restaurant openings and the costs per restaurant opened affected the amount of these costs.

General and administrative expenses were \$16.7 million, or 6.4% as a percentage of revenues, for fiscal 2003. General and administrative expenses were \$6.4 million, or 6.0% as a percentage of revenues, for the Successor Period from July 25, 2002 to December 29, 2002. General and administrative expenses were \$8.5 million, or 6.4% as a percentage of revenues, for the Predecessor Period from December 31, 2001 to July 24, 2002. The increase was primarily due to compensation related costs including increases in salaries, benefits and bonuses.

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Marketing and promotional expenses were \$5.9 million, or 2.3% as a percentage of revenues, for fiscal 2003. Marketing and promotional expenses were \$3.6 million, or 3.4% as a percentage of revenues, for the

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Successor Period from July 25, 2002 to December 29, 2002. Marketing and promotional expenses were \$3.0 million, or 2.3% as a percentage of revenues, for the Predecessor Period from December 31, 2001 to July 24, 2002. The decrease was primarily due to fewer direct mail promotions.

Gain on insurance proceeds of \$1.4 million for the Predecessor Period from December 31, 2001 to July 24, 2002 represents the amount of insurance proceeds received in excess of the insurance receivable of approximately \$1.7 million which was recorded as of December 30, 2001. The insurance receivable was recorded to write off the net book value of the assets of the Morton's steakhouse formerly located at 90 West Street, New York, New York. During the Predecessor Period from December 31, 2001 to July 24, 2002, we received \$3.1 million relating to this insurance and therefore recorded a gain of approximately \$1.4 million in the accompanying consolidated statements of operations. There was no comparable gain on insurance proceeds in fiscal 2003 and the Successor Period from July 25, 2002 to December 29, 2002.

Costs associated with the repayment of certain debt of \$2.3 million for fiscal 2003 represent: (1) the write-off of deferred financing costs of \$0.7 million relating to our previously existing capital facility; (2) prepayment penalties of \$0.5 million that we incurred with the repayment of our capital leases and one mortgage; and (3) the write-off of the accumulated other comprehensive loss of \$0.7 million and deferred tax assets of \$0.4 million previously recognized in connection with two interest rate swap agreements that expired on October 24, 2004 and October 24, 2005, which due to the repayment of our previously existing capital facility were accounted for as speculative instruments. Changes in their fair market value were charged or credited to interest expense in the consolidated statements of operations. There were no comparable costs associated with the repayment of certain debt in the fiscal 2002 Predecessor Period or Successor Period.

Costs associated with strategic alternatives and proxy contest were \$9.1 million for the Predecessor Period from December 31, 2001 to July 24, 2002. Costs associated with strategic alternatives and proxy contest of \$9.1 million represent \$4.2 million in legal costs, \$3.1 million in investment banking costs, \$0.9 million in bank costs, \$0.6 million in printing, investor relations and proxy solicitation costs and \$0.3 million in other costs. There were no comparable costs associated with strategic alternatives and proxy contest in the 2002 Successor Period or in fiscal 2003.

Restaurant closing costs (credit) recorded during the Predecessor Period from December 31, 2001 to July 24, 2002 represents a pre-tax credit of \$0.3 million recorded in conjunction with a mutual release with the lessor, representing the recovery of assets previously written-down, which included inventory that was utilized in another Morton's steakhouse and the recovery of a security deposit that had not been anticipated, and exit costs, such as legal costs, which were less than initially accrued for closing the Morton's steakhouse formerly located in Sydney, Australia. In addition, we reversed an accrual for a construction invoice of \$0.1 million, which we determined was no longer required. There were no comparable restaurant closing costs (credit) in the 2002 Successor Period or in fiscal 2003.

Interest expense, net, was \$8.9 million for fiscal 2003, \$2.9 million for the Successor Period from July 25, 2002 to December 29, 2002 and \$4.6 million for the Predecessor Period from December 31, 2001 to July 24, 2002. This increase was primarily due to the issuance of the 7.5% senior secured notes in fiscal 2003. Interest income was not significant in any of these periods.

Management fee paid to related party was \$2.8 million for fiscal 2003. Management fee paid to related party was \$1.2 million for the Successor Period from July 25, 2002 to December 29, 2002. We paid this fee pursuant to MHLLC's management agreement with Castle Harlan, Inc.

Provision for income taxes consisted of income tax expense of \$1.2 million for fiscal 2003. Our provision for income taxes consisted of an income tax expense of \$0.6 million for the Successor Period from July 25, 2002 to December 29, 2002. Our provision for income taxes consisted of income tax expense of \$0.8 million for the Predecessor Period from December 31, 2001 to July 24, 2002. Our effective tax rate differs from the statutory rate due to the establishment of additional deferred tax assets relating to FICA and other tax credits. See Note 10 to our

consolidated financial statements included elsewhere herein.

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**Table of Contents****Liquidity and Capital Resources**

Upon the consummation of this offering, our principal liquidity requirements will be to meet our lease obligations and our working capital and capital expenditure needs and to pay principal and interest on our debt. Subject to our operating performance, which, if significantly adversely affected, would adversely affect the availability of funds, we expect to be able to meet our liquidity requirements for the foreseeable future through cash provided by operations, net proceeds from this offering and through borrowings available under our new senior revolving credit facility. We cannot be sure, however, that this will be the case. In addition, we rely to a significant degree on landlord contributions as a means of financing the costs of opening new restaurants, and any substantial reduction in the amount of those contributions could adversely affect our liquidity. As of October 2, 2005, we had cash and cash equivalents of \$5.9 million and marketable securities of \$8.2 million.

***Working Capital and Cash Flows***

In the past we have had, and in the future we may have, negative working capital balances. We do not have significant receivables and we receive trade credit based upon negotiated terms in purchasing food and supplies. Funds available from cash sales not needed immediately to pay for food and supplies or to finance receivables or inventories historically have typically been used for noncurrent capital expenditures and or payments of long-term debt balances under our prior revolving credit agreement.

*Operating Activities.* Cash flows provided by operating activities for the nine month period ended October 2, 2005 were \$12.5 million, consisting primarily of a net increase in cash of \$8.1 million resulting from net income before depreciation, amortization and other non-cash charges and an increase in accounts payable, accrued expenses and other liabilities of \$6.9 million. Cash flows provided by operating activities for the nine month period ended October 3, 2004 were \$5.0 million, consisting primarily of a net increase in cash of \$5.4 million resulting from net income before depreciation, amortization and other non-cash charges and an increase in accounts payable, accrued expenses and other liabilities of \$1.0 million partially offset by a net decrease in cash of \$1.1 million due to an increase in accounts receivable. Cash flows provided by operating activities for fiscal 2004 were \$21.1 million, consisting primarily of a net increase in cash of \$10.2 million resulting from net income before depreciation and amortization, a change in deferred income taxes of \$4.2 million and a net increase in cash of \$5.7 million resulting from an increase in accounts payable, accrued expenses and other liabilities, partially offset by a net decrease in cash of \$1.7 million resulting from an increase in prepaid expenses and other assets. Cash flows provided by operating activities for fiscal 2003 were \$12.1 million, consisting primarily of a net increase in cash of \$12.2 million resulting from net income before depreciation and amortization and a net increase in cash of \$1.7 million resulting from a decrease in prepaid expenses and other assets, partially offset by a net decrease in cash of \$3.2 million resulting from a decrease in accounts payable, accrued expenses and other liabilities. The decrease in accounts payable, accrued expenses and other liabilities primarily relates to payment of construction costs and merger and legal costs, as well as a series of monthly settlement payments relating to a Bertolini's restaurant that was closed in fiscal 1999. Cash flows provided by operating activities for the Successor Period from July 25, 2002 to December 29, 2002 were \$8.1 million, consisting primarily of an increase in accounts payable, accrued expenses and other liabilities of \$7.3 million that primarily related to an increase in accrued construction costs, accrued restaurant operating expenses, accrued merger and legal costs and accrued gift certificates. Cash flows provided by operating activities for the Predecessor Period from December 31, 2001 to July 24, 2002 were \$8.6 million, consisting primarily of insurance proceeds of approximately \$3.1 million received from the recovery related to costs incurred from the Morton's steakhouse formerly located at 90 West Street, New York, New York, a net increase in cash of \$2.8 million attributable to an increase in accounts payable, accrued expenses and other liabilities and a net increase in cash of \$1.3 million resulting from a decrease in accounts receivable.

*Investing Activities.* Cash flows used in investing activities for the nine month period ended October 2, 2005 were \$12.5 million, consisting primarily of purchases of property and equipment of \$9.2 million, which include capital expenditures related to the three Morton's steakhouses opened during the first quarter of fiscal





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2005 and the one Morton's steakhouse opened during the third quarter of fiscal 2005 and \$4.0 million related to the purchase of marketable securities. Cash flows used in investing activities for the nine month period ended October 3, 2004 were \$7.5 million due to purchases of property and equipment of \$6.4 million, which include capital expenditures related to the Morton's steakhouse opened in the third quarter of fiscal 2004, and purchases of marketable securities of \$7.3 million partially offset by proceeds from the sale of marketable securities of \$6.2 million. Cash flows used in investing activities for fiscal 2004 were \$16.4 million due to purchases of property and equipment of \$12.1 million, which include capital expenditures related to the Morton's steakhouse opened in the third quarter of fiscal 2004 and the three Morton's steakhouses opened during the first quarter of 2005 and purchases of marketable securities of \$10.7 million partially offset by proceeds from the sale of marketable securities of \$6.4 million. Cash flows used in investing activities for fiscal 2003 were \$5.2 million, attributable to purchases of property and equipment primarily related to the opening of one Morton's steakhouse in February 2003. Cash flows used in investing activities for the Successor Period from July 25, 2002 to December 29, 2002 were \$5.9 million, consisting primarily of purchases of property and equipment primarily related to the opening of one Morton's steakhouse in each of September, October and November of 2002. Cash flows used in investing activities for the Predecessor Period from December 31, 2001 to July 24, 2002 were \$5.2 million, consisting primarily of purchases of property and equipment primarily related to the opening of one Morton's steakhouse in each of April and September of 2002.

*Financing Activities.* Cash flows used in financing activities for the nine month period ended October 2, 2005 were \$4.8 million, consisting primarily of net principal reduction on obligations to financial institutions of \$3.5 million, primarily due to the early repayment of two mortgages aggregating \$3.4 million, and the redemption of PIK notes of \$1.4 million. Cash flows used in financing activities for the nine month period ended October 3, 2004 were \$12.2 million primarily consisting of the payment of a dividends of \$43.7 million, net principal reduction on obligations to financial institutions of \$5.7 million, primarily due to the early repayment of two mortgages aggregating \$5.3 million, and the payment of deferred financing costs of \$3.1 million relating to our 7.5% senior secured notes offering, our 14.0% senior secured notes offering and our working capital facility. These decreases were partially offset by the proceeds from our 14.0% senior secured notes offering of \$40.0 million. Cash flows used in financing activities for fiscal 2004 were \$12.1 million, consisting of the payment of dividends of \$43.7 million, net principal reduction on obligations to financial institutions of \$5.8 million, primarily due to the early repayment of two mortgages aggregating \$5.3 million, and the payment of deferred financing costs of \$3.1 million relating to our 7.5% senior secured notes offering, our 14.0% senior secured notes offering and our current working capital facility, partially offset by the proceeds from our 14.0% senior secured notes offering of \$40.0 million. Cash flows provided by financing activities for fiscal 2003 were \$9.3 million, consisting of net proceeds from the 7.5% senior secured notes offering of \$89.3 million, partially offset by net principal reductions on obligations to financial institutions and capital leases of \$72.4 million, the payment of deferred financing costs relating to our 7.5% senior secured notes offering and our current working capital facility of \$6.3 million and \$1.1 million of cash restricted as collateral for our two interest rate swap agreements with Bank of America, formerly Fleet National Bank. Cash flows used by financing activities for the Successor Period from July 25, 2002 to December 29, 2002 were \$3.6 million, consisting primarily of the net principal reduction on obligations to financial institutions and capital leases. Cash flows used by financing activities for the Predecessor Period from December 31, 2001 to July 24, 2002 were \$5.2 million, consisting primarily of net principal reduction on obligations to financial institutions and capital leases of \$5.7 million, partially offset by proceeds from the issuance of stock of \$0.5 million.

**Debt and Other Obligations**

*New Senior Revolving Credit Facility.* In connection with this offering, we plan to enter into a new senior revolving credit facility, consisting of up to \$ million in available revolving loan borrowings, maturing in . We expect that our new senior revolving credit facility will contain customary affirmative and negative covenants and require us to meet certain financial ratios. We anticipate that the new senior revolving credit facility will be secured by substantially all of our assets. See Risk Factors The anticipated terms of our new senior revolving credit facility will impose significant operating and financial restrictions on us that may impair our ability to respond to changing business and economic conditions.

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*Current Working Capital Facility.* As of October 2, 2005, we had no borrowings outstanding under our current senior secured working capital facility, maturing on July 7, 2007, with Wells Fargo Foothill, Inc. and approximately \$0.3 million was restricted for letters of credit issued by the lender. In connection with this offering, we intend to terminate this facility and secure the outstanding letters of credit. See Use of Proceeds.

*7.5% Senior Secured Notes.* As of October 2, 2005, approximately \$93.1 million of aggregate accreted principal amount of our 7.5% senior secured notes, maturing on July 1, 2010, remained outstanding. In connection with this offering, we intend to repay these notes. See Use of Proceeds. However, as discussed under Use of Proceeds, it is possible that some of these notes may remain outstanding.

*14% Senior Secured Notes.* As of October 2, 2005, approximately \$44.3 million of aggregate principal amount of our 14.0% senior secured notes, maturing on December 30, 2010, remained outstanding. In connection with this offering, we intend to repay these notes. See Use of Proceeds.

*Mortgages.* During 1998 and 1999, certain of our subsidiaries entered into a total of six mortgage loans with GE Capital Franchise Finance aggregating \$18.9 million, the proceeds of which were used to fund the purchases of land and construction of restaurants. As of October 2, 2005, approximately \$3.6 million of principal relating to one mortgage remained outstanding. The remaining outstanding mortgage bears interest at 8.98% and is scheduled to mature in March 2021.

*Restaurant Operating Leases.* Our obligations for restaurant operating leases include certain restaurant operating leases for which we or one of our subsidiaries guarantees, for a portion of the lease term, the performance of the lease by the operating company that is a party thereto. See Note 12 to our consolidated financial statements included elsewhere herein.

*Contractual Commitments.* The following table represents our contractual commitments associated with our debt and other obligations disclosed above as of October 2, 2005, on a pro forma basis assuming our receipt of the net proceeds from our sale of common stock in this offering at an assumed public offering price of \$ per share (the mid-point of the estimated price range appearing on the cover page of this preliminary prospectus), the effectiveness of our new senior revolving credit facility and the incurrence of approximately \$ million of borrowings thereunder at an assumed interest rate of %, the termination of our current working capital facility and our repayment of all of our outstanding 7.5% senior secured notes and our 14% senior secured notes for an aggregate price of \$ , as if those transactions had occurred as of that date. As noted under Use of Proceeds, there can be no assurance that we will not be required to incur additional borrowings under our anticipated new senior credit facility for these purposes and it is possible that some of the 7.5% senior secured notes will remain outstanding after this offering.

	<b>Remainder</b>						
	<b>of 2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>Thereafter</b>	<b>Total</b>
	(amounts in thousands)						
New senior revolving credit facility	\$	\$	\$	\$	\$	\$	\$
Mortgage loan with GE Capital Franchise Finance, including interest	109	436	436	435	435	4,888	6,739
<b>Subtotal</b>							
Operating leases	4,792	19,348	20,262	20,054	19,560	123,982	207,998
Purchase commitments	9,064	2,310					11,374
Letters of credit	275						275

Total

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*Capital Expenditures.* During the nine month period ended October 2, 2005, our expenditures for fixed assets and related investment costs, including expensed pre-opening costs, approximated \$11.2 million. We estimate that we will expend up to an aggregate of \$9.7 million in fiscal 2005 and \$18.5 million in fiscal 2006, net of landlord contributions, to finance ordinary refurbishment of existing restaurants, remodel the bar area in selected restaurants to include our Bar 12:21 concept, add additional Boardrooms in selected restaurants and make capital expenditures for new restaurants. We anticipate that funds generated through operations and through borrowings under our new senior revolving credit facility, together with the remaining net proceeds from this offering and landlord contributions, will be sufficient to fund these currently planned expenditures through the end of 2006. We cannot be sure, however, that this will be the case.

## **Off-Balance Sheet Arrangements**

Other than our operating leases, we do not have any off-balance sheet arrangements.

## **Net Operating Loss Carryforwards**

At October 2, 2005, we had approximately \$4.6 million of federal and state income tax net operating loss carryforwards that expire in various periods through 2023. As of October 2, 2005, we had approximately \$10.5 million in FICA and other tax credits expiring in various periods through 2025 available to reduce income taxes payable in future years. Approximately \$0.1 million of our deferred tax assets represents capital loss carryforwards. In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon generating future taxable income during the periods in which temporary differences become deductible and net operating losses can be carried forward. We consider the scheduled reversal of deferred tax assets, projected future taxable income and tax planning strategies in making this assessment. Tax benefits that are recognized in future periods by the elimination of the valuation allowance at the date of the acquisition of us by Castle Harlan (\$6.9 million) are to be applied, first to reduce to zero any goodwill related to the acquisition, and then to reduce to zero any noncurrent intangible assets related to the acquisition. See Note 10 to our consolidated financial statements included elsewhere herein.

## **Quantitative and Qualitative Disclosure about Market Risk**

The inherent risk in market risk sensitive instruments and positions primarily relates to potential losses arising from adverse changes in foreign currency exchange rates and interest rates.

As of October 2, 2005, we owned and operated four international restaurants, one in Hong Kong, one in Singapore, one in Toronto, Canada and one in Vancouver, Canada. As a result, we are subject to risk from changes in foreign exchange rates. These changes result in cumulative translation adjustments, which are included in accumulated other comprehensive income (loss). We do not consider the potential loss resulting from a hypothetical 10% adverse change in quoted foreign currency exchange rates, as of October 2, 2005, to be material.

We also are subject to market risk from exposure to changes in interest rates based on our financing activities. This exposure relates to borrowings under our new senior revolving credit facility that will be payable at floating rates of interest. Our other indebtedness, consisting of our 7.5% senior secured notes, our mortgage and the 14% senior secured notes, are payable at a fixed rate of interest. As of October 2, 2005, there were no borrowings outstanding under our floating rate working capital facility. As a result, a hypothetical 10% fluctuation in interest rates, as of October 2, 2005, would not have had any impact on earnings for the nine month period ended October 2, 2005. We anticipate that

interest on borrowings under our new senior revolving credit facility will be payable at a floating rate.

**Inflation**

Over the past five years, inflation has not significantly affected our operations. However, the impact of inflation on labor, food and occupancy costs could, in the future, significantly affect our operations. We pay many of our employees hourly rates related to the applicable federal or state minimum wage. Food costs as a

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percentage of net sales have been somewhat stable due to procurement efficiencies and menu price adjustments, although no assurance can be made that our procurement will continue to be efficient. Costs for construction, taxes, repairs, maintenance and insurance all impact our occupancy costs. We believe that our current strategy, which is to seek to maintain operating margins through a combination of menu price increases, cost controls, careful evaluation of property and equipment needs, and efficient purchasing practices, has been an effective tool for dealing with inflation.

**Seasonality**

Our business is somewhat seasonal in nature, with revenues generally being less in the third quarter primarily due to our reduced summer volume, and revenues generally being higher in the first and fourth quarter primarily due to increased redemption of gift certificates and increased usage of Boardrooms, respectively.

The following table sets forth historical, unaudited quarterly revenues for Morton's and our Italian restaurants that were open for all of fiscal 2002 and 2003 (63 restaurants) and for all of fiscal 2003 and 2004 (67 restaurants). The fourth quarter of fiscal 2003 includes one additional week as fiscal 2003 includes a 53<sup>rd</sup> week.

**Comparable Restaurant Revenues**

(dollars in thousands)

	2002		2003		2003		2004	
	63 restaurants				67 restaurants			
	\$	%	\$	%	\$	%	\$	%
First Quarter	59,650	26.2	60,153	25.2	63,820	25.2	72,133	26.7
Second Quarter	55,813	24.5	54,583	22.9	58,208	23.0	64,112	23.7
Third Quarter	51,522	22.6	53,894	22.6	57,267	22.6	59,829	22.1
Fourth Quarter	60,921	26.7	69,857	29.3	74,275	29.2	74,422	27.5
	227,906	100.0	238,487	100.0	253,570	100.0	270,496	100.0

**Critical Accounting Policies And Estimates**

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses during the periods. Significant accounting policies that we employ, including the use of estimates, are presented in the notes to our consolidated financial statements included elsewhere herein.

Critical accounting estimates involved in applying our accounting policies are those that require us to make assumptions about matters that are highly uncertain at the time the accounting estimate was made and those for which different estimates reasonably could have been used for the current period, or changes in the accounting estimate are reasonably likely to occur from period to period, and would have a material impact on the presentation of our financial condition, changes in financial condition or results of operations. Our most critical accounting estimates, discussed below, pertain to accounting policies for goodwill and other intangible assets, property and equipment and income taxes.

***Goodwill and Other Intangible Assets***

We account for our goodwill and intangible asset in accordance with SFAS No. 141, Business Combinations, as of July 1, 2001, and SFAS No. 142, Goodwill and Other Intangible Assets, as of December 31, 2001. In accordance with SFAS No. 141, goodwill, as restated, of approximately \$68.4 million



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and an intangible asset of \$92.0 million representing Morton's trade name were recognized in connection with our acquisition by Castle Harlan that occurred on July 25, 2002. In accordance with SFAS No. 142, goodwill and the trade name, which has an indefinite useful life, are not being amortized. However, both goodwill and the trade name intangible asset are subject to annual impairment testing in accordance with SFAS 142.

Goodwill at the date of the acquisition includes an adjustment of \$1.3 million reflecting the cumulative effect of the restatements. See Note 3 to our consolidated financial statements included elsewhere herein. Other changes to the carrying amount of goodwill of \$6.8 million during fiscal 2003 consist of adjustments of \$4.1 million primarily consisting of the reversal of accrued lease exit costs in connection with the finalization of purchase accounting adjustments and tax benefits that have been recorded with regard to changes in estimates of income tax uncertainties of \$2.7 million. During fiscal 2004, goodwill was reduced by \$0.4 million representing tax benefits that have been recorded with regard to changes in estimates of income tax uncertainties. Additionally, during the fourth quarter of fiscal 2004, goodwill was increased by \$0.6 million which represents an adjustment in purchase accounting as a result of a revision to a liability assumed at the time of the acquisition. During the nine month period ended October 2, 2005, goodwill was reduced by \$0.3 million which represents an adjustment in purchase accounting as a result of a revision to a deferred tax asset valuation allowance assumed at the time of the acquisition.

The impairment evaluation for goodwill is conducted annually using a two-step process. In the first step, the fair value of each reporting unit is compared with the carrying amount of the reporting unit, including goodwill. We consider a reporting unit to be an individual restaurant. The estimated fair value of the reporting unit is generally determined on the basis of discounted future cash flows. If the estimated fair value of the reporting unit is less than the carrying amount of the reporting unit, then a second step must be completed in order to determine the amount of the goodwill impairment that should be recorded. In the second step, the implied fair value of the reporting unit's goodwill is determined by allocating the reporting unit's fair value to all of its assets and liabilities other than goodwill (including any unrecognized intangible assets) in a manner similar to a purchase price allocation. The resulting implied fair value of the goodwill that results from the application of this second step is then compared to the carrying amount of the goodwill and an impairment charge is recorded for the difference.

The evaluation of the carrying amount of other intangible assets with indefinite lives is made annually by comparing the carrying amount of these assets to their estimated fair value. The estimated fair value is generally determined on the basis of discounted future cash flows. If the estimated fair value is less than the carrying amount of the other intangible assets with indefinite lives, then an impairment charge is recorded to reduce the asset to its estimated fair value.

The assumptions used in the estimate of fair value are generally consistent with the past performance of each reporting unit and other intangible assets and are also consistent with the projections and assumptions that are used in current operating plans. These assumptions are subject to change as a result of changing economic and competitive conditions.

Goodwill was assigned to reporting units and transitional impairment tests were performed for goodwill and other intangible assets during the second quarter of fiscal 2002. The annual impairment tests were most recently performed in fiscal 2004. No impairment of assets was determined as a result of these tests.

## ***Property and Equipment***

We assess recoverability of property and equipment in accordance with SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*. Our assessment of recoverability of property and equipment is performed on a restaurant-by-restaurant basis. Certain events or changes in circumstances may indicate that the recoverability of the carrying amount of property and equipment should be assessed. Such events or changes may include a significant decrease in market value, a significant change in the business climate in a



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particular market, or a current-period operating or cash flow loss combined with historical losses or projected future losses. If an event occurs or changes in circumstances are present, we estimate the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount, we recognize an impairment loss. The impairment loss recognized is the amount by which the carrying amount exceeds the fair value.

Our assessments of cash flows represent our best estimate as of the time of the impairment review and are consistent with our internal planning. If different cash flows had been estimated in the current period, the property and equipment balances could have been materially impacted. Furthermore, our accounting estimates may change from period to period as conditions in the world change, and this could materially impact our results in future periods. Factors that we must estimate when performing impairment tests include, among other items, sales volume, prices, inflation, marketing spending, exchange rates and capital spending.

During the first three quarters of fiscal 2005, we considered and analyzed impairment indicators related to property and equipment. Based on our analysis, we concluded that no material items recorded in property and equipment required an impairment charge.

## ***Income Taxes***

We have accounted for, and currently account for, income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. This statement requires an asset and liability approach for financial accounting and reporting of income taxes. Under SFAS No. 109, income taxes are accounted for based upon the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carry-forwards. Income taxes are one of our critical accounting policies and estimates and therefore involve a certain degree of judgment. During fiscal 2004, we determined we would elect to treat certain of our employee-portion FICA tax payments as current income tax deductions rather than income tax credits. Such election was made in order to minimize cash paid for income taxes in the short-term. The impact of this change resulted in recording additional tax expense of approximately \$1.7 million to our income tax expense for fiscal 2004. Our fiscal 2005 effective tax rate differs from our fiscal 2004 effective tax rate due to the fact that during the third quarter of fiscal 2004, we determined we would elect to treat certain of our employee-portion FICA tax payments as current income tax deductions rather than income tax credits. Such election was made in order to minimize cash paid for income taxes in the short-term.

The realization of tax benefits of deductible temporary differences and operating loss or tax credit carryforwards will depend on whether we will have sufficient taxable income of an appropriate character within the carryback and carryforward period permitted by the tax law to allow for utilization of the deductible amounts and carryforwards. Without sufficient taxable income to offset the deductible amounts and carryforwards, the related tax benefits will expire unused. We have evaluated both positive and negative evidence in making a determination as to whether it is more likely than not that all or some portion of the deferred tax asset will not be realized. As a result of our acquisition, tax benefits that are recognized in future periods by the elimination of the valuation allowance at the acquisition date are to be applied, first to reduce to zero any goodwill related to the acquisition, and then to reduce to zero any noncurrent intangible assets related to the acquisition.

## **New Accounting Pronouncements**

In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment*. This statement replaces SFAS No. 123, *Accounting for Stock-Based Compensation* and supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123(R) requires all stock-based employee compensation to be recorded as an expense in the consolidated statement of operations



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and that such cost be measured according to the fair value of stock options. SFAS No. 123(R) will be effective the first annual reporting period that begins after June 15, 2005. As we already charge stock-based employee compensation expense related to common units of MHLIC issued pursuant to employee subscription agreements based on the fair value of such units, the adoption of this statement will not have a material effect on our consolidated financial statements. See Note 13 to our consolidated financial statements included elsewhere herein. We have not yet determined the impact of SFAS No. 123(R) on our anticipated new equity incentive plan.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets* an amendment of APB Opinion No. 29. SFAS No. 153 addresses the measurement of exchanges of nonmonetary assets. It eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of Accounting Principles Board, or APB, Opinion No. 29 *Accounting for Nonmonetary Transactions* and replaces it with an exception for exchanges that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 will be effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of this statement will not have any effect on our consolidated financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46, which we refer to as FIN 46, *Consolidation of Variable Interest Entities*, an interpretation of ARB No. 51. FIN 46 was subject to significant interpretation by the FASB, and was revised and reissued in December 2003, which we will refer to as FIN 46R. FIN 46R states that if an entity has a controlling financial interest in a variable interest entity, the assets, the liabilities and results of activities of the variable interest entity should be included in the consolidated financial statements to the entity. The adoption of FIN 46 and FIN 46R did not have any effect on our consolidated financial statements, as we do not have any special purpose entities and no other arrangements that meet the definition of a variable interest entity which would require consolidation.

In March 2005, the FASB issued FIN 47, *Accounting for Conditional Asset Retirement Obligations*. FIN 47 clarifies that a conditional asset retirement obligation, as used in SFAS No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of the settlement are conditional on a future event that may or may not be within the control of the entity. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value can be reasonably estimated. FIN 47 is effective January 1, 2006, with early adoption allowed. We have not yet determined the impact, if any, FIN 47 will have on our consolidated financial statements.

In June 2005, the FASB issued Emerging Issues Task Force, which we refer to as EITF 05-06, *Determining the Amortization Period for Leasehold Improvements*. EITF 05-06 addresses the amortization period for leasehold improvements in operating leases that are either placed in service significantly after and not contemplated at or near the beginning of the initial lease term or acquired in a business combination. The adoption of EITF 05-06 will not have a material effect on our consolidated financial statements.

During October 2005, the FASB issued FASB Staff Position No. FAS 13-1, which we will refer to as FSP 13-1, which requires a lessee to cease capitalizing rental costs during the construction period as of the first reporting period beginning after December 15, 2005, which is the effective date of FSP 13-1. In accordance with FSP 13-1, beginning January 2, 2006 rental costs incurred during the construction period will be recognized as rental expense.

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### **BUSINESS**

#### **Our Company**

We are the world's largest owner and operator of company-owned upscale steakhouse restaurants, based on the number of restaurants owned and operated by us as compared to our known competitors. Our founders Arnie Morton and Klaus Fritsch opened the original Morton's steakhouse in downtown Chicago on December 21, 1978. Since then, we have expanded to a total of 69 Morton's steakhouses, including 65 domestic restaurants located in 60 cities across 28 states, along with two restaurants in Canada, one in Hong Kong and one in Singapore. We also own and operate four upscale Italian restaurants, which are designed as white tablecloth, authentic Italian trattorias. We own and operate all of our restaurants and do not have any franchisees. In fiscal 2004, we had total revenues of \$276.3 million and operating income of \$21.2 million, representing increases from fiscal 2003 of 6.8% and 8.8%, respectively. In the nine month period ended October 2, 2005, we had total revenues of \$217.1 million and operating income of \$12.8 million, representing increases of 8.7% and 23.9%, respectively, over the comparable period in fiscal 2004.

Morton's steakhouses have remained true to our founders' original vision of combining generous portions of high quality food prepared to exacting standards with exceptional service in an enjoyable dining environment. We have traditionally catered primarily to business clientele but have recently implemented strategies to broaden our appeal to local fine-dining guests. While our menu's emphasis is on USDA prime aged steaks, we also feature other fresh premium items including veal, chicken, lobster and other varieties of seafood, complemented by our extensive award winning premium wine list. By owning and operating all Morton's steakhouses, each with a similar menu, we believe that we are better able to provide a consistently high quality dining experience across all our locations.

Morton's steakhouses average approximately 8,300 square feet in size, including the kitchen area, and on average have seating for approximately 200 guests. All Morton's steakhouses have a similar style, concept and decor, and are designed to convey an image of sophistication, warmth and a premium dining experience. All but one Morton's steakhouse have on-premises, private dining and meeting facilities that we refer to as Boardrooms.

#### **Restaurant Industry Overview**

According to the National Restaurant Association, or the NRA, a restaurant trade association, U.S. restaurant industry sales in 2004 were approximately \$454 billion, representing approximately 4% of the U.S. gross domestic product. The NRA projects that 2005 U.S. restaurant industry sales will be \$476 billion, which would mark the fourteenth consecutive year of sales growth, adjusted for inflation, for the industry and a 4.9% increase over 2004. The NRA reports that the U.S. restaurant industry grew at a compound annual growth rate of 7.2% from 1970 through 2004, inclusively. Further, the NRA reports that 47% of total U.S. food expenditures are spent at restaurants, up from 25% in 1955. This figure is projected by the NRA to grow to 53% of total U.S. food expenditures by 2010. Technomic, Inc., a national consulting and market research firm, projects sales at full-service restaurants in the United States will grow at a higher rate than sales for the U.S. restaurant industry as a whole, with sales in the full service steak segment expected to grow at a 6% average annual rate from 2004 through 2009.

The Economist Intelligence Unit, a market research firm, estimates that real disposable personal income, adjusted for inflation, in the United States will increase 3.9% in 2005 over 2004, following an increase of 3.4% in 2004 over 2003. In addition, according to Fitch Ratings, a ratings agency and research firm, the decrease in the size of the average U.S. household and the aging of the U.S. population have contributed to an increase in food-away-from-home expenditures. Fitch Ratings projects that these trends will continue to increase demand in the U.S. restaurant industry over the next 10 to 20 years.

According to U.S. Census Bureau projections, the population of the United States is expected to grow 9.5% from 2000 to 2010, while people in the 45 to 64 age group are expected to increase 29.7% over the same time frame, reflecting the aging of baby boomers. Additionally, the 45 to 64 age group is expected to represent 26.2% of the population in 2010, versus 22.1% in 2000, an increase of 18.5%. As a targeted demographic of

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Morton's, we believe that the 45 to 64 age group has a higher level of discretionary spending than younger age groups and we expect it to generate a significant amount of sales for the U.S. upscale dining industry.

### **Our Business Strengths**

We believe the following strengths have helped drive the growth of our business:

*Premier Fine-Dining Brand.* We believe that Morton's, with its 27-year history and 69 steakhouses located in 60 cities across 28 states, and four international locations, is a premier fine-dining brand. We believe that our brand recognition is supported by our distinctive food and high service standards, which are exemplified by numerous awards and favorable reviews. In addition, we believe that our brand is enhanced by the sophisticated interior design of our Morton's steakhouses, which are consistent in terms of style, concept and decor, and by the typical location of our restaurants in upscale retail, hotel, commercial and office complexes in major metropolitan and urban centers and surrounding suburban areas.

*High Quality Cuisine.* We strive to provide guests at Morton's steakhouses with generous portions of high quality cuisine prepared to exacting standards. Morton's steakhouses feature USDA prime aged beef in the United States and Canada and comparable high quality aged beef in our steakhouses in Asia. While the emphasis is on our steaks, we believe our menu selection is broad enough to appeal to many taste preferences and desires. We offer a wide selection of appetizers and salads. Besides featuring our USDA prime aged steaks, our menu includes other fresh premium items including lamb, chicken, lobster and a variety of other seafood. Complementing our substantial main course selections is our dessert menu that features our original Morton's Legendary Hot Chocolate Cake, New York cheesecake, crème brulee and soufflés. In addition, each Morton's steakhouse has a fully stocked bar and extensive premium wine list that offers approximately 200 wines selections in all restaurants, and a broader list of over 400 wines in selected restaurants. Every Morton's steakhouse open at the end of 2004 received the Wine Spectator Award of Excellence, which was awarded for our well chosen selections of quality wines. During fiscal 2004 and the nine month period ended October 2, 2005, the average per-person Morton's steakhouse check was approximately \$84.70 and \$86.25, respectively.

*Consistency of Our Service, Experience and Atmosphere.* We seek to consistently provide guests with the same fine-dining steakhouse experience at all Morton's steakhouses. Among the key aspects of the experience is our signature tableside presentation of many of our menu items. Our servers conduct this presentation to our dining room guests in all Morton's steakhouses. We believe this visual presentation allows our guests to see the freshness and quality of our food and enhances our guests' experience. In addition, all Morton's steakhouses feature common design elements, including rich woods, a wine display wall, LeRoy Neiman artwork and private wine lockers. All Morton's steakhouses also feature an open display kitchen where our chefs and broilers are visible, which we believe increases the energy level of the restaurant and further enhances our guests' experience. Our typical table to server ratio is three to one, which helps us provide our guests with personal, attentive service.

*Strong Restaurant-Level Economics.* Morton's steakhouses have strong restaurant-level operating margins, which we define as revenues less food and beverage costs, restaurant operating expenses and marketing and promotional expenses as a percentage of revenues. This is as a result of strong average restaurant revenue coupled with what we believe are effective cost controls. Morton's steakhouses open for all of fiscal 2004 generated average revenues of approximately \$4.0 million per restaurant and average restaurant-level operating margins of approximately 16.4%. In the case of the four new Morton's steakhouses that we opened during the nine month period ended October 2, 2005, our average initial cash investment, net of landlord contributions and equipment financing, was approximately \$2.0 million, including pre-opening costs of approximately \$0.5 million, which are expensed under GAAP.



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*Effective Cost Control Mechanisms.* We believe that our operations and cost control systems, which we have developed and refined over our 27-year history, enable us to maintain a high degree of control over operating expenses and allow us to better adjust our cost structure to changes in revenues. We also believe that centralized sourcing from our primary suppliers of beef and other products gives us significant cost and

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availability advantages over many independent steakhouses. In addition, all Morton's steakhouses report daily to our headquarters through a sophisticated point-of-sale system that allows us to monitor revenues, costs, labor, inventory and other operating statistics.

*Highly Experienced Management Team.* Our executive management team has an average of 23 years of experience in the restaurant industry. Thomas J. Baldwin, who we anticipate will become our Chairman, Chief Executive Officer and President prior to the consummation of this offering, has been with us since 1989 and has over 21 years of experience in the restaurant industry, including as our Chief Financial Officer from 1989 to 2005. Edie A. Ames, President of our subsidiary, Morton's of Chicago, Inc., who joined us in 2005, has over 20 years of experience in the restaurant industry. Ronald M. DiNella, who we anticipate will become our Senior Vice President and Chief Financial Officer prior to the consummation of this offering, has been with us since 1992 and has over 23 years of experience in the restaurant industry. In addition, our 12 regional managers average 25 years of restaurant experience, including eight years of experience with us.

## **Our Growth Strategy**

Our objectives are to further leverage our experience in operating our Morton's steakhouses to increase the revenues and operating income of our existing restaurants, and to open new Morton's steakhouses in existing markets and selected new domestic and international markets.

*Continue to Broaden Our Appeal.* Traditionally, the primary target market of our Morton's steakhouses has been business-oriented guests. Recently, we also have increased our focus on local fine-dining guests. We have developed several marketing initiatives, including the addition of new menu items developed through market testing, new wine selections and the use of targeted direct mailings, as part of our strategy to increase the appeal and awareness of our fine-dining steakhouse experience with local fine-dining guests. We have evolved our menu to include new appetizers, such as tuna tartare, and additional entree items, such as slightly smaller steaks and Australian lobster tails. We have also enhanced our wine program through the introduction of upscale stemware and specialized wine training for our restaurant managers and servers. In addition, we have recently introduced a new bar concept, Bar 12:21, which we believe has further broadened our appeal, increased revenues and increased dining capacity in the restaurants where it has been implemented.

*Expand Bar 12:21 Concept.* Our new bar concept, named Bar 12:21 to commemorate the date that our original Morton's steakhouse opened, is intended to provide a comfortable, warm atmosphere to meet friends or business associates and enjoy a large selection of fine spirits, wines and appetizers. Our new Bar Bites menu, exclusively offered in the bar and starting at \$3, features appetizers such as mini prime cheeseburgers, petite filet mignon sandwiches, potato skins and chicken goujonettes. The redesign typically includes opening the bar area to the restaurant and reconfiguring the bar top and adjacent tables to create more comfortable seating and what we believe is a more inviting area for gathering and dining. We feature our Bar 12:21 concept in all new Morton's steakhouses opened after fiscal 2003, and we have remodeled the bar area in three existing Morton's steakhouses to include our Bar 12:21 concept. During fiscal 2006, we plan to remodel the bar area in at least six other Morton's steakhouses to provide a similar atmosphere. We currently expect to remodel the bar area in approximately four to six other Morton's steakhouses in each of the next several years.

*Expand Our Boardroom Business.* All but one of our Morton's steakhouses have on-premises, private dining and meeting facilities that we refer to as Boardrooms, which generated approximately 18.7% of revenues generated by our Morton's steakhouses for fiscal 2004. We seek to increase the utilization of our Boardrooms because they typically generate a higher average check than our dining rooms, and allow us to better leverage our fixed costs and achieve higher margins on those revenues. We host many business and non-business events in our Boardrooms such as corporate events, sales meetings, presentations, charity events and private parties, and can accommodate both small and large groups. We believe that we are able to provide guests in our Boardrooms with audio-visual capabilities that are comparable, and a level of food and service quality that is comparable or superior, to many upscale hotels. We have a national sales and marketing department at our corporate offices in addition to sales and marketing employees at 68 of our Morton's steakhouses that target corporate clients and special occasion celebrations of our local guests with the goal of



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increasing our Boardroom utilization. In addition to promoting our current Boardrooms, during fiscal 2006 we are planning to add additional Boardrooms in three of our existing Morton's steakhouses. We are currently evaluating other Morton's steakhouses for increased Boardroom capacity. In these situations, we typically look to rent additional space contiguous to the current restaurant for more Boardrooms and, as necessary, to increase kitchen area to support higher volume levels.

*Pursue Disciplined New Restaurant Growth.* We plan to expand our Morton's concept and strong brand name by opening new Morton's steakhouses in our existing markets that we believe can support additional restaurants. We believe that many of the major markets in which we currently operate can support one or more additional Morton's steakhouses due to the large local business and local fine-dining guest population. We also plan to enter new markets selectively when we believe that those markets can successfully support a Morton's steakhouse. We currently expect to open five new Morton's steakhouses in 2006 and approximately five to seven new Morton's steakhouses in each of the next several years.

## **Site Development and Expansion**

We employ rigorous selection criteria for both existing and new markets when selecting new Morton's steakhouse sites. Our training department oversees our new restaurant-opening program, which includes teams whose objective is to optimize the performance and efficiencies of our new restaurants. Typically, we open our new Morton's steakhouses with a combination of seasoned restaurant managers, trainers and chefs from our established Morton's steakhouses. The training team typically spends approximately four to five weeks ensuring that the new employees are well trained and capable of consistently maintaining our high standards for service and food at the new location.

To date, we have sought to reduce our capital investments in new Morton's steakhouses by obtaining substantial landlord contributions. These landlord contributions typically take the form of cash payments to us but sometimes take the form of reduced rent. Morton's steakhouse leases typically provide for a minimum annual rent and contingent rent to be determined as a percentage of the applicable restaurant's annual gross revenues, subject to market-based minimum annual rents. As a result, annual rent expense, which we include in restaurant operating expenses in our consolidated statements of operations, varies according to restaurant revenues. This leasing strategy has enabled us to reduce our net investments in newly developed restaurants. The costs of opening a Morton's steakhouse vary by restaurant depending upon, among other things, the location of the site and construction required. We generally lease Morton's steakhouse sites and operate both free-standing restaurants and restaurants located in upscale retail, hotel, commercial and office complexes, which we refer to as in-line restaurants, in major metropolitan and urban centers and surrounding suburban areas. We currently target our initial average cash investment, net of landlord contributions and equipment financing, to open new Morton's steakhouses in leased premises to be approximately \$2.0 million per restaurant, including pre-opening costs of \$0.5 million, which are expensed under GAAP, although we may expend greater amounts for particular restaurants.

The standard decor and interior design of each of our restaurant concepts can be readily adapted to accommodate different types of locations. We believe that the locations of our restaurants are critical to our long-term success, and we devote significant time and resources to analyzing each prospective site. As we have expanded, we have developed and refined specific criteria by which we evaluate each prospective site. Potential sites generally are sought in major metropolitan areas. We consider factors such as demographic information, average household size, income, traffic patterns, proximity to shopping areas and office buildings, hotels and convention centers, area restaurant competition, accessibility and visibility. Our ability to open new restaurants depends upon, among other things, finding quality locations, reaching acceptable agreements regarding the lease or purchase of locations, raising or having available an adequate amount of money for construction and opening costs, timely hiring, training and retaining the skilled management and other employees necessary to meet staffing needs, obtaining, for an acceptable cost, required permits and approvals and efficiently managing the amount of time and money used to build and open each new restaurant. For information regarding the risks associated with expansion, see "Risk Factors." Our continued growth depends on our ability to open new restaurants and operate new restaurants profitably.



**Table of Contents****Properties***Locations*

Our restaurants generally are located in space leased by our subsidiaries. Our restaurant lease expirations, including renewal options, range from one to 36 years. Our leases typically provide for renewal options for terms ranging from five to 15 years. Restaurant leases typically provide for a minimum annual rent and contingent rent to be determined as a percentage of the applicable restaurant's annual gross revenues, subject to market-based minimum annual rents. Generally, leases are net leases that require our subsidiary that is a party to the lease to pay its pro rata share of taxes, insurance and maintenance costs. Typically, one of our subsidiaries is a party to the lease, and performance is guaranteed by another one of our subsidiaries for a portion of the lease term. We operate six restaurants on properties that we own and operate 67 restaurants on leased properties.

We lease our executive offices in approximately 9,800 square feet in New Hyde Park, New York. We also lease office space in approximately 20,700 square feet in Chicago. We believe that our current office and operating space is suitable and adequate for its intended purposes.

We owned and operated 69 Morton's steakhouses and four Italian restaurants as of October 2, 2005. The following table provides information with respect to those restaurants:

<i>Morton's, Date Opened</i>	Philadelphia, PA July 1999
	Boca Raton, FL August 1999
Chicago, IL (1) December 1978	Kansas City, MO October 1999
Washington (Georgetown), DC November 1982	Indianapolis, IN November 1999
Westchester/Oakbrook, IL June 1986	Schaumburg, IL December 1999
Dallas (Downtown), TX May 1987	Hong Kong (Kowloon) December 1999
Boston, MA December 1987	Seattle, WA December 1999
Rosemont, IL June 1989	Denver (Tech Center), CO March 2000
Cleveland, OH September 1990	Las Vegas, NV May 2000
Tysons Corner, VA November 1990	Jacksonville, FL June 2000
Columbus, OH April 1991	Hartford, CT September 2000
Cincinnati, OH August 1991	San Juan, PR October 2000
San Antonio, TX September 1991	Great Neck (Long Island), NY October 2000

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Palm Beach, FL November 1991	Vancouver, Canada October 2000
Minneapolis, MN December 1991	New Orleans, LA December 2000
Beverly Hills, CA(2) October 1992	Louisville, KY June 2001
Detroit (Southfield), MI November 1992	Reston, VA July 2001
Sacramento, CA May 1993	Santa Ana/Costa Mesa, CA November 2001
Pittsburgh, PA August 1993	Los Angeles (Downtown), CA (2) November 2001
New York (Midtown Manhattan), NY October 1993	Honolulu, HI November 2001
St. Louis (Clayton), MO December 1993	King of Prussia, PA April 2002
Palm Desert, CA January 1994	Hackensack, NJ September 2002
Atlanta (Buckhead), GA March 1994	Arlington, VA October 2002
Charlotte, NC July 1994	Burbank, CA (2) November 2002
San Francisco, CA November 1994	Richmond, VA February 2003
Denver (Downtown), CO March 1995	White Plains, NY July 2004
Atlanta (Downtown), GA November 1995	Charlotte, NC (Southpark) January 2005
Houston, TX January 1996	Chicago, IL (Wacker Place) February 2005
Phoenix, AZ March 1996	Bethesda, MD February 2005
Orlando, FL March 1996	Atlantic City, NJ August 2005
Washington (Connecticut Ave.), DC January 1997	
San Diego, CA April 1997	<b><i>Italian Restaurants(3), Date Opened</i></b>
Baltimore, MD August 1997	
Miami (Downtown), FL December 1997	Las Vegas, NV May 1992
Stamford, CT February 1998	King of Prussia, PA November 1995
Singapore May 1998	Indianapolis, IN October 1996
North Miami Beach, FL July 1998	<u>West Las Vegas, NV December 1998</u>
Toronto, Canada September 1998	(1) Does not have Boardroom Facilities.
Portland, OR December 1998	(2) Operates under the name Arnie Morton s of Chicago.
Nashville, TN January 1999	(3) Operate under the name Bertolini s Authentic Trattorias.
Scottsdale, AZ January 1999	





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We currently have signed leases in place for four new Morton's steakhouses in Troy, Michigan, Coral Gables, Florida, Northbrook, Illinois and Fort Lauderdale, Florida.

### **Restaurant Operations and Management**

Our restaurants have a well-developed management infrastructure and we operate and manage Morton's steakhouses and our Italian restaurants as distinct concepts. Regional managers supervise the operations for our restaurants, and each is responsible for several restaurants and reports to a regional vice president. We believe we have created a culture of accountability whereby regional vice presidents and regional managers meet monthly with senior corporate management to review operations and address issues. Working in concert with regional vice presidents, regional managers and restaurant general managers, senior corporate management sets operations and performance objectives for each restaurant. We have established incentive plans tied to achieving specified revenue, profitability and operating targets and related quality objectives for regional vice presidents, regional managers and some of our restaurant managers. We believe that our Morton's restaurant management staff is highly trained, experienced and motivated in part due to a success-based compensation program and benefit plans that we believe help reduce employee turnover and enhance operating efficiencies.

We strive to maintain quality and consistency in our restaurants through the careful training and supervision of personnel and the establishment of standards relating to food and beverage preparation, maintenance of facilities and conduct of personnel. Restaurant managers, many of whom have been promoted from our restaurant personnel, must complete a training program in the restaurant of typically six to twelve weeks during which we instruct them in areas of restaurant management, including food quality and preparation, customer service, alcoholic beverage service, liquor liability avoidance and employee relations. We also provide restaurant managers with operations manuals relating to food and beverage preparation and operation of restaurants. These manuals are designed to ensure uniform operations, consistently high quality products and service, and proper management and accounting for restaurant operations. On a quarterly basis, we conduct Morton's University, which is a one week classroom experience for our entry level managers that focuses on specific Morton's expectations, accountability, communication, compliance and development of camaraderie amongst management teams. We continually seek to improve and evolve our training and development processes. We hold regular meetings of our restaurant managers, as well as holding our annual general manager conference and our annual sales and marketing conference, to discuss sales opportunities, menu items, ongoing training and development of staff and other aspects of effective business management.

The staff for a typical Morton's steakhouse consists of one general manager, up to four assistant managers and approximately 40 to 60 hourly employees. The staff for each of our Italian restaurants consists of one general manager, up to six assistant managers and approximately 70 to 100 hourly employees. Each of our new restaurant employees typically participates in a training program during which the employee works under the close supervision of restaurant managers. We strive to instill enthusiasm and dedication in our employees. Restaurant management regularly solicits employee suggestions concerning restaurant operations, and strives to be responsive to employee concerns and to meet regularly with employees at each of the restaurants.

We devote considerable attention to managing food and operating costs. We make extensive use of information technology to provide us with pertinent information on daily revenues and inventory requirements, thus reducing the need to carry excessive quantities of food inventories. This cost management system is complemented by our ability to obtain certain volume-based discounts. In addition, all of the restaurants within each of our two restaurant concepts have similar menu items and common operating methods, allowing for more simplified management operating controls.

Each Morton's steakhouse employs a full time food and beverage controller, which provides us with an in-house purchasing manager from both a quality and control standpoint. The food and beverage controller is responsible for minimizing product losses and ensuring that all products received meet our high quality standards.



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We maintain financial and accounting controls for each of our restaurants through the use of centralized accounting and management information systems and specified reporting requirements. On a daily basis, we collect revenue, cost and related information for each restaurant. We provide restaurant managers with operating statements for their respective restaurants. Cash and credit card receipts are controlled through daily deposits to local or concentration operating accounts, the balances of which are transferred or deposited to cash concentration accounts. All of our restaurants utilize the same computerized point of sale system, which provides consistent centralized reporting that is available to both restaurant and corporate management. Information captured by the point of sale system flows to the restaurant accounting system, which allows management to review product sales mix, profit margins, cost of sales data, inventory levels and cash and credit card receipts on a daily basis. Sales are reported daily and reconciled by the accounting department in our corporate office before they are posted to our accounting system. Cost of sales, inventory and other operating expenses are imported directly from the restaurant accounting system into the general ledger.

Our corporate financial reporting system provides additional comprehensive financial reports. Information such as daily, weekly, monthly and year to date sales comparisons, financial statements, ideal versus actual reported costs and ideal versus actual cost of sales are prepared on a restaurant, regional and consolidated basis. These reports are made available to operations and senior management through our internal intranet site.

All Morton's steakhouses utilize OpenTable, a third-party reservation and data management system that allows us to recognize and record the preferences of our guests through its shared reservation database. This system enables our managers to record guest reservations, special requests and any other relevant guest information. Through the OpenTable website, our guests can make reservations online 24 hours a day, seven days a week for all worldwide Morton's locations.

## **Purchasing**

Our ability to maintain consistent high quality throughout our restaurants depends in part upon the ability to procure food products and related items from approved sources in accordance with our strict product specifications. Morton's has typically entered into purchasing arrangements, generally lasting for up to one year each, directly with our major beef suppliers. Our procurement strategies are intended to provide us with flexibility to benefit from market opportunities should they arise, without sacrificing product quality. These strategies have historically provided us with a consistent supply and helped us to manage purchase costs.

Our largest single purchase item is beef, which, for our U.S. and Canadian restaurants, consists of USDA prime beef for all of our steaks other than our filet mignon, which is USDA choice. Morton's domestic beef is shipped from our suppliers directly to our two meat cutters in Chicago, where it is aged and portion cut by skilled meat cutters in accordance with our specifications. The portion controlled meat is packaged and shipped to domestic Morton's steakhouses by refrigerated common carrier. We believe this process allows us to serve a more consistent product in each Morton's steakhouse. We also make supply contingency arrangements to cover business fluctuations or additional short-term restaurant needs. Due to restrictions imposed in December 2003 on the export of U.S. beef, we use high quality non-U.S. aged beef in our restaurants in Asia that we believe closely mirrors our domestic standards and specifications. We use several global vendors for additional items such as shrimp, seafood and cheesecake to maintain the high quality and consistency that Morton's specifications require. Additional products used by Morton's are locally procured using similar stringent standards and product specifications. Our Italian restaurants also adhere to strict product specifications and use national, regional and local suppliers.

Food and supplies are shipped directly to the restaurants and invoices for purchases are processed in local restaurant accounting systems for cost analysis and then sent for review and payment to our Chicago office.



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### **Marketing**

We believe that our commitment to providing quality food, hospitality, service and a high level of value at our price point is an effective approach to attracting and maintaining guests. As part of this approach, we have nine dedicated sales and marketing employees at the corporate level, and an additional dedicated sales and marketing employee at 68 of our Morton's steakhouses. We utilize a variety of local and company-wide marketing and public relations techniques intended to maintain and build our guest traffic, maintain and enhance our Morton's brand image and continually improve and refine our fine-dining steakhouse experience. For example, we use databases to identify our target guests and use paper and electronic direct mailings to increase their awareness of our fine-dining steakhouse experience and of our local promotional activities. We also host a number of special events such as wine dinners, opening benefit parties, sports theme dinners and our Local Legend dinners featuring a local celebrity. For example, during 2004, we commissioned the world's largest wine bottle, as certified by the Guinness Book of World Records, which we exhibited at many of our Morton's steakhouses throughout the United States. Our world's largest wine bottle was auctioned at Sotheby's and the proceeds were donated to Share Our Strength.

In addition, we use various local public relations and marketing consultants and limited airport signage and targeted print advertising. In the past we have placed, and may continue to place, selected advertisements in periodicals such as Boston Magazine, Chicago Magazine, Los Angeles Magazine and New York Magazine.

### **Competition**

The restaurant business is highly competitive and fragmented, and the number, size and strength of competitors vary widely by region. We believe that restaurant competition is based on, among other things, quality of food products, customer service, reputation, restaurant decor and location, name recognition and price. Our restaurants compete with a number of restaurants within their markets, both locally-owned restaurants and other restaurants that are members of regional or national chains. The restaurant business is also impacted by various factors including changes in consumer taste, economic and market conditions, demographic trends, traffic patterns, employee availability and benefits, regulatory developments, product availability and cost increases. For information regarding the risks associated with competition, see Risk Factors. Our restaurants may not be able to compete successfully with other restaurants.

### **Intellectual Property**

We have registered the names Morton's, Morton's of Chicago and certain other names used by our restaurants as trade names, trademarks or service marks with the United States Patent and Trademark Office and in certain foreign countries. We are aware of names similar to those of our restaurants used by third parties in certain limited geographical areas, although we do not anticipate that such use will prevent us from using our marks in those areas. We believe that our trade names, trademarks and service marks are valuable to the operation of our restaurants and are important to our marketing strategy. For information regarding the risks associated with service marks and trademarks, see Risk Factors. The failure to enforce and maintain our intellectual property rights could enable others to use names confusingly similar to Morton's, Morton's of Chicago and other names and marks used by our restaurants.

### **Employees**

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As of October 2, 2005, we had 3,948 employees, of whom 3,438 were hourly restaurant employees, 399 were salaried restaurant employees engaged in administrative and supervisory capacities and 111 were corporate and office personnel. Many of our hourly employees are employed on a part-time basis to provide services necessary during peak periods of restaurant operations. None of our employees are covered by a collective bargaining agreement. We believe that we generally have good relations with our employees.

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### **Government Regulation**

Our restaurants are subject to licensing and regulation by state and local health, safety, fire and other authorities, including licensing and regulation requirements for the sale of alcoholic beverages and food. We maintain the necessary restaurant, alcoholic beverage and retail licenses, permits and approvals. The development and construction of additional restaurants will also be subject to compliance with applicable zoning, land use and environmental regulations. Federal and state labor laws govern our relationship with our employees and affect operating costs. These laws include minimum wage requirements, overtime, unemployment tax rates, workers' compensation rates, citizenship requirements and sales taxes. We are also subject to the Fair Labor Standards Act, the Immigration Reform and Control Act of 1986 and various federal and state laws governing such matters as minimum wages, overtime, tips, tip credits and other working conditions.

Our restaurants are subject in each state in which we operate to dram shop laws, which allow, in general, a person to sue us if that person was injured by an intoxicated person who was wrongfully served alcoholic beverages at one of our restaurants. A judgment against us under a dram shop law could exceed our liability insurance coverage policy limits and could result in substantial liability for us and have a material adverse effect on our results of operations. Our inability to continue to obtain such insurance coverage at reasonable costs also could have a material adverse effect on us. For information regarding the risks associated with government regulation, see Risk Factors. We may incur additional costs or liabilities and lose revenues as a result of litigation and government regulation.

### **Legal Proceedings**

Since August 2002, a number of our current and former employees in New York, Massachusetts and Florida have initiated arbitrations with the American Arbitration Association in their respective states alleging that we have violated state (Massachusetts arbitration), state and federal (New York arbitrations) and federal (Florida arbitrations) wage and hour laws regarding the sharing of tips with other employees and failure to pay for all hours worked. There are two group arbitrations pending in Florida. One is proceeding in Palm Beach as a collective action with approximately 21 claimants. The second is proceeding in Miami as a consolidated action with approximately six claimants. In addition, there are two individual demands for arbitration pending in Florida that may ultimately be joined to the Miami arbitration. The arbitrator in the New York arbitrations has permitted the approximately 88 claimants to consolidate their arbitrations into one action and proceed as a collective action, and a decision with respect to this proceeding is expected in the near future. The Massachusetts arbitrator has ruled that the claimants may proceed as a class, but to date there are three people in the class and the arbitrator recently ruled that there would be no automatic certification. In general, the complainants are seeking restitution of tips, the difference between the tip credit wage and the minimum wage, payment for hours worked off the clock (in the Miami arbitration and in the individual Florida arbitrations only), liquidated damages and attorneys' fees and costs. We are contesting these matters vigorously.

In November 2004, current and former employees of the Sacramento, California Morton's steakhouse commenced a federal lawsuit asserting individual, representative and class claims against the Sacramento Morton's steakhouse and several other Morton's steakhouses. The plaintiffs asserted claims based on our alleged failure to provide them with meal and rest periods, and for unlawful tip sharing and unfair competition. The plaintiffs seek restitution of tips, meal and break period compensation and attorneys' fees. Dismissals with prejudice for all defendants, except the Sacramento Morton's steakhouse, were granted. The claims against the Sacramento Morton's steakhouse have been moved to arbitration.

In May 2005, a former employee of the Boston, Massachusetts Morton's steakhouse filed a nationwide class action complaint in federal court in Massachusetts alleging that the sharing of tips with other restaurant

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employees violates the Fair Labor Standards Act. We moved to dismiss the complaint and compel arbitration. While the motion was pending, the plaintiff filed a nationwide collective action demand for arbitration with the American Arbitration Association. The demand for arbitration alleges the same facts as the lawsuit filed in federal court. Our motion to dismiss was granted and the matter is moving forward as an arbitration. There is currently one named claimant.

We have not established any accruals for judgments, and insurance is not available to cover any liabilities, with respect to these wage and hour matters. We are involved in various other claims and legal actions arising in the ordinary course of business. We do not believe, based on current knowledge of these matters, that the ultimate resolution of these actions will have a material adverse effect on our financial condition.



**Table of Contents****MANAGEMENT****Executive Officers and Directors**

Our directors and executive officers, their ages and their titles upon consummation of this offering will be as set forth below. The information gives effect to the retirement of Allen J. Bernstein and the respective promotions of Thomas J. Baldwin and Ronald M. DiNella, which will take effect prior to the consummation of this offering.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Thomas J. Baldwin	50	Chairman, Chief Executive Officer, President and Director
Ronald M. DiNella	45	Senior Vice President, Chief Financial Officer, Secretary and Treasurer
Roger J. Drake	45	Vice President of Communications
Allan C. Schreiber	65	Senior Vice President of Development
Edie A. Ames	39	President-Morton's of Chicago, Inc.
Klaus W. Fritsch	63	Vice Chairman and Co-Founder-Morton's of Chicago, Inc.
John K. Castle	65	Director
Lee M. Cohn	58	Director
Dr. John J. Connolly	66	Director
Dr. Laurence E. Paul	41	Director
Stephen E. Paul	38	Director
David B. Pittaway	54	Director
Dianne H. Russell	62	Director
Alan A. Teran	60	Director
Justin B. Wender	36	Director

**Thomas J. Baldwin** has been Chairman, Chief Executive Officer and President since December 2005. He has been a director since February 2003 and previously was a director from November 1998 through July 2002. Previously, he served as Executive Vice President and Chief Financial Officer from January 1997 until December 2005. He served as Senior Vice President, Finance from June 1992 and Vice President, Finance from December 1988. In addition, Mr. Baldwin had served as Chief Financial Officer and Treasurer from December 1988 until December 2005. From October 2002 to December 2005, Mr. Baldwin also served as secretary after serving as assistant secretary since 1988. His previous experience includes two years at Citicorp and seven years at General Foods Corp., now part of Kraft Foods. Mr. Baldwin is a member of the board of directors of the March of Dimes Connecticut Division.

**Ronald M. DiNella** has been Senior Vice President, Chief Financial Officer, Secretary and Treasurer since December 2005. Mr. DiNella previously served as Senior Vice President, Finance for Morton's of Chicago, Inc., our indirect wholly-owned subsidiary, from 1998 to 2005 and Vice President, Finance from 1992 to 1998. Mr. DiNella's previous experience includes nine years with Arnie Morton's Management Group, a local Chicago restaurant chain headed by Morton's co-founder, Arnie Morton, where he served as Controller. Mr. DiNella serves on the board of directors of the Illinois Restaurant Association and is its immediate past chairman. Mr. DiNella is a licensed certified public accountant in the State of Illinois.

**Roger J. Drake** has been Vice President of Communications since May 1999. Previously, he served as Director of Communications since February 1994. Mr. Drake previously owned and operated Drake Productions, a video and marketing communications company, from April 1987 to December 1993. Prior to that, Mr. Drake served as senior producer, editor and copywriter at Major League Baseball Productions, from May 1981 to June 1986.

*Allan C. Schreiber* has been Senior Vice President of Development since January 1999. Previously, he served as Vice President of Real Estate since January 1996 and as Director of Real Estate since November 1995. Mr. Schreiber had been a Senior Managing Director at The Galbreath Company since 1991. Prior to joining Galbreath, he served as an Executive Vice President of National Westminster Bank USA from 1982 to

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1991. Previously, Mr. Schreiber had been a Vice President and Division Executive of the Chase Manhattan Bank. Mr. Schreiber has indicated that he intends to retire in July 2006.

**Edie A. Ames** has been President of Morton's of Chicago, Inc., our indirect wholly-owned subsidiary, since July 2005. Previously, Ms. Ames had been Regional Vice President of Operations and Training for California Pizza Kitchen, Inc. since January 2004. Prior to that, Ms. Ames worked for California Pizza Kitchen, Inc. where she served in various positions including Regional Director of Operations, Senior General Manager and General Manager since January 1994. Ms. Ames served as Manager and Director of Training for Malone's Grill & Bar, from 1986 to 1994.

**Klaus W. Fritsch** has been Vice Chairman of Morton's of Chicago, Inc., our indirect wholly-owned subsidiary, since May 1992. Mr. Fritsch has been with Morton's of Chicago, Inc. since its inception in 1978, when he co-founded Morton's. After Mr. Arnold Morton ceased active involvement in 1987, Mr. Fritsch assumed all operating responsibilities as President, in which capacity he served until May 1992.

**John K. Castle** will be a director upon consummation of this offering and has been a member of MHLLC's board of advisors since October 2002. Mr. Castle was also a director from December 1988 through July 2002. Mr. Castle is Chairman and Chief Executive Officer of Castle Harlan, Inc. Immediately prior to forming Castle Harlan, Inc. in 1986, Mr. Castle was President and Chief Executive Officer of Donaldson, Lufkin & Jenrette, Inc., one of the nation's leading investment banking firms. At that time, he also served as a director of the Equitable Life Assurance Society of the U.S. Mr. Castle is a board member of Ames True Temper, Inc., Advanced Accessory Systems, LLC, Horizon Lines, LLC, Wilshire Restaurant Group, Inc., and various private equity companies. Mr. Castle has also been elected to serve as a Life Member of the Massachusetts Institute of Technology. He has served for 22 years as a trustee of New York Medical College, including eleven of those years as Chairman of the Board. He is a member of the Board of the Whitehead Institute for Biomedical Research, and was Founding Chairman of the Whitehead Board of Associates. He is also a member of The New York Presbyterian Hospital Board of Trustees. Mr. Castle received his bachelors degree from the Massachusetts Institute of Technology, his MBA as a Baker Scholar with High Distinction from Harvard, and has two Honorary Doctorate Degrees of Humane Letters.

**Lee M. Cohn** will be a director upon consummation of this offering and has been a member of MHLLC's board of advisors since February 2003. He previously served as a director from August 1997 through July 2002. Mr. Cohn co-founded and has been the Chief Executive Officer of Big 4 Restaurants, Inc., located in Scottsdale, Arizona, since 1973. Mr. Cohn has served on the boards of Valley Big Brothers and the Phoenix Ballet Company and is an active member of The Phoenix Thunderbirds, The Fiesta Bowl Committee and the Young Presidents Organization. Mr. Cohn is a director of McCormick and Schmick Holdings LLC and Wilshire Restaurant Group, Inc., which are affiliates of Castle Harlan, Inc.

**Dr. John J. Connolly** will be a director upon consummation of this offering and has been a member of MHLLC's board of advisors since February 2003. Dr. Connolly previously served as a director from October 1994 through July 2002. He has been the President and Chief Executive Officer of Castle Connolly Medical Ltd. since 1992. He previously served as President and Chief Executive Officer of New York Medical College for over ten years. He serves on the President's Advisory Council of the United Hospital Fund, as a member of the board of advisors of the Whitehead Institute and as a director of the New York Business Group on Health. He also has served as Chairman of the Board of Trustees of St. Francis Hospital in Poughkeepsie and was the first Chairman of the Dutchess County Industrial Development Agency. He is a fellow of the New York Academy of Medicine and is a founder and past Chairman of the American Lyme Disease Foundation. Dr. Connolly serves as a Trustee Emeritus and past Chairman of the Board of the Culinary Institute of America. Dr. Connolly also presently serves as a director of Dearborn Risk Management, Health Enhancement Inc. and Publishing Works, Ltd.

**Dr. Laurence E. Paul** will be a director upon consummation of this offering and has been a member of MHLLC's board of advisors since October 2002. Dr. Paul is a Managing Principal of Laurel Crown Capital, LLC, a private investment company. Dr. Paul was a Vice President of The Louis Berkman Company from May



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2001 through September 2002. Formerly, Dr. Paul was a Managing Director at Donaldson, Lufkin & Jenrette, Inc. and then CS First Boston after Credit Suisse Group's purchase of Donaldson, Lufkin & Jenrette, Inc. He served at Donaldson, Lufkin & Jenrette, Inc. and its successor from 1994 through 2001. Dr. Paul is a director of Biovail Corporation, Ampco-Pittsburgh Corporation and Global Fitness Holdings LLC. In addition he serves on the boards of Harvard Medical School, the Biomedical Services division of the American Red Cross and the Los Angeles Chapter of the American Red Cross. Dr. Paul received his bachelors degree and M.D. from Harvard University and earned an M.B.A. from The Stanford Graduate School of Business. Laurence E. Paul and Stephen E. Paul are brothers.

**Stephen E. Paul** will be a director upon consummation of this offering and has been a member of MHLLC's board of advisors since October 2002. Mr. Paul is a Managing Principal of Laurel Crown Capital, LLC, a private investment company. Mr. Paul was a Vice President of The Louis Berkman Company from May 2001 through September 2002. Formerly, Mr. Paul was a Vice President of Business Development of eToys, Inc. since May 1998, and before that, an Associate at Donaldson, Lufkin & Jenrette, Inc., where he was employed from August 1995 to May 1998. Mr. Paul is a director of Ampco-Pittsburgh Corporation and Global Fitness Holdings LLC. In addition, he is a Trustee of The Loomis Chaffee School. Mr. Paul is a graduate of Cornell University and earned an M.B.A. from Harvard Business School. Laurence E. Paul and Stephen E. Paul are brothers.

**David B. Pittaway** will be a director upon consummation of this offering and has been a member of MHLLC's board of advisors since October 2002. Mr. Pittaway previously served as a director from December 1988 through July 2002. Mr. Pittaway is currently the Senior Managing Director, Senior Vice President and Secretary of Castle Harlan, Inc. He has been with Castle Harlan, Inc. since 1987. Mr. Pittaway has been Vice President and Secretary of Branford Castle, Inc., an investment company, since October 1986. From 1987 to 1998 he was Vice President, Chief Financial Officer and a director of Branford Chain, Inc., a marine wholesale company, where he is now a director and Vice Chairman. Prior thereto, Mr. Pittaway was Vice President of Strategic Planning and Assistant to the President of Donaldson, Lufkin & Jenrette, Inc. Mr. Pittaway is also a director of Dave & Busters, Inc., Equipment Support Services, Inc., BKH Acquisition Corp., Wilshire Restaurant Group, Inc., McCormick & Schmick's Seafood Restaurants, Inc. and The Dystrophic Epidermolysis Bullosa Research Association of America, Inc. Mr. Pittaway is a graduate of the University of Kansas (B.A. with Highest Distinction), and has both an M.B.A. with High Distinction (Baker Scholar) and a Juris Doctor degree from Harvard University.

**Dianne H. Russell** will be a director upon consummation of this offering and has been a member of MHLLC's board of advisors since February 2003. She previously served as a director from May 1993 through July 2002. Ms. Russell is a Senior Vice President and Regional Managing Director of the Technology and Life Sciences Division of Comerica Bank (formerly Imperial Bank) in Boston, heading the Northeast Region. Formerly, Ms. Russell was President of Hyde Boston Capital, a financial consulting company, since January 1992, and before that, a Senior Vice President and Department Executive at BankBoston, N.A., a national bank, where she was employed from 1975 to 1991. Ms. Russell is the chair of the Financial Advisory Board of the Commonwealth of Massachusetts.

**Alan A. Teran** will be a director upon consummation of this offering and has been a member of MHLLC's board of advisors since February 2003. He previously served as a director from May 1993 through July 2002. Mr. Teran was the President of Cork & N Cleaver Restaurants from 1975 to 1981. Since 1981, Mr. Teran has been a principal in private restaurant businesses. Mr. Teran is currently a director of Good Times, Inc., and previously served on the board of Boulder Valley Bank and Trust.

**Justin B. Wender** will be a director upon consummation of this offering and has been a member of MHLLC's board of advisors since April 2002. Mr. Wender is also a Senior Managing Director and the Chief Investment Officer of Castle Harlan, Inc. Prior to joining Castle Harlan, Inc. in 1993, Mr. Wender worked in the Corporate Finance Group of Merrill Lynch & Co., where he assisted clients with a variety of corporate finance matters. He is a board member of BKH Acquisition Corp, McCormick & Schmick's Seafood Restaurants, Inc., Ames True Temper, Inc. and Polypipe Building Products Ltd. In addition, he is a Trustee of



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Carleton College and Chair of the International Center for the Disabled. Mr. Wender is a Cum Laude graduate of Carleton College and earned an MBA from the Wharton School at the University of Pennsylvania.

We anticipate adding one additional director prior to the consummation of this offering.

**Executive Compensation**

The following table sets forth information regarding compensation for the last three fiscal years (ended January 2, 2005, January 4, 2004 and December 29, 2002) awarded to, earned by or paid to our Chief Executive Officer and the other four most highly compensated executive officers at the end of fiscal 2004, which we sometimes refer to as our named executive officers:

Name and Principal Position	Annual Compensation (4)			Long-Term Compensation (5) Restricted Stock Awards (\$)	All Other Compensation (\$)
	Fiscal Year	Salary (\$)	Bonus (\$)		
Allen J. Bernstein Former Chairman of the Board, Former President and Former Chief Executive Officer (1)	2004	\$724,000	\$ 422,000		\$ 45,686(6)(7)
	2003	\$703,040	\$ 239,000	\$ 7,986	\$ 45,561(8)(9)
	2002	\$676,000			\$ 41,686(10)(11)
Thomas J. Baldwin Former Executive Vice President, Former Chief Financial Officer, and Former Secretary and Treasurer (2)	2004	\$285,000	\$ 177,000		\$ 5,425(6)(7)
	2003	\$276,640	\$ 100,000	\$ 2,852	\$ 5,300(8)(9)
	2002	\$266,000			\$ 300(10)
Allan C. Schreiber Senior Vice President of Development	2004	\$201,000	\$ 80,000		\$ 5,425(6)(7)
	2003	\$195,520	\$ 50,000	\$ 150	\$ 5,300(8)(9)
	2002	\$188,000			\$ 1,565(10)(11)
Klaus W. Fritsch Vice Chairman and Co-Founder of Morton s of Chicago, Inc.	2004	\$188,000	\$ 106,000		\$ 3,059(6)(7)
	2003	\$182,000	\$ 60,000	\$ 500	\$ 2,575(8)(9)
	2002	\$175,000			\$ 314(11)
John T. Bettin Former President of Morton s of Chicago, Inc. (3)	2004	\$268,000	\$ 133,000		\$ 5,312(6)(7)
	2003	\$260,000	\$ 75,000	\$ 1,711	\$ 5,377(8)(9)
	2002	\$250,000			\$ 580(11)

- (1) Allen J. Bernstein retired as Chairman, President and Chief Executive Officer effective in December 2005.
- (2) Thomas J. Baldwin was named Chairman, President and Chief Executive Officer effective in December 2005, at which time Ronald M. DiNella was named Senior Vice President, Chief Financial Officer, Secretary and Treasurer.
- (3) John T. Bettin resigned as President of Morton s of Chicago, Inc. on April 26, 2005.
- (4) Includes cash bonuses paid in the referenced fiscal year with respect to services rendered in the prior fiscal year. Excludes cash bonuses paid in the following fiscal year with respect to services rendered in the referenced fiscal year. No cash bonuses were paid in fiscal 2002 with respect to services rendered in fiscal 2001. Cash bonuses totaling \$1,025,000 for these officers were paid in the nine month period ended October 2, 2005 with respect to services rendered in fiscal 2004.
- (5) Represents the dollar value of common units of MHLLC that were granted, subject to vesting, to Allen J. Bernstein (798,627 common units), Thomas J. Baldwin (285,224 common units), Allan C. Schreiber (15,000 common units), Klaus W. Fritsch (50,000 common units) and John T. Bettin (171,131 common units). The number and value of the aggregate restricted common units held by each of the

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executive officers at the end of the nine month period ended October 2, 2005 is the same as set forth in the table and in the immediately preceding sentence other than restricted common units previously held by John T. Bettin, which had not vested prior to his resignation. See Certain Equity Arrangements. Common units of MHLLC will become vested, to the extent not already vested, prior to the consummation of this offering and will entitle the holder thereof to receive shares of our common stock in a distribution by MHLLC that we anticipate will be effected prior to the consummation of this offering.



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- (6) Includes the dollar value of insurance premiums paid by us with respect to term life insurance for the benefit of Allen J. Bernstein (\$40,561), Thomas J. Baldwin (\$300), Allan C. Schreiber (\$300), Klaus W. Fritsch (\$822) and John T. Bettin (\$187).
- (7) Includes employer contributions made by us pursuant to the Morton's of Chicago, Inc. Profit Sharing and Cash Accumulation Plan, or the Morton's Plan, which is a retirement plan intended to be qualified under Sections 401(a) and 401(k) of the Internal Revenue Code of 1986, as amended, for the benefit of Allen J. Bernstein (\$5,125), Thomas J. Baldwin (\$5,125), Allan C. Schreiber (\$5,125), Klaus W. Fritsch (\$2,237) and John T. Bettin (\$5,125).
- (8) Includes the dollar value of insurance premiums paid by us with respect to term life insurance for the benefit of Allen J. Bernstein (\$40,561), Thomas J. Baldwin (\$300), Allan C. Schreiber (\$300), Klaus W. Fritsch (\$1,044) and John T. Bettin (\$377).
- (9) Includes employer contributions made by us pursuant to the Morton's Plan for the benefit of Allen J. Bernstein (\$5,000), Thomas J. Baldwin (\$5,000), Allan C. Schreiber (\$5,000), Klaus W. Fritsch (\$1,531) and John T. Bettin (\$5,000).
- (10) Represents or includes the dollar value of insurance premiums paid by us with respect to term life insurance for the benefit of Allen J. Bernstein (\$40,561), Thomas J. Baldwin (\$300) and Allan C. Schreiber (\$300).
- (11) Represents or includes employer contributions made by us pursuant to the Morton's Plan for the benefit of Allen J. Bernstein (\$1,125), Allan C. Schreiber (\$1,265), Klaus W. Fritsch (\$314) and John T. Bettin (\$580).

## **Board Composition**

Upon the consummation of this offering, we anticipate that our board of directors will consist of eleven members. Immediately prior to the consummation of this offering, we intend to divide the members of our board into three classes of directors of four, four and three members, respectively.

## **Compensation of Directors**

Members of our board of directors other than Messrs. Baldwin, Castle, L. Paul, S. Paul, Pittaway and Wender will be entitled to receive director's fees at the rate of \$15,000 per year. All members of our board of directors will be reimbursed for actual expenses incurred in connection with attendance at meetings of the board and of committees of the board.

## **Compensation Committee Interlocks and Insider Participation**

There are no compensation committee interlocks (i.e., no executive officer of ours serves as a member of the board of directors or the compensation committee of another entity that has an executive officer serving on our board of directors).

## **Employment Agreements**

### ***General***

We have an employment agreement with Mr. Baldwin, which we anticipate will be amended prior to the consummation of this offering in connection with Mr. Baldwin's promotion to Chairman, Chief Executive Officer and President. The terms of Mr. Baldwin's new employment agreement have not been finalized. Mr. Baldwin's current employment agreement extends until December 31, 2005, but beginning on January 1,

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2004, the employment term under his employment agreement continues such that at any date, two years always remain on the term, unless his employment agreement is terminated at any time as discussed below. As of the date of this prospectus, Mr. Baldwin's annual base salary is \$297,000. His agreement provides for his annual base salary to be increased each year to reflect the rate of increase in the Consumer Price Index for

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Urban Wage Earners and Clerical Workers or at a faster rate at the discretion of the board of directors. Mr. Baldwin may receive annual bonuses at our discretion. Mr. Baldwin is eligible to participate in our benefit programs that are in effect for executive personnel. Mr. Baldwin is provided with a monthly automobile allowance.

### ***Termination Provisions***

If Mr. Baldwin's employment is terminated by us other than for cause related reasons (as described in his employment agreement) or by Mr. Baldwin with good reason related reasons (as described in his employment agreement), we would be required to pay to Mr. Baldwin a lump sum of up to \$692,664 (such payment may be reduced if deemed to constitute Parachute Payments under the Internal Revenue Code of 1986, as amended). Mr. Baldwin would be required to seek alternative comparable employment. If Mr. Baldwin obtains such alternative employment, Mr. Baldwin would be required to repay us \$7,392 multiplied by the difference between (i) 24 months and (ii) the number of months between the date of termination and the date his alternative employment begins.

### **Certain Equity Arrangements**

#### ***Equity Incentive Plan***

Prior to the consummation of this offering, we plan to implement a new equity incentive plan. The equity incentive plan will be designed to motivate and retain individuals who are responsible for the attainment of our primary long-term performance goals and it is anticipated that the plan would cover employees, directors and consultants. The plan would provide for the grant of nonqualified stock options, incentive stock options for shares of our common stock and restricted shares of our common stock to participants of the plan selected by our board of directors, a committee of our board or an administrator. We anticipate that shares of our common stock will be reserved under the plan at the time of this offering. The terms and conditions of awards will be determined by the administrator for each grant.

#### ***Employee Subscription Agreements***

Certain of our executives and other employees have been granted common units of MHLLC pursuant to employee subscription agreements. These MHLLC common units are subject to vesting and will vest, to the extent not already vested, prior to the consummation of this offering. The MHLLC common units will entitle the holder thereof to receive shares of our common stock in a distribution by MHLLC that we anticipate will be effected prior to the consummation of this offering.

### **Board Committees**

Our board of directors has the authority to appoint committees to perform certain management and administration functions. Prior to the consummation of this offering we anticipate that our board currently will have an audit committee, a compensation committee, a nominating/corporate governance committee and an executive committee. We intend for the composition of our board of directors and board committees to comply, when required, with the applicable rules of the New York Stock Exchange and the provisions of the Sarbanes-Oxley Act

of 2002.

*Audit Committee*

The audit committee will select, on behalf of our board of directors, an independent public accounting firm to be engaged to audit our financial statements, pre-approve all audit and non-audit services to be performed by our independent auditors, review our relationship with our independent auditors and discuss with our independent auditors their independence, review and discuss the audited financial statements with the independent auditors and management and recommend to our board whether the audited financial statements should be included in our annual reports on Form 10-K to be filed with the SEC.

The members and chairperson of our audit committee have not yet been determined.

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***Compensation Committee***

The compensation committee will review and either approve on behalf of our board of directors or recommend to our board of directors for approval (1) the annual salaries and other compensation of our executive officers and (2) equity incentive grants and other equity or equity-based awards. The compensation committee will also evaluate the performance of our executive officers in light of organizational goals, provide assistance and recommendations with respect to our compensation policies and practices, and assist with the administration of our compensation plans.

The members and chairperson of our compensation committee have not yet been determined.

***Nominating/Corporate Governance Committee***

The nominating/corporate governance committee will assist our board of directors in fulfilling its responsibilities by identifying and approving individuals qualified to serve as members of our board, selecting director nominees for our annual meetings of stockholders, evaluating the performance of our board and developing and recommending to our board corporate governance guidelines and oversight with respect to corporate governance and ethical conduct.

The members and chairperson of our nominating/corporate governance committee have not yet been determined.

***Executive Committee***

The executive committee, on behalf of our board of directors, will exercise the full powers and prerogatives of our board of directors, to the extent permitted by applicable law as well by our certificate of incorporation and bylaws, between board meetings.

The members and chairperson of our executive committee have not yet been determined.

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**PRINCIPAL AND SELLING STOCKHOLDERS**

Immediately prior to this consummation of the offering, our outstanding capitalization will consist of shares of common stock. The following table sets forth information with respect to the beneficial ownership of our capital stock, based upon currently available information, and as adjusted to reflect the consummation of this offering, by:

each person who is known by us to beneficially own 5% or more of our outstanding stock;

each director;

each of our named executive officers;

all of our directors and executive officers as a group; and

certain other selling stockholders.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. To our knowledge and subject to applicable community property laws, each of the holders of stock listed below has sole voting and investment power as to the stock owned unless otherwise noted.

Name and Address of Beneficial Owner	Shares Beneficially Owned Prior to this Offering		Shares to be Sold in this Offering Assuming No Exercise of Over- Allotment Option	Shares to be Sold in this Offering Assuming Full Exercise of Over- Allotment Option	Shares Beneficially Owned After this Offering Assuming No Exercise of Over- Allotment Option		Shares Beneficially Owned After this Offering Assuming Full Exercise of Over- Allotment Option	
	Shares of Common Stock	Percentage of Total Outstanding Common Stock (%)	Shares of Common Stock	Shares of Common Stock	Shares of Common Stock	Percentage of Total Outstanding Common Stock (%)	Shares of Common Stock	Percentage of Total Outstanding Common Stock (%)
Castle Harlan Partners III, L.P. (1) (2)								
Laurel Crown Capital, LLC: Series One LC/Morton s (3)								
Allen J. Bernstein (4)								
Thomas J. Baldwin (4)								
Allan C. Schreiber (4)								
Klaus W. Fritsch (4)								
John T. Bettin (4)								
John K. Castle (1) (5)								
Lee M. Cohn (4)								

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Dr. John J. Connolly (4)

Dr. Laurence E. Paul (3)

Stephen E. Paul (3)

David B. Pittaway (1)

Dianne H. Russell (4)

Alan A. Teran (4)

Justin B. Wender (1)

All directors and executive officers as a group (15 persons, including those listed above) (5)

\* Represents less than 1%.

- (1) The address for Castle Harlan Partners III, L.P. and for each of such members of our board of directors is c/o Castle Harlan, Inc., 150 East 58th Street, New York, New York 10155.
- (2) Includes \_\_\_\_\_ shares of common stock held by related entities, all of which may be deemed to be beneficially owned by Castle Harlan Partners III, L.P. Castle Harlan Partners III, L.P. disclaims beneficial ownership of these shares.
- (3) The address for Laurel Crown Capital, LLC: Series One LC/Morton s, or Laurel Crown, and each of such members of our board of directors is 1620 26th Street, South Tower, Suite 300, Santa Monica, California 90404.
- (4) The address for each of our officers, each of such members of our board of directors, Allen J. Bernstein and John T. Bettin is c/o Morton s Restaurant Group, Inc., 3333 New Hyde Park Road, Suite 210, New Hyde Park, New York 11042.
- (5) John K. Castle, a member of our board of directors, is the controlling stockholder of Castle Harlan Partners III, G.P., Inc., the general partner of the general partner of Castle Harlan Partners III, L.P., and as such may be deemed to be a beneficial owner of the shares of common stock owned by Castle Harlan Partners III, L.P. and its affiliates. Mr. Castle disclaims beneficial ownership of such stock in excess of his proportionate partnership share of Castle Harlan Partners III, L.P. and its affiliates.

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**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

**Management Agreement**

MHLLC is party to a management agreement with Castle Harlan, Inc. that was entered into on July 25, 2002, at the closing of the acquisition of us by Castle Harlan, which was amended as of July 7, 2003. Pursuant to the management agreement, Castle Harlan, Inc. agreed to provide business and organizational strategy, financial and investment management, advisory and merchant and investment banking services to us and our subsidiaries upon the terms and conditions set forth in the management agreement. As compensation for those services, we pay Castle Harlan, Inc. fees equal to \$2.8 million per year plus out of pocket expenses. See Management's Discussion and Analysis of Financial Conditions and Results of Operations—Liquidity and Capital Resources. The agreement is for an initial term expiring December 31, 2007, renewable automatically from year to year thereafter unless one of the parties gives notice of its desire to terminate within 90 days before the expiration of the initial term or any subsequent one-year renewal thereof, except that MHLLC may terminate only after Castle Harlan ceases to own a specified percentage of our common stock. MHLLC has agreed to indemnify Castle Harlan, Inc. against losses, claims, damages, liabilities, costs and expenses relating to its performance of its duties under the management agreement, except to the extent resulting from Castle Harlan, Inc.'s gross negligence or willful misconduct. In October 2002, MHLLC entered into a letter agreement with Castle Harlan, Inc. and Laurel Crown, pursuant to which Castle Harlan, Inc. agreed to provide a portion of the annual fee to Laurel Crown in exchange for Laurel Crown's assistance in providing the services to us under the management agreement. MHLLC has agreed to indemnify Laurel Crown against losses, claims, damages, liabilities, costs and expenses relating to its performance of its duties, except to the extent resulting from Laurel Crown's gross negligence or willful misconduct. MHLLC intends to terminate the management agreement and the letter agreement concurrently with the offering and, in connection with such termination, to pay a termination fee of \$ million. The indemnity provisions included in both the management agreement and the letter agreement will survive the termination of these agreements.

**Certain Equity Arrangements**

***Equity Incentive Plan***

Prior to the consummation of this offering, we plan to grant incentive stock options and/or restricted stock to certain members of our executive management team pursuant to a new equity incentive plan that we plan to implement prior to the consummation of this offering. See Management—Certain Equity Arrangements.

***Employee Subscription Agreements***

Certain members of our executive management team own and/or have been granted, subject to vesting, common units of MHLLC. These MHLLC common units are subject to vesting and will vest, to the extent not already vested, prior to the consummation of this offering. The MHLLC common units will entitle the holder thereof to receive shares of our common stock in a distribution by MHLLC that we anticipate will be effected prior to the consummation of this offering.

**Agreements with Former Executive Officer**



*Separation Agreement with Allen J. Bernstein*

Allen J. Bernstein, our Chairman, Chief Executive Officer and President has announced his intention to retire by December 31, 2005. We are currently negotiating a separation agreement with Mr. Bernstein the terms of which have not yet been finalized.

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**DESCRIPTION OF CERTAIN INDEBTEDNESS**

**New Senior Revolving Credit Facility**

In connection with this offering, we plan to enter into a new senior revolving credit facility, consisting of up to \$        million in available revolving loan borrowings, maturing in        . Our new senior revolving credit facility will contain customary covenants and require us to meet certain financial ratios. The new senior revolving credit facility will be secured by substantially all of our assets. See Risk Factors        The terms of our new senior revolving credit facility will impose significant operating and financial restrictions on us that may impair our ability to respond to changing business and economic conditions.

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**DESCRIPTION OF CAPITAL STOCK**

The following brief description of our capital stock does not purport to be complete and is subject in all respects to applicable Delaware law and to the provisions of our certificate of incorporation and bylaws. Copies of our certificate of incorporation and bylaws have been filed as exhibits to the registration statement of which this prospectus is a part.

**General**

As of October 2, 2005, our authorized capital stock consisted of 1,000 shares of common stock, par value \$0.01 per share, of which 1,000 were issued and outstanding, and no shares of preferred stock. As of December 1, 2005, there was one holder of our common stock.

**Common Stock**

All outstanding shares of common stock are fully paid and nonassessable, and the shares of common stock that will be issued on completion of this offering will be fully paid and nonassessable.

The holders of our common stock are entitled to one vote per share on all matters submitted to a vote of stockholders. Subject to preferences that may be applicable to any outstanding series of preferred stock, the holders of our common stock will receive ratably any dividends declared by our board of directors out of funds legally available for the payment of dividends. It is our present intention not to pay dividends on our common stock for the foreseeable future. Our board of directors may, at its discretion, modify or repeal our dividend policy. Future dividends, if any, with respect to shares of our common stock will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions, provisions of applicable law and other factors that our board of directors deems relevant. See Dividend Policy. In the event of our liquidation, dissolution or winding-up, the holders of our common stock are entitled to share ratably in all assets remaining after payment of or provision for any liabilities, subject to prior distribution rights of preferred stock, if any, then outstanding.

**Preferred Stock**

Immediately prior to the consummation of this offering, our certificate of incorporation will provide that our board of directors has the authority, without further action by the stockholders, to issue up to \_\_\_\_\_ shares of \$0.01 par value preferred stock. Our board of directors will be able to issue preferred stock in one or more series and determine the rights, preferences, privileges, qualifications and restrictions granted to or imposed upon our preferred stock, including dividend rights, conversion rights, voting rights, rights and terms of redemption, liquidation preferences and sinking fund terms, any or all of which may be greater than the rights of our common stock. Issuances of preferred stock could adversely affect the voting power of holders of our common stock and reduce the likelihood that holders of our common stock will receive dividend payments and payments upon liquidation. Any issuance of preferred stock also could have the effect of decreasing the market price of our common stock and could delay, deter or prevent a change in control of our company.

**Limitations on Directors Liability**

Our certificate of incorporation and bylaws provide for us to indemnify our directors to the fullest extent permitted by the DGCL. The DGCL permits a corporation to limit or eliminate a director's personal liability to the corporation or the holders of its capital stock for breach of fiduciary duty. This limitation is generally unavailable for acts or omissions by a director which (i) were in bad faith, (ii) were the result of active and deliberate dishonesty and were material to the cause of action so adjudicated, (iii) the director derived an improper personal benefit from (such as a financial profit or other advantage to which such director was not legally entitled) or (iv) breached the director's duty of loyalty. The DGCL also prohibits limitations on director liability under Section 174 of the DGCL (which includes for acts or omissions that

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resulted in a violation of a statute prohibiting certain dividend declarations, certain payments to stockholders after dissolution and particular types of loans). The limitation of liability and indemnification provisions in our certificate of incorporation and bylaws may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duty. These provisions may also have the effect of reducing the likelihood of derivative litigation against directors and officers, even though such an action, if successful, might otherwise benefit us and our stockholders. In addition, your investment may be adversely affected to the extent we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions.

## **Transfer Agent and Registrar**

The Transfer Agent and Registrar for our common stock is The Bank of New York.

## **Listing**

We intend to apply to have our common stock listed on the New York Stock Exchange under the symbol MRT.

## **Provisions of Our Certificate of Incorporation and Bylaws and Delaware Law That May Have an Anti-Takeover Effect**

Certain provisions of our certificate of incorporation and bylaws and Delaware law may have an anti-takeover effect.

### ***Certificate of Incorporation and Bylaws***

Certain provisions in our certificate of incorporation and bylaws summarized below may be deemed to have an anti-takeover effect and may delay, deter or prevent a tender offer or takeover attempt that a stockholder might consider to be in its best interests, including attempts that might result in a premium being paid over the market price for the shares held by stockholders.

Our certificate of incorporation and bylaws contain provisions that:

permit us to issue preferred stock in one or more series and, with respect to each series, fix the number of shares constituting the series and the designation of the series, the voting powers (if any) of the shares of such series, and the preferences and other special rights, if any, and any qualifications, limitations or restrictions, of the shares of the series;

restrict the ability of stockholders to act by written consent or to call special meetings;

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limit the ability of stockholders to amend our certificate of incorporation, including stockholder supermajority voting requirements;

require advance notice for nominations for election to the board of directors and for stockholder proposals; and

establish a classified board of directors with staggered three-year terms.

### *Delaware Takeover Statute*

We are subject to Section 203 of the DGCL, which, subject to certain exceptions, prohibits a Delaware corporation from engaging in any business combination (as defined below) with any interested stockholder (as defined below) for a period of three years following the date that such stockholder became an interested stockholder, unless: (1) prior to such date, the board of directors of the corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder; (2) on consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of voting shares

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outstanding those shares owned (x) by persons who are directors and also officers and (y) by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or (3) at or subsequent to such date the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 <sup>2</sup>/<sub>3</sub>% of the outstanding voting stock that is not owned by the interested stockholder.

Section 203 of the DGCL defines business combination, in general, to include: (1) any merger or consolidation involving the corporation and the interested stockholder; (2) any sale, lease, exchange, mortgage, transfer, pledge or other disposition of 10% or more of the assets of the corporation in a transaction involving the interested stockholder; (3) subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder; (4) any transaction involving the corporation that has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholder; or (5) the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation. In general, Section 203 defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation or an affiliate or associate of the corporation and was the owner of 15% or more of the outstanding voting stock of the corporation at any time within the previous three years.

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**SHARES ELIGIBLE FOR FUTURE SALE**

Prior to this offering, there has been no market for our common stock. Immediately following the consummation of the offering, based on shares outstanding as of October 2, 2005, we will have an aggregate of \_\_\_\_\_ shares of common stock outstanding, assuming no exercise of the underwriters' over-allotment option and no exercise of outstanding options. If the underwriters exercise their over-allotment option in full, assuming no exercise of outstanding options, we will have an aggregate of \_\_\_\_\_ shares of common stock outstanding. All of the shares that we sell in this offering will be freely tradable without restriction or further registration under the Securities Act, except that any shares purchased by our affiliates, as that term is defined in Rule 144, may generally only be sold in compliance with the limitations of Rule 144, which is summarized below. The remaining \_\_\_\_\_%, or \_\_\_\_\_ shares, of our common stock that are outstanding after this offering will be restricted shares under the terms of the Securities Act. All of these shares are subject to lock-up agreements as described in Underwriting. Restricted shares may be sold in the public market only if registered or if they qualify for an exemption from registration under Rules 144 or 701 promulgated under the Securities Act, which rules are summarized below.

**Sales of Restricted Securities**

Restricted shares may be sold in the public market only if registered or if they qualify for an exemption from registration including under Rule 144 or 701 promulgated under the Securities Act, each of which is summarized below.

In general, under Rule 144 as currently in effect, beginning 90 days after the effective date of the registration statement of which this prospectus is a part, a person who has beneficially owned restricted shares for at least one year and has complied with the requirements described below would be entitled to sell a specified number of shares within any three-month period. That number of shares cannot exceed the greater of one percent of the number of shares of common stock then outstanding, which will equal approximately \_\_\_\_\_ shares immediately after this offering, or the average weekly trading volume of our common stock on the New York Stock Exchange during the four calendar weeks preceding the filing of a notice on Form 144 reporting the sale. Sales under Rule 144 are also restricted by manner of sale provisions, notice requirements and the availability of current public information about us. Rule 144 also provides that our affiliates who are selling shares of our common stock that are not restricted shares must comply with the same restrictions applicable to restricted shares with the exception of the holding period requirement.

Under Rule 144(k), a person who is not deemed to have been our affiliate at any time during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, is entitled to sell those shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144.

Rule 701 provides that the shares of common stock acquired upon the exercise of currently outstanding options or pursuant to other rights granted under our equity incentive plans may be resold by persons, other than our affiliates, beginning 90 days after the effective date of the registration statement of which this prospectus is a part, subject only to the manner of sale provisions of Rule 144, and by our affiliates under Rule 144, without compliance with its one-year minimum holding period. As of October 2, 2005, no options to purchase shares of our common stock were outstanding.

As a result of lock-up agreements and the provisions of Rules 144 and 701, \_\_\_\_\_ additional shares will be available for sale in the public market upon the expiration or, if earlier, the waiver of the lock-up period provided for in the lock-up agreements, in some cases, to volume limitations.



**Additional Registration Statements**

We intend to file one or more registration statements under the Securities Act after this offering to register up to \_\_\_\_\_ shares of our common stock underlying outstanding stock options, restricted stock grants or stock options and restricted stock reserved for issuance under our new equity incentive plan. These

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registration statements will become effective upon filing, and shares covered by these registration statements will be eligible for sale in the public market immediately after the effective dates of these registration statements, subject to any limitations on exercise under the new incentive stock option plan and the lock-up agreements described in Underwriting.

### **Registration Rights Agreement**

Substantially all of our current stockholders, other than those who purchase shares in this offering, are parties to a registration rights agreement, dated as of October 29, 2002. The terms of the registration rights agreement include provisions for demand registration rights, piggyback registration rights and participation rights in favor of certain holders of our common stock.

#### ***Demand Registration Rights***

Subject to the terms of the registration rights agreement, holders of at least a majority of the shares of our common stock issued to (1) Laurel Crown or any of its affiliates, or (2) Castle Harlan have the right to require that we register their shares under the Securities Act for sale to the public. If these stockholders exercise a demand registration right, certain of our other stockholders, other than those who purchase shares in this offering, will have the opportunity to include their shares in the registration. The underwriters in an underwritten offering have the right to limit on a pro rata basis the number of shares to be included in a registration statement filed in response to the exercise of these demand registration rights. We must pay all expenses, except for underwriters' discounts and commissions, incurred in connection with the exercise of these demand registration rights.

#### ***Piggyback Registration Rights***

Substantially all of our current stockholders, other than those who purchase shares in this offering, have piggyback registration rights under the terms of the registration rights agreement. The registration rights agreement provides that the stockholders with piggyback registration rights have the right to include their shares in any registration that we effect under the Securities Act, other than a registration effected pursuant to an exercise of demand registration rights, subject to specified exceptions. The underwriters of any underwritten offering have the right to limit on a pro rata basis the number of shares registered by these holders. We must pay all expenses, except for underwriters' discounts and commissions, incurred in connection with these piggyback registration rights.

### **Effects of Sales of Shares**

No predictions can be made as to the effect, if any, that sales of shares of our common stock from time to time, or the availability of shares of our common stock for future sale, may have on the market price for shares of our common stock. Sales of substantial amounts of common stock, or the perception that such sales could occur, could adversely affect prevailing market prices for our common stock and could impair our future ability to obtain capital through an offering of equity securities.

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**U.S. FEDERAL TAX CONSIDERATIONS FOR NON-U.S. HOLDERS**

The following is a general discussion of material U.S. federal income and estate tax consequences of the acquisition, ownership, and disposition of our common stock purchased pursuant to this offering by a beneficial owner that, for U.S. federal income tax purposes, is a non-U.S. holder. As used in this prospectus, the term "non-U.S. holder" means a person that is not, for U.S. federal income tax purposes:

an individual who is a citizen or resident of the United States;

a corporation (including any entity treated as a corporation for U.S. tax purposes) created or organized in the United States or under the laws of the United States or of any political subdivision of the United States;

an estate the income of which is subject to U.S. federal income taxation regardless of its source; or

a trust, in general, if its administration is subject to the primary supervision of a U.S. court and one or more U.S. persons have the authority to control all of its substantial decisions, or if it has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

Subject to certain exceptions, an individual may be treated as resident of the United States in any calendar year for U.S. federal income tax purposes, instead of a nonresident, by, among other ways, being present in the United States on at least 31 days in that calendar year and for an aggregate of at least 183 days during a three year period ending in the current calendar year. For purposes of this calculation, you would count all of the days present in the United States in the current year, one-third of the days present in the immediately preceding year and one-sixth of the days present in the second preceding year. Residents are taxed for U.S. federal income tax purposes in the same manner as U.S. citizens.

This discussion assumes that you will hold our common stock issued pursuant to this offering as a capital asset within the meaning of the Internal Revenue Code of 1986, as amended, or the Code (i.e., generally, property held for investment). This discussion does not address all aspects of U.S. federal taxation that may be relevant to a particular non-U.S. holder in light of the holder's individual investment or tax circumstances, or to non-U.S. holders that are subject to special tax rules. In addition, this description of U.S. tax consequences does not address:

U.S. state and local or non-U.S. tax consequences;

specific facts and circumstances that may be relevant to a particular non-U.S. holder's tax position;

the tax consequences for the stockholders, partners or beneficiaries of a non-U.S. holder;

special tax rules that may apply to some non-U.S. holders, including without limitation, banks, insurance companies, financial institutions, broker-dealers, tax-exempt entities, or U.S. expatriates; or

special tax rules that may apply to a non-U.S. holder that holds our common stock as part of a straddle, hedge or conversion transaction or other integrated investment.

If a partnership is a beneficial owner of our common stock, the treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. A beneficial owner of our common stock that is a partnership and partners in such a partnership should consult their tax advisors regarding the U.S. federal income tax consequences of acquiring, owning, and disposing of our common stock.

This discussion is based on current provisions of the Code, final, temporary and proposed U.S. Treasury regulations, judicial opinions, published positions of the U.S. Internal Revenue Service, or IRS, and other applicable authorities, all as in effect on the date hereof and all of which are subject to differing interpretations or change, possibly with retroactive effect. We have not sought, and will not seek, any ruling from the IRS or any opinion of counsel with respect to the tax consequences discussed herein, and there can be no assurance that the IRS will not take a position contrary to the tax consequences discussed below or that any position taken by the IRS would not be sustained. Furthermore, this discussion does not include any discussion of any state, local or foreign tax considerations.

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*We urge you to consult your tax advisor regarding the U.S. federal tax consequences of acquiring, owning or disposing our common stock, as well as any tax consequences that may arise under the laws of any foreign, state, local or other taxing jurisdiction or under any applicable tax treaty.*

### **Dividends**

As described under **Dividend Policy** above, we do not anticipate paying cash dividends on our common stock in the foreseeable future. However, if cash distributions are paid to non-U.S. holders on shares of our common stock, such distributions generally will constitute dividends for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Distributions in excess of earnings and profits will constitute a return of capital that is applied against and reduces the non-U.S. holder's adjusted tax basis in our common stock. Any remaining excess will be treated as gain realized on the sale or other disposition of the common stock and will be treated as described under **Gain on Sale, Exchange or other Taxable Disposition of Common Stock** below.

Dividends paid to a non-U.S. holder that are not effectively connected with the non-U.S. holder's conduct of a trade or business in the United States generally will be subject to withholding of U.S. federal income tax at the rate of 30% or such lower rate as may be specified by an applicable income tax treaty. Non-U.S. holders should consult their tax advisors regarding their entitlement to benefits under an applicable income tax treaty and the manner of claiming the benefits of such treaty (including, without limitation, the need to obtain a U.S. taxpayer identification number).

Dividends that are effectively connected with a non-U.S. holder's conduct of a trade or business in the United States, directly or through an entity treated as a partnership for U.S. tax purposes, and, if provided in an applicable income tax treaty, dividends that are attributable to a permanent establishment or fixed base maintained by the non-U.S. holder in the United States, are not subject to the U.S. withholding tax, but instead are subject to U.S. federal income tax on a net income basis at applicable graduated U.S. federal income tax rates. Certain certification and disclosure requirements must be complied with for effectively connected income or income attributable to a permanent establishment to be exempt from withholding. Any effectively connected dividends or dividends attributable to a permanent establishment received by a non-U.S. holder that is treated as a foreign corporation for U.S. tax purposes may be subject to an additional **branch profits tax** at a 30% rate, or such lower rate as may be specified by an applicable income tax treaty.

To claim the benefit of a tax treaty or an exemption from withholding because dividends are effectively connected with the conduct of a trade or business in the United States, a non-U.S. holder must provide a properly executed IRS Form W-8BEN for treaty benefits or IRS Form W-8ECI for effectively connected income, before the payment of dividends. These forms must be periodically updated. Non-U.S. holders may obtain a refund of any excess amounts withheld by timely filing an appropriate claim for refund. However,

in the case of common stock held by a foreign partnership, the certification requirement generally will be applied to the partners of the partnership and the partnership will be required to provide certain information;

in the case of common stock held by a foreign trust, the certification requirement generally will be applied to the trust or the beneficial owners of the trust depending on whether the trust is a **foreign complex trust**, **foreign simple trust**, or **foreign grantor trust** as defined in the U.S. Treasury regulations; and

look-through rules will apply for tiered partnerships, foreign simple trusts and foreign grantor trusts.

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A non-U.S. holder that is a foreign partnership or a foreign trust is urged to consult its own tax advisor regarding its status under U.S. tax law and the certification requirements applicable to it.

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### **Gain on Sale, Exchange or Other Taxable Disposition of Common Stock**

A non-U.S. holder generally will not be subject to U.S. federal income tax, including by way of withholding, on gain recognized on a sale, exchange or other taxable disposition of our common stock unless any one of the following applies:

1. The non-U.S. holder is a nonresident alien individual who is present in the United States for 183 days or more in the taxable year of the sale, exchange or other taxable disposition and certain other requirements are met;
2. The gain is effectively connected with the non-U.S. holder's conduct of a trade or business in the United States, directly or through an entity treated as a partnership for U.S. tax purposes and, if an applicable tax treaty requires, attributable to a U.S. permanent establishment or fixed base of such non-U.S. holder; or
3. We are or have been, at any time during the five-year period preceding such disposition (or the non-U.S. holder's holding period, if shorter) a United States real property holding corporation, within the meaning of Section 897(c)(2) of the Code, unless our common stock is regularly traded on an established securities market and the non-U.S. holder holds no more than 5% of our outstanding common stock, directly or indirectly, during the relevant period (the 5% exception). We believe that we have not been and are not currently a United States real property holding corporation, and we do not expect to become a United States real property holding corporation. However, no assurances can be made in this regard. Furthermore, no assurances can be provided that our stock will be considered to be regularly traded on an established securities market for purposes of Section 897 of the Code.

Non-U.S. holders described in clause (1) above are taxed on their gains (including gains from sales of our common stock and net of applicable U.S. losses from sales or exchanges of other capital assets incurred during the year) at a flat rate of 30% or such lower rate as may be specified by an applicable income tax treaty (which may be offset by U.S. source capital losses of the non-U.S. holder, if any). Non-U.S. holders described in clause (2) or (3) above will be subject to tax on the net gain derived from the sale under regular graduated U.S. federal income tax rates. If a non-U.S. holder described in clause (2) or (3) is a corporation, it may be subject to the additional branch profits tax at a rate equal to 30% of its effectively connected earnings and profits or at such lower rate as may be specified by an applicable income tax treaty. In addition, if we are determined to be a United States real property holding corporation and the 5% exception does not apply, then a purchaser may be required to withhold 10% of the proceeds payable to a non-U.S. holder from a sale or other taxable disposition of our common stock.

### **U.S. Federal Estate Taxes**

Our common stock beneficially owned or treated as beneficially owned by an individual who at the time of death is a non-U.S. holder, and certain lifetime transfers of an interest in common stock made by such an individual, will be included in his or her gross estate for U.S. federal estate tax purposes, unless an applicable estate tax treaty provides otherwise and, therefore, may be subject to U.S. federal estate tax. Estates of non-resident aliens are generally allowed a statutory credit that has the effect of offsetting the U.S. federal estate tax imposed on the first \$60,000 of the taxable estate.

### **Information Reporting and Backup Withholding**

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Under U.S. Treasury regulations, we must report annually to the IRS and to each non-U.S. holder the amount of dividends paid to such non-U.S. holder and the tax withheld with respect to those dividends. These information reporting requirements apply even if withholding was not required because the dividends were effectively connected dividends or withholding was reduced or eliminated by an applicable tax treaty. Copies of the information returns reporting those dividends and withholding may also be made available to the tax authorities in the country in which the non-U.S. holder is a resident under the provisions of an applicable income tax treaty or agreement.



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The gross amount of dividends paid to a non-U.S. holder that fails to certify its non-U.S. holder status in accordance with applicable U.S. Treasury regulations generally will be reduced by backup withholding at the applicable rate (currently 28%).

A non-U.S. holder is required to certify its non-U.S. status under penalties of perjury or otherwise establish an exemption in order to avoid information reporting and backup withholding on disposition proceeds where the transaction is effected by or through a U.S. office of a broker.

U.S. information reporting and backup withholding generally will not apply to a payment of proceeds of a disposition of common stock where the transaction is effected outside the United States through a non-U.S. office of a non-U.S. broker. However, information reporting requirements, but not backup withholding, generally will apply to such a payment if the broker is (i) a U.S. person; (ii) a foreign person that derives 50% or more of its gross income for certain periods from the conduct of a trade or business in the United States; (iii) a controlled foreign corporation as defined in the Code; or (iv) a foreign partnership with certain U.S. connections, unless the broker has documentary evidence in its records that the holder is a non-U.S. holder and certain conditions are met or the holder otherwise establishes an exemption.

Backup withholding is not an additional tax. Amounts that we withhold under the backup withholding rules may be refunded or credited against the non-U.S. holder's U.S. federal income tax liability, if any, provided that certain required information is furnished to the IRS in a timely manner. Non-U.S. holders should consult their own tax advisors regarding application of backup withholding in their particular circumstance and the availability of and procedure for obtaining an exemption from backup withholding under current U.S. Treasury regulations.

*The foregoing discussion is only a summary of certain U.S. federal income and estate tax consequences of the acquisition, ownership and disposition of our common stock by non-U.S. holders. You are urged to consult your own tax advisor with respect to the particular tax consequences to you of ownership and disposition of our common stock, including the effect of any U.S., state, local, non-U.S. or other tax laws and any applicable income or estate tax treaty.*

**Table of Contents****UNDERWRITING**

Subject to the terms and conditions of the underwriting agreement, we and the selling stockholders have agreed to sell to the underwriters named below, and the underwriters, for whom Wachovia Capital Markets, LLC is acting as sole book runner manager and a representative, have severally agreed to purchase the respective number of shares of common stock appearing opposite their names below:

<u>Underwriter</u>	<u>Number of Shares</u>
Wachovia Capital Markets, LLC	
Piper Jaffray & Co.	
RBC Capital Markets Corporation	
SG Cowen & Co., LLC	
Jefferies & Company, Inc.	
<b>Total</b>	

The underwriters have agreed to purchase all of the shares shown in the above table if any of those shares are purchased. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the non-defaulting underwriters may be increased or the underwriting agreement may be terminated.

The shares of common stock are offered by the underwriters, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by counsel for the underwriters and other conditions. The underwriters reserve the right to withdraw, cancel or modify the offer and to reject orders in whole or in part.

The underwriters have informed us that they will not confirm sales to accounts over which they exercise discretionary authority in excess of 5% of the total number of shares offered by them.

***Commissions and Discounts***

The underwriters have advised us that they propose to offer the shares of common stock to the public at the public offering price appearing on the cover page of this prospectus and to certain dealers at that price less a concession of not more than \$        per share, of which up to \$        may be reallocated to other dealers. After the initial offering, the public offering price, concession and reallocation to dealers may be changed.

The following table shows the public offering price, underwriting discounts and commissions and proceeds, before expenses, to us and to the selling stockholders, both on a per share basis and in total, assuming either no exercise or full exercise by the underwriters of their over-allotment option.

	Per Share	Total	
		Without Option	With Option
Public offering price			
Underwriting discounts and commissions			
Proceeds, before expenses, to us			
Proceeds, before expenses, to the selling stockholders			

We estimate that the expenses of this offering payable by us, not including underwriting discounts and commissions, will be approximately \$ . We have agreed to pay the expenses of the selling stockholders

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incurred in connection with this offering, other than underwriting discounts and commissions payable in respect of the shares sold by the selling stockholders and .

### ***Over-Allotment Option***

We have granted to the underwriters an option, exercisable during the 30-day period after the date of this prospectus, to purchase up to additional shares of our common stock at the public offering price per share less the underwriting discounts and commissions per share shown on the cover page of this prospectus. To the extent that the underwriters exercise this option, each underwriter will have a firm commitment, subject to conditions, to purchase approximately the same percentage of those additional shares that the number of shares of common stock to be purchased by that underwriter as shown in the above table represents as a percentage of the total number of shares shown in that table.

### ***Indemnity***

We and the selling stockholders have agreed to indemnify the underwriters against specified liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments that the underwriters may be required to make in respect of those liabilities.

### ***Lock-Up Agreements***

We, all of our directors and officers, and certain of our stockholders prior to this offering, including the selling stockholders, which directors, officers and stockholders will own a total of approximately % of our outstanding common stock (or approximately % if the underwriters over-allotment option is exercised in full) immediately upon completion of this offering, based on shares outstanding as of October 2, 2005, have agreed that, without the prior written consent of Wachovia Capital Markets, LLC, we and they will not, during the period beginning on and including the date of this prospectus through and including the date that is the 180th day after the date of this prospectus, directly or indirectly:

offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of any shares of our common stock or other capital stock or any securities convertible into or exercisable or exchangeable for our common stock or other capital stock;

in the case of us, file or cause the filing of any registration statement under the Securities Act of 1933 with respect to any shares of our common stock or other capital stock or any securities convertible into or exercisable or exchangeable for our common stock or other capital stock; or

enter into any swap or other agreement, arrangement or transaction that transfers to another, in whole or in part, directly or indirectly, any of the economic consequences of ownership of our common stock or other capital stock or any securities convertible into or exercisable or exchangeable for our common stock or other capital stock,

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whether any transaction described in any of the foregoing bullet points is to be settled by delivery of our common stock or other capital stock, other securities, in cash or otherwise. Moreover, if:

during the last 17 days of the 180-day restricted period referred to above, we issue an earnings release or material news or a material event relating to us occurs; or

prior to the expiration of the 180-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 180-day period,

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the restrictions described in the immediately preceding sentence will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event, as the case may be, unless Wachovia Capital Markets, LLC waives, in writing, that extension.

The restrictions described in the immediately preceding paragraph do not apply to:

- (1) the sale of shares to the underwriters;
- (2) the issuance by us of shares, or options to purchase shares, of our common stock pursuant to our equity incentive plan described above under Management Certain Equity Arrangements, as that plan is in effect on the date of this prospectus;
- (3) the issuance by us of shares of common stock upon the exercise of stock options issued after the date of this prospectus under our equity incentive plan referred to in clause (2) above, as such plan is in effect on the date of this prospectus;
- (4) in the case of any director or officer or any stockholder who is a natural person, bona fide gifts for charitable or estate planning purposes; and
- (5) in the case of any stockholder that is a partnership or limited liability company, transfers to any partner or member, as the case may be, of such partnership or limited liability company if, in any such case, such transfer is not for value;

provided that, in the case of any transfer or gift described in clause (4) or (5) above, the transferee or donee, as the case may be, executes and delivers to Wachovia Capital Markets, LLC, on behalf of the underwriters, not later than one business day prior to such transfer or gift, a written agreement wherein it agrees to be subject to the restrictions described in the immediately preceding paragraph, subject to the applicable exceptions described above in this paragraph.

Wachovia Capital Markets, LLC may, in its sole discretion and at any time or from time to time, without notice, release all or any portion of the shares or other securities subject to the lock-up agreements.

### ***Listing on the New York Stock Exchange***

We intend to apply to have our common stock listed on the New York Stock Exchange under the symbol MRT.

### ***Stabilization***

In order to facilitate this offering of our common stock, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the market price of our common stock. Specifically, the underwriters may sell more shares of common stock than they are obligated to purchase under the underwriting agreement, creating a short position. A short sale is covered if the short position is no greater than the number of shares

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of common stock available for purchase by the underwriters under the over-allotment option. The underwriters may close out a covered short sale by exercising the over-allotment option or purchasing common stock in the open market. In determining the source of common stock to close out a covered short sale, the underwriters may consider, among other things, the market price of common stock compared to the price payable under the over-allotment option. The underwriters may also sell shares of common stock in excess of the over-allotment option, creating a naked short position. The underwriters must close out any naked short position by purchasing shares of common stock in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after the date of pricing of this offering that could adversely affect investors who purchase in this offering.

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As an additional means of facilitating this offering, the underwriters may bid for, and purchase, common stock in the open market to stabilize the price of our common stock. The underwriting syndicate may also reclaim selling concessions allowed to an underwriter or a dealer for distributing common stock in this offering if the syndicate repurchases previously distributed common stock to cover syndicate short positions or to stabilize the price of the common stock.

The foregoing transactions, if commenced, may raise or maintain the market price of our common stock above independent market levels or prevent or retard a decline in the market price of the common stock.

The representative of the underwriters has advised us that these transactions, if commenced, may be effected on the New York Stock Exchange or otherwise. Neither we nor any of the underwriters makes any representation that the underwriters will engage in any of the transactions described above and these transactions, if commenced, may be discontinued without notice. Neither we nor any of the underwriters makes any representation or prediction as to the direction or magnitude of the effect that the transactions described above, if commenced, may have on the market price of our common stock.

### ***Directed Share Program***

At our request, the underwriters have reserved up to 5 % of the shares of common stock being sold in this offering for sale to our directors, officers, employees, business associates and related persons who express an interest in purchasing these shares of common stock in this offering at the initial public offering price through a directed share program. The number of shares of our common stock available for sale to the general public in this offering will be reduced to the extent that these reserved shares are purchased by these persons. Any reserved shares not purchased by these persons will be offered by the underwriters to the general public on the same basis as the other shares in this offering.

### ***Pricing of this Offering***

Prior to this offering, there has been no public market for our common stock. Consequently, the initial public offering price for our common stock was determined by negotiations among us, the selling stockholders and the representatives of the underwriters. The factors considered in determining the initial public offering price included:

prevailing market conditions;

our results of operations and financial condition;

financial and operating information and market valuations with respect to other companies that we and the representatives of the underwriters believe to be comparable or similar to us;

the present state of our development; and



our future prospects.

An active trading market for our common stock may not develop. It is possible that the market price of our common stock after this offering will be less than the initial public offering price. In addition, the estimated initial public offering price range appearing on the cover of this prospectus is subject to change as a result of market conditions or other factors.

*Other*

Certain of the underwriters and/or their affiliates have provided and in the future may provide investment banking, commercial banking and/or financial advisory services to us for which they have received and in the future may receive compensation. In particular, we expect that affiliates of certain of the underwriters will be lenders under our new senior revolving credit facility. In addition, Jefferies and Company, Inc., or its affiliates, has advised affiliates of Castle Harlan with financing arrangements and served

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as an initial purchaser in connection with the offering of our 7.5% senior secured notes and as placement agent in the offering of our 14% senior secured notes.

We expect that certain of the underwriters and their affiliates may continue to provide investment banking, commercial banking and other services to us in the future. We anticipate they will receive customary fees and commissions for these services.

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**LEGAL MATTERS**

The validity of the shares of common stock offered hereby will be passed upon for us by Schulte Roth & Zabel LLP, New York, New York. Sidley Austin Brown & Wood LLP, New York, New York, will act as counsel to the underwriters.

**EXPERTS**

The consolidated financial statements of Morton's Restaurant Group, Inc. and its subsidiaries as of January 2, 2005 (Successor Period) and January 4, 2004 (Successor Period), and for each of the years in the two-year period ended January 2, 2005 (Successor Period), the period from July 25, 2002 to December 29, 2002 (Successor Period) and the period from December 31, 2001 to July 24, 2002 (Predecessor Period), have been included herein and in the registration statement of which this prospectus is a part in reliance upon the report of KPMG LLP, an independent registered public accounting firm, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

**WHERE YOU CAN FIND MORE INFORMATION**

We have filed with the SEC a registration statement on Form S-1, including exhibits, of which this prospectus is a part, under the Securities Act with respect to the shares of common stock to be sold in this offering. This prospectus does not contain all of the information set forth in the registration statement and exhibits and schedules to the registration statement. For further information with respect to our company and the shares of common stock to be sold in this offering, reference is made to the registration statement, including the exhibits and schedules to the registration statement. Statements contained in this prospectus as to the contents of any contract or other document referred to in this prospectus are not complete and, where that contract is an exhibit to the registration statement, each statement is qualified in all respects by reference to the exhibit to which the reference relates. Copies of the registration statement, including the exhibits and schedules to the registration statement, may be examined without charge at the public reference room of the Securities and Exchange Commission, 100 F Street, N.E., Washington, DC 20549. Information about the operation of the public reference room may be obtained by calling the SEC at 1-800-SEC-0330. Copies of all or a portion of the registration statement can be obtained from the public reference room of the SEC upon payment of prescribed fees. Our SEC filings, including our registration statement, are also available to you for free on the SEC's website at [www.sec.gov](http://www.sec.gov).

We are subject to the information and reporting requirements of the Exchange Act, and we file periodic reports and will make available to our stockholders annual reports containing audited financial information for each year and quarterly reports for the first three quarters of each fiscal year containing unaudited interim financial information.

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**Morton s Restaurant Group, Inc. and Subsidiaries**

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The accompanying consolidated financial statements include the merger of Morton's Holding Company, Inc. into Morton's Restaurant Group, Inc., which is anticipated to be effective prior to the consummation of this offering. The following opinion is the form which will be signed by KPMG LLP upon the consummation of the merger, which is described in Note 1 to the consolidated financial statements, and assuming that, from September 2, 2005 to the date of such merger, no other events have occurred that would affect the accompanying consolidated financial statements and notes thereto.

/s/ KPMG LLP

Melville, New York

December 1, 2005

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholder

Morton's Restaurant Group, Inc.:

We have audited the accompanying consolidated balance sheets of Morton's Restaurant Group, Inc. and subsidiaries as of January 2, 2005 (Successor Period) and January 4, 2004 (Successor Period), and the related consolidated statements of operations, stockholder's equity, and cash flows for each of the years in the two-year period ended January 2, 2005 (Successor Period), the period from July 25, 2002 to December 29, 2002 (Successor Period) and the period from December 31, 2001 to July 24, 2002 (Predecessor Period). These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Morton's Restaurant Group, Inc. and subsidiaries as of January 2, 2005 (Successor Period) and January 4, 2004 (Successor Period), and the results of their operations and their cash flows for each of the years in the two-year period ended January 2, 2005 (Successor Period), the period from July 25, 2002 to December 29, 2002 (Successor Period), and the period from December 31, 2001 to July 24, 2002 (Predecessor Period), in conformity with U.S. generally accepted accounting principles.

As discussed in Note 3 to the accompanying consolidated financial statements, the statements of operations, stockholder's equity and cash flows for the period from July 25, 2002 to December 29, 2002 (Successor Period), and the period from December 31, 2001 to July 24, 2002 (Predecessor Period) have been restated.

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Melville, New York

September 2, 2005, except for Notes 1, 16 and 18 to the consolidated financial statements, which are as of December 1, 2005

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**Table of Contents****MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES****Consolidated Balance Sheets****January 4, 2004, January 2, 2005 and October 2, 2005****(amounts in thousands)**

	Successor Period		
	January 4, 2004	January 2, 2005	October 2, 2005
			(unaudited)
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 17,997	\$ 10,688	\$ 5,887
Restricted cash	1,100	548	417
Marketable securities		4,112	8,176
Accounts receivable	3,829	4,346	5,421
Inventories	9,094	9,302	8,991
Prepaid expenses and other current assets	5,069	6,600	7,404
Deferred income taxes	7,076	5,235	4,154
<b>Total current assets</b>	<b>44,165</b>	<b>40,831</b>	<b>40,450</b>
Property and equipment, net	55,724	61,487	65,370
Intangible asset	92,000	92,000	92,000
Goodwill	61,552	61,789	61,528
Other assets and deferred expenses, net	9,879	11,198	10,352
<b>Total assets</b>	<b>\$ 263,320</b>	<b>\$ 267,305</b>	<b>\$ 269,700</b>

See accompanying notes to consolidated financial statements.

**Table of Contents****MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES****Consolidated Balance Sheets (continued)****January 4, 2004, January 2, 2005 and October 2, 2005****(amounts in thousands, except share and per share amounts)**

	Successor Period		
	January 4, 2004	January 2, 2005	October 2, 2005
			(unaudited)
<b>Liabilities and Stockholder s Equity</b>			
Current liabilities:			
Accounts payable	\$ 6,111	\$ 6,390	\$ 6,023
Accrued expenses	27,955	30,902	33,912
Current portion of obligations to financial institutions	658	521	111
Current portion of 14.0% senior secured notes		1,397	4,299
Accrued income taxes	296	377	494
<b>Total current liabilities</b>	<b>35,020</b>	<b>39,587</b>	<b>44,839</b>
7.5% senior secured notes, net of unamortized discount of \$14,987, \$13,283 and \$11,878 at January 4, 2004, January 2, 2005 and October 2, 2005 respectively	90,013	91,717	93,122
14.0% senior secured notes, less current maturities		41,852	40,000
Obligations to financial institutions, less current maturities	12,274	6,636	3,497
Deferred income taxes	20,471	22,009	18,184
Other liabilities	3,220	7,546	12,489
<b>Total liabilities</b>	<b>160,998</b>	<b>209,347</b>	<b>212,131</b>
Commitments and contingencies			
Stockholder s equity:			
Common stock, \$0.01 par value per share. Authorized, issued and outstanding 1,000 shares at January 4, 2004, January 2, 2005 and October 2, 2005			
Additional paid-in capital	97,075	60,953	60,953
Accumulated other comprehensive income	128	189	205
Retained earnings (accumulated deficit)	5,119	(3,184)	(3,589)
<b>Total stockholder s equity</b>	<b>102,322</b>	<b>57,958</b>	<b>57,569</b>
	<b>\$ 263,320</b>	<b>\$ 267,305</b>	<b>\$ 269,700</b>

See accompanying notes to consolidated financial statements.





**Table of Contents****MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES****Consolidated Statements of Operations****Predecessor Period and Successor Period**

(amounts in thousands)

	Predecessor Period		Successor Period			
	Dec. 31, 2001- July 24, 2002	July 25, 2002- Dec. 29, 2002	Fiscal Year 2003	Fiscal Year 2004	Nine month periods ended	
	Restated	Restated			October 3, 2004	October 2, 2005
	(See Note 3)	(See Note 3)			(unaudited)	(unaudited)
Revenues	\$ 132,433	\$ 105,704	\$ 258,668	\$ 276,334	\$ 199,682	\$ 217,122
Food and beverage costs	45,566	35,797	86,265	93,222	67,566	72,328
Restaurant operating expenses	60,111	51,134	124,051	127,000	95,457	104,109
Pre-opening costs	703	1,254	904	1,059	553	2,050
Depreciation and amortization	6,593	1,913	5,360	6,435	4,766	5,327
General and administrative expenses	8,483	6,369	16,680	18,949	14,011	16,431
Marketing and promotional expenses	3,005	3,597	5,933	8,472	7,002	4,082
Operating income	7,972	5,640	19,475	21,197	10,327	12,795
(Gain) loss on insurance proceeds	(1,443)			(986)		
Costs associated with the repayment of certain debt			2,349	264	264	174
(Gain) loss on sale of investment						(664)
Costs associated with strategic alternatives and proxy contest	9,078					
Restaurant closing (credit) costs	(300)					
Interest expense, net	4,647	2,876	8,862	14,989	10,671	12,945
Management fee paid to related party		1,243	2,800	2,800	2,100	2,100
(Loss) income before income taxes	(4,010)	1,521	5,464	4,130	(2,708)	(1,760)
Income tax expense (benefit)	818	642	1,224	4,868	86	(1,355)
Net (loss) income	\$ (4,828)	\$ 879	\$ 4,240	\$ (738)	\$ (2,794)	\$ (405)

See accompanying notes to consolidated financial statements.



**Table of Contents****MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES****Consolidated Statements of Stockholder s Equity****Predecessor Period and Successor Period**

(amounts in thousands)

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings (Accumulated Deficit)</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Treasury Stock at Cost</u>	<u>Total Stockholder s Equity (Deficit)</u>
<i>Predecessor Period:</i>						
Balance at December 30, 2001, as restated *	\$ 68	\$ 63,478	\$ (17,772)	\$ (907)	\$ (46,754)	\$ (1,887)
Comprehensive income (loss):						
Net loss, as restated *			(4,828)			
Foreign currency translation adjustments				104		
Unrealized gain on swap agreements				118		
<b>Total comprehensive income (loss)</b>						<b>(4,606)</b>
Exercise of stock options		479				479
Issuance of 5,064 shares of treasury stock (average cost of \$8.42 per share)					43	43
Balance at July 24, 2002, as restated *	68	63,957	(22,600)	(685)	(46,711)	(5,971)
<i>Successor Period:</i>						
Purchase accounting adjustments	(68)	(63,957)	22,600	685	46,711	5,971
Issuance of shares and acquisition of Morton s Restaurant Group, Inc. on July 25, 2002		97,073				97,073
Comprehensive income (loss):						
Net income, as restated *			879			
Foreign currency translation adjustments				(339)		
Unrealized loss on swap agreements				(200)		
<b>Total comprehensive income (loss)</b>						<b>340</b>
Balance at December 29, 2002, as restated *		97,073	879	(539)		97,413
Comprehensive income (loss):						
Net income			4,240			
Foreign currency translation adjustments				147		
Unrealized loss on swap agreements				(191)		
Reclassification adjustment on swap agreements for amounts realized in net income				711		
<b>Total comprehensive income (loss)</b>						<b>4,907</b>
Amortization of common units		2				2
Balance at January 4, 2004		97,075	5,119	128		102,322

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Comprehensive income (loss):						
Net loss			(738)			
Foreign currency translation adjustments				61		
Total comprehensive income (loss)						(677)
Amortization of common units						
		2				2
Dividends paid		(36,124)	(7,565)			(43,689)
Balance at January 2, 2005						
		60,953	(3,184)	189		57,958
<b>(unaudited)</b>						
Comprehensive income (loss):						
Net loss			(405)			
Foreign currency translation adjustments				16		
Total comprehensive income (loss)						(389)
Amortization of common units						
Balance at October 2, 2005 (unaudited)						
	\$	\$ 60,953	\$ (3,589)	\$ 205	\$	\$ 57,569

\* See Note 3.

See accompanying notes to consolidated financial statements.

**Table of Contents****MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows****Predecessor Period and Successor Period**

(amounts in thousands)

	Predecessor Period		Successor Period			
	Dec. 31, 2001- July 24, 2002	July 25, 2002- Dec. 29, 2002	Fiscal Year 2003	Fiscal Year 2004	Nine month periods ended	
	Restated (See Note 3)	Restated (See Note 3)			October 3, 2004	October 2, 2005
					(unaudited)	(unaudited)
Cash flows from operating activities:						
Net (loss) income	\$ (4,828)	\$ 879	\$ 4,240	\$ (738)	\$ (2,794)	\$ (405)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:						
Depreciation of property and equipment	6,573	1,914	5,360	6,435	4,766	5,327
Amortization of deferred occupancy costs, bond discount and other deferred expenses	(1,347)	782	2,647	4,477	3,390	3,206
(Gain) loss on investment						(664)
Loss (gain) on marketable securities				155	110	(96)
Deferred income taxes	3,100	(686)	908	4,167	(293)	(2,483)
Issuance of PIK notes in lieu of interest				3,249	420	2,448
Change in assets and liabilities:						
Accounts receivable	1,349	(978)	(252)	(509)	(1,126)	(1,073)
Income taxes receivable	(1,228)	903	885			
Inventories	406	(1,002)	(367)	(185)	570	316
Prepaid expenses and other assets	47	(1,101)	1,664	(1,692)	(928)	(1,090)
Insurance receivable	1,682					
Accounts payable, accrued expenses and other liabilities	2,824	7,264	(3,170)	5,658	995	6,894
Accrued income taxes		169	154	105	(159)	128
<b>Net cash provided by operating activities</b>	<b>8,578</b>	<b>8,144</b>	<b>12,069</b>	<b>21,122</b>	<b>4,951</b>	<b>12,508</b>
Cash flows from investing activities:						
Purchases of property and equipment	(5,207)	(5,885)	(5,161)	(12,138)	(6,438)	(9,192)
Proceeds from sale of investment						674
Purchase of marketable securities				(10,684)	(7,295)	(3,968)
Proceeds from sale of marketable securities				6,417	6,217	
<b>Net cash used by investing activities</b>	<b>(5,207)</b>	<b>(5,885)</b>	<b>(5,161)</b>	<b>(16,405)</b>	<b>(7,516)</b>	<b>(12,486)</b>
Cash flows from financing activities:						
	(6,737)	(5,467)	(79,395)	(5,775)	(5,652)	(3,549)

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Principal reduction on obligations to financial institutions and capital leases

Proceeds from the 7.5% senior secured notes offering			89,250			
Proceeds from obligations to financial institutions	1,000	1,900	6,900			
Proceeds from the 14.0% senior secured notes offering				40,000	40,000	
Payment of deferred financing costs			(6,329)	(3,139)	(3,141)	
(Increase) decrease in restricted cash			(1,100)	552	323	131
Issuance of treasury stock	43					
Redemption of PIK notes						(1,398)
Net proceeds from issuance of stock	479					
Dividends paid				(43,689)	(43,689)	
<b>Net cash (used) provided by financing activities</b>	<b>(5,215)</b>	<b>(3,567)</b>	<b>9,326</b>	<b>(12,051)</b>	<b>(12,159)</b>	<b>(4,816)</b>
Effect of exchange rate changes on cash	36	(8)	60	25	3	(7)
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(1,808)</b>	<b>(1,316)</b>	<b>16,294</b>	<b>(7,309)</b>	<b>(14,721)</b>	<b>(4,801)</b>
Cash and cash equivalents at beginning of period	4,827	3,019	1,703	17,997	17,997	10,688
<b>Cash and cash equivalents at end of period</b>	<b>\$ 3,019</b>	<b>\$ 1,703</b>	<b>\$ 17,997</b>	<b>\$ 10,688</b>	<b>\$ 3,276</b>	<b>\$ 5,887</b>

See accompanying notes to consolidated financial statements.

**Table of Contents****MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(1) Organization and Other Matters**

Morton s Restaurant Group, Inc. ( MRG ) and subsidiaries (collectively, the Company ) are direct or indirect wholly-owned subsidiaries of Morton s Holding Company, Inc. ( MHCI ), which was incorporated as a Delaware corporation on March 10, 2004 and became the direct parent of the Company on June 4, 2004. MHCI is a wholly-owned subsidiary of Morton s Holdings, LLC ( MHLLC ), a Delaware limited liability company which was formed on April 4, 2002. Prior to the consummation of this offering, we anticipate that MHCI, which is a holding company with no independent operations, will be merged into the Company. As these are entities under common control, this merger will be accounted for at historical cost. The consolidated financial information contained herein includes the financial information of MHCI from March 10, 2004, which is the date that MHCI was incorporated. The Company is engaged in the business of owning and operating restaurants under the names Morton s The Steakhouse ( Morton s ) and Bertolini s Authentic Trattorias ( Bertolini s ). As of October 2, 2005, the Company owned and operated 69 restaurants (65 Morton s and 4 Bertolini s).

Pursuant to a Merger Agreement dated March 26, 2002, as amended, the owners of MHLLC, through a merger of its wholly-owned subsidiary Morton s Acquisition Company, on July 25, 2002 ( Effective Date ), acquired all of the outstanding shares of MRG for \$17 per share. The aggregate purchase price for all of MRG s outstanding common stock including options and transaction expenses was approximately \$97.0 million.

The acquisition, as described above, has been accounted for in accordance with Financial Accounting Standards Boards Statement of Financial Accounting Standard ( SFAS ) 141, Business Combinations. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of the acquisition as restated (see Note 3) (amounts in thousands).

Current assets	\$ 27,524
Property and equipment	53,113
Intangible asset	92,000
Goodwill	68,404
Other assets	5,816
	<hr/>
Total assets acquired	246,857
	<hr/>
Current liabilities	38,730
Deferred income taxes	25,292
Long-term debt	85,762
	<hr/>
Total liabilities assumed	149,784
	<hr/>
Net assets acquired	\$ 97,073
	<hr/>



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The intangible asset of \$92,000,000 represents Morton's trade name, which has an indefinite life and accordingly is not subject to amortization. Included in goodwill, as restated, of \$68,404,000 is a deferred tax liability of \$35,880,000 recognized in connection with the identification of the intangible asset of \$92,000,000. Goodwill at the date of the acquisition includes an adjustment of \$1,341,000 reflecting the cumulative effect of the restatements described in Note 3. Other changes to the carrying amount of goodwill of \$6,852,000 during fiscal 2003 consist of adjustments of \$4,136,000 primarily consisting of the reversal of accrued lease exit costs in connection with the finalization of purchase accounting adjustments and tax benefits that have been recorded with regard to changes in estimates of income tax uncertainties of \$2,716,000.

During fiscal 2004, goodwill was reduced by \$389,000 representing tax benefits that have been recorded with regard to changes in estimates of income tax uncertainties. Additionally, during the fourth quarter of fiscal 2004, goodwill was increased by \$626,000 which represents an adjustment in purchase accounting as a

**Table of Contents****MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

result of a revision to a liability assumed at the time of purchase. During fiscal 2005, goodwill was reduced by \$261,000 which represents an adjustment in purchase accounting as a result of a revision to a deferred tax asset valuation allowance assumed at the time of purchase.

As a result of the acquisition, the capital structure of and the basis of accounting under the "push down" method for the Company differs from those of the Company prior to the acquisition. Financial data of the Company in respect of all reporting periods subsequent to and including July 25, 2002 (Successor Period) reflect the acquisition under the purchase method of accounting. Therefore, the Company's Successor Period financial data generally will not be comparable to the Company's financial data for the period prior to July 25, 2002 (Predecessor Period). As a result of the acquisition, the consolidated statements of operations for the Successor Period includes amortization expense relating to debt issuance costs and management fees that did not exist prior to this acquisition. Further, as a result of purchase accounting, the fair values of fixed assets at the date of acquisition became their new "cost" basis. Accordingly, the depreciation of these assets for the Successor Period is based upon their newly established cost basis. Other effects of purchase accounting in the Successor Period are not considered significant. Costs associated with strategic alternatives and proxy contest for the Predecessor Period from December 31, 2001 to July 24, 2002 of \$9,078,000 represent: \$4,170,000 in legal costs, \$3,125,000 in investment banking costs, \$855,000 in bank costs, \$580,000 in printing, investor relations and proxy solicitation costs and \$348,000 in other costs.

The following table summarizes fiscal 2002 results as if the acquisition occurred on December 31, 2001 (amounts in thousands):

	<b>Fiscal Year 2002</b>
	<b>Restated</b>
Revenues	\$ 238,137
Income before income taxes	6,514
Net income	4,560

**(2) Summary of Significant Accounting Policies***(a) Unaudited Interim Financial Statements*

The interim financial statements of the Company for the nine month periods ended October 3, 2004 and October 2, 2005 included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations relating to interim financial statements. In the opinion of management, the accompanying unaudited interim financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of the Company as of October 2, 2005 and the results of its operations and its cash flows for the nine month periods ended October 3, 2004 and October 2, 2005. The interim results of operations for the nine month periods ended October 3, 2004 and October 2, 2005, are not necessarily indicative of the results that may be achieved for the full year.



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**MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*(b) Principles of Consolidation*

The consolidated financial statements include the accounts and results of operations of the Company. All significant intercompany balances and transactions have been eliminated in consolidation.

*(c) Reporting period*

The Company uses a 52 or 53-week fiscal year which ends on the Sunday closest to January 1. Approximately every six or seven years, a 53rd week will be added. Fiscal 2003 was a 53-week year.

*(d) Marketable Securities*

The Company accounts for its marketable securities in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. In accordance with SFAS No. 115, marketable securities of approximately \$4,112,000 and \$8,176,000 as of January 2, 2005 and October 2, 2005, respectively, are accounted for as trading securities. Securities held by the Company are bought and held principally for the purpose of selling them in the near term and are recorded at fair value. Unrealized gains and losses on such securities have been recognized in interest expense, net in the consolidated statements of operations. Unrealized gains and losses were not significant in fiscal 2004 and the nine month period ended October 2, 2005.

*(e) Inventories*

Inventories consist of food, beverages and supplies and are recorded at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

*(f) Property and Equipment*

Property and equipment are stated at cost, whereas equipment under capital leases are stated at the present value of minimum lease payments, and are depreciated using the straight-line method over the estimated useful lives of the related assets. Improvements to leased premises and property under capital leases are amortized on the straight-line method over the shorter of the lease term or estimated useful lives of the improvements. In the fiscal 2002 Predecessor Period, the fiscal 2002 Successor Period, fiscal 2003, fiscal 2004 and the nine month periods ended October 3, 2004 and October 2, 2005 interest costs capitalized during the construction period for leasehold improvements were approximately \$24,000, \$97,000, \$26,000, \$46,000, \$46,000 and \$151,000, respectively. The estimated useful lives of property and equipment are principally as follows: 5 or 15 years for furniture, fixtures and equipment, 31.5 years for buildings and 20 years or less for leasehold improvements if the lease period is shorter than the useful lives.

(g) *Other Assets and Deferred Expenses, Net*

Other assets and deferred expenses, net in the accompanying consolidated balance sheets consists of the following (amounts in thousands):

	<b>Successor Period</b>		
	<b>January 4,</b>	<b>January 2,</b>	<b>October 2,</b>
	<b>2004</b>	<b>2005</b>	<b>2005</b>
			<b>(unaudited)</b>
Deferred financing costs	\$ 6,369	\$ 7,606	\$ 6,487
Smallwares	2,456	2,501	2,662
Deposits	262	299	353
Other	792	792	850
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total other assets and deferred expenses, net</b>	<b>\$ 9,879</b>	<b>\$ 11,198</b>	<b>\$ 10,352</b>
	<u>          </u>	<u>          </u>	<u>          </u>

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**MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As of January 4, 2004, January 2, 2005 and October 2, 2005, deferred financing costs consisted of the costs associated with the 7.5% senior secured notes offering (see Note 7) and a senior secured working capital facility with Wells Fargo Foothill, Inc. (see Note 9), which are being amortized over 7 years and 4 years, respectively. As of January 2, 2005 and October 2, 2005, deferred financing costs also consisted of the costs associated with the 14.0% senior secured notes offering (see Note 8) which are being amortized over 79 months. Smallwares consist of silverware, glassware, china and kitchen cookware and are capitalized when purchased. These assets are expensed as replaced.

*(h) Income Taxes*

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. For the Predecessor Period, the Company determined its tax provision on a stand alone basis and in the Successor Period, the Company is a subsidiary of MHLLC.

*(i) Intangible Asset and Goodwill*

The identifiable intangible asset acquired represents the Company's trade name Morton's, which has an indefinite life and accordingly is not subject to amortization. The trade name is used in the advertising and marketing of the restaurants and is widely recognized and accepted by consumers in its respective market as an indication of and recognition of service, value and quality. Goodwill represents the excess of costs over fair value of assets of the business acquired. During the Predecessor Period, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets. The intangible asset and goodwill acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, Accounting for Impairment or Disposal of Long-Lived Assets. In connection with the adoption of SFAS No. 142, the Company identified its reporting units and determined the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. The Company considers a reporting unit to be an individual restaurant. The Company's initial impairment review indicated that there was no impairment as of the date of adoption for goodwill that was acquired in prior business combinations.

SFAS No. 142 requires the Company to perform an annual assessment of whether there is an indication that goodwill is impaired utilizing a two step method. In the first step, the Company compares the fair value of a reporting unit to its carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and the Company must perform the second step of the transitional impairment test. In the second step, in order to measure the amount of impairment loss, the Company must compare the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill.

As of January 2, 2005, the Company performed its annual impairment test of goodwill and its intangible asset in accordance with SFAS No. 142. Based on its evaluation, the Company was not required to recognize an impairment.



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**Table of Contents****MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***(j) Derivative Financial Instruments*

Amounts receivable or payable under interest rate swap agreements are accounted for as adjustments to interest expense.

The Company accounts for its derivative financial instruments in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 137 and SFAS No. 138. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measures those instruments at fair value. As of January 2, 2005, the Company's derivative financial instruments consist of an interest rate swap agreement with a notional amount of \$20,000,000, which expired on October 24, 2005. Additionally, one interest rate swap agreement with a notional amount of \$20,000,000 expired in October 2004 and two interest rate swap agreements with notional amounts of \$10,000,000 each expired in April 2003 and May 2003. The Company's interest rate swap agreements were originally designated as cash flow hedges for purposes of SFAS No. 133. Based on regression analysis, the Company had determined that its interest rate swap agreements were highly effective. As a result of the July 7, 2003 repayment of the Company's prior credit facility with a portion of the proceeds from the 7.5% senior secured notes offering, the two outstanding interest rate swap agreements at that date have been subsequently accounted for as speculative instruments and resulting changes in their fair market value have been charged or credited to interest expense, net in the consolidated statements of operations. In addition, the write-off of the accumulated other comprehensive loss of \$711,000 and deferred tax assets of \$457,000 as of July 7, 2003 which were previously recognized in connection with two interest rate swap agreements are included in Costs associated with the repayment of certain debt in the accompanying consolidated statement of operations for fiscal 2003 (see Note 7). As of January 4, 2004 and January 2, 2005, in accordance with SFAS No. 133, liabilities were approximately \$723,000 and \$77,000, respectively. As of October 2, 2005, in accordance with SFAS No. 133, the receivable was approximately \$25,000. The change in the fair market value has been recognized in interest expense, net in the consolidated statements of operations for fiscal 2002, fiscal 2003, fiscal 2004 and the nine month periods ended October 3, 2004 and October 2, 2005. Restricted cash of \$1,110,000, \$548,000 and \$417,000 as of January 4, 2004, January 2, 2005 and October 2, 2005, respectively, represents cash collateral relating to the interest rate swap agreement with Bank of America, formerly Fleet National Bank (B of A). The Company was required to collateralize the interest rate swap agreements upon the July 7, 2003 repayment of MRG's previously existing credit facility with Fleet National Bank (subsequently acquired by B of A) (Fleet). See Note 9.

*(k) Marketing and Promotional Expenses*

Marketing and promotional expenses in the accompanying consolidated statements of operations include advertising expenses of approximately \$1,118,000, \$602,000, \$1,296,000, \$3,478,000, \$3,393,000 and \$1,276,000 for the fiscal 2002 Predecessor Period, the fiscal 2002 Successor Period, fiscal 2003, fiscal 2004 and the nine month periods ended October 3, 2004 and October 2, 2005, respectively. Advertising costs are expensed as incurred.

*(l) Pre-opening costs*

Pre-opening costs incurred in connection with the opening of new restaurants are expensed as incurred and are included in Pre-opening costs in the accompanying consolidated statements of operations. Pre-opening costs incurred and recorded as expense for the fiscal 2002 Predecessor Period, the fiscal 2002 Successor Period, fiscal 2003, fiscal 2004 and the nine month periods ended October 3, 2004 and October 2, 2005, were



approximately \$703,000, \$1,254,000, \$904,000, \$1,059,000, \$553,000 and \$2,050,000, respectively.

**Table of Contents****MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***(m) Statements of Cash Flows*

For the purposes of the consolidated statements of cash flows, the Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. Cash paid for interest and income taxes for the fiscal 2002 Predecessor Period, the fiscal 2002 Successor Period, fiscal 2003, fiscal 2004 and the nine month periods ended October 3, 2004 and October 2, 2005 were as follows (amounts in thousands):

	Predecessor Period	Successor Period				
	Dec. 31, 2001- July 24, 2002	July 25, 2002 - Dec. 29, 2002	Fiscal 2003	Fiscal 2004	Nine month periods ended	
					October 3, 2004	October 2, 2005
					(unaudited)	(unaudited)
Interest and fees, net of amounts capitalized	\$ 4,039	\$ 3,369	\$ 8,562	\$ 9,538	\$ 5,276	\$ 4,987
Income taxes, net of refunds	246	168	496	597	542	1,004

*(n) Use of Estimates*

The preparation of the consolidated financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount of property and equipment and valuation allowance for deferred income tax assets. Actual results could differ from those estimates.

*(o) Impairment of Long-Lived Assets*

SFAS No. 144 provides a single accounting model for long-lived assets to be disposed of. SFAS No. 144 also changes the criteria for classifying an asset as held for sale; and broadens the scope of businesses to be disposed of that qualify for reporting as discontinued operations and changes the timing of recognizing losses on such operations. During the Predecessor Period, the Company adopted SFAS No. 144. The adoption did not have any impact on the Company's consolidated financial statements.

In accordance with SFAS No. 144, long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

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The Company's assessment of recoverability of property and equipment is performed on a restaurant-by-restaurant basis. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheet.

Goodwill and intangible assets not subject to amortization are tested annually for impairment, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value.

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**MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*(p) Translation of Foreign Currencies*

As of January 2, 2005 and October 2, 2005, the Company owned and operated four international locations, one each in Hong Kong, Singapore, Toronto, Canada and Vancouver, Canada. A restaurant in Sydney, Australia and one in Hong Kong (Central) were closed on January 6, 2002 and January 29, 2003, respectively (see Note 4). The financial position and results of operations of the Company's foreign businesses are measured using local currency as the functional currency. Assets and liabilities are translated into U.S. dollars at year-end rates of exchange, and revenues and expenses are translated at the average rates of exchange for the year. Gains or losses resulting from the translation of foreign currency financial statements are accumulated as a separate component of stockholder's equity.

*(q) Comprehensive Income*

SFAS No. 130, Reporting Comprehensive Income, establishes standards for the reporting and presentation of comprehensive income and its components in a full set of financial statements. Comprehensive income consists of net income (loss) and equity adjustments from foreign currency translation and is presented in the consolidated statements of stockholder's equity. Comprehensive income for fiscal 2003 also includes a reclassification adjustment of \$711,000 relating to the Company's interest rate swap agreements for amounts realized in net income upon such agreements becoming speculative instruments as a result of the repayment of the Company's prior credit facility (see Note 2(j)). Prior to the Company's interest rate swap agreements becoming speculative instruments, comprehensive income also included unrealized gains (losses) on such agreements.

*(r) Revenue Recognition*

Sales from restaurants are recognized as revenue at the point of the delivery of meals and services. Gift cards and or certificates are sold in the ordinary course of business. Proceeds from gift card and or certificate sales are recorded as deferred revenue at the time the gift card and or certificate is sold and are not recognized as revenue until the gift card and or certificate is redeemed.

*(s) Reclassification*

Certain items previously reported have been reclassified to conform to the fiscal 2004 presentation. For the fiscal 2002 Predecessor Period, the fiscal 2002 Successor Period, fiscal 2003 and the nine month period ended October 3, 2004, the Company reclassified amounts relating to operating leases and development allowances from lessors on the consolidated statements of operations and consolidated statements of cash flows. For fiscal 2003, the Company reclassified amounts relating to development allowances from lessors and deferred rent on the consolidated balance sheet. The reclassifications had no impact on net income (loss).

At January 4, 2004, the effect of the reclassification was an increase to buildings and leasehold improvements, accumulated depreciation and amortization and other liabilities by \$1,725,000, \$111,000 and \$1,133,000, respectively, and a decrease to other assets and deferred expenses, net of \$481,000. Additionally for the fiscal 2002 Predecessor Period, the fiscal 2002 Successor Period, fiscal 2003 and the nine month period

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ended October 3, 2004, restaurant operating expenses were equally (decreased) increased and depreciation, amortization and non-cash charges were equally (increased) decreased by \$(1,363,000), \$782,000, \$1,338,000 and \$1,163,000 respectively. Net cash flows provided by operating activities were increased and net cash flows used by investing activities were increased by \$1,758,000, \$1,096,000, \$629,000 and \$1,020,000 for the fiscal 2002 Predecessor Period, the fiscal 2002 Successor Period, fiscal 2003 and the nine month period ended October 3, 2004, respectively.

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**MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*(t) New Accounting Pronouncements*

In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment*. This statement replaces SFAS No. 123, *Accounting for Stock-Based Compensation* and supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123(R) requires all stock-based employee compensation to be recorded as an expense in the consolidated statement of operations and that such cost be measured according to the fair value of stock options. SFAS No. 123(R) will be effective the first annual reporting period that begins after June 15, 2005. As the Company already charges stock-based employee compensation expense related to units issued pursuant to employee subscription agreements based on the fair value of such units (see Note 13) the adoption of this statement will not have a material effect on the Company's consolidated financial statements.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets* an amendment of APB Opinion No. 29. SFAS No. 153 addresses the measurement of exchanges of nonmonetary assets. It eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of Accounting Principles Board (APB) Opinion No. 29 *Accounting for Nonmonetary Transactions* and replaces it with an exception for exchanges that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 will be effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of this statement will not have any effect on the Company's consolidated financial statements.

In January 2003, the FASB issued FASB Interpretation No. (FIN) 46, *Consolidation of Variable Interest Entities*, an interpretation of ARB No. 51. FIN 46 was subject to significant interpretation by the FASB, and was revised and reissued in December 2003 (FIN 46R). FIN 46R states that if an entity has a controlling financial interest in a variable interest entity, the assets, the liabilities and results of activities of the variable interest entity should be included in the consolidated financial statements to the entity. The adoption of FIN 46 and FIN 46R did not have any effect on the Company's consolidated financial statements, as the Company does not have any special purpose entities and no other arrangements that meet the definition of a variable interest entity which would require consolidation.

In March 2005, the FASB issued FIN 47, *Accounting for Conditional Asset Retirement Obligations*. FIN 47 clarifies that a conditional asset retirement obligation, as used in SFAS 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of the settlement are conditional on a future event that may or may not be within the control of the entity. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value can be reasonably estimated. FIN 47 is effective January 1, 2006, with early adoption allowed. We have not yet determined the impact, if any, FIN 47 will have on the Company's consolidated financial statements.

In June 2005, the FASB issued Emerging Issues Task Force (EITF) 05-06 *Determining the Amortization Period for Leasehold Improvements*. EITF 05-06 addresses the amortization period for leasehold improvements in operating leases that are either placed in service significantly after and not contemplated at or near the beginning of the initial lease term or acquired in a business combination. The adoption of EITF 05-06 will not have a material effect on the Company's consolidated financial statements.

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During October 2005, the FASB issued FASB Staff Position No. FAS 13-1 ( FSP 13-1 ) which requires a lessee to cease capitalizing rental costs during the construction period as of the first reporting period beginning after December 15, 2005, which is effective date of FSP 13-1. In accordance with FSP 13-1, beginning January 2, 2006 rental costs incurred during the construction period will be recognized as rental expense.

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**Table of Contents****MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(3) Restatement of Consolidated Financial Statements**

During fiscal 2003, the Company restated its consolidated financial statements for fiscal 1998, 1999, 2000, 2001 and 2002 (Successor Period and Predecessor Period) as a result of having incorrectly provided estimates for expirations and non-redemption of gift certificates that it had sold. The effect of the restatement was to reduce revenues for fiscal 1998, fiscal 1999, fiscal 2000 and fiscal 2001 by \$408,000, \$444,000, \$872,000 and \$949,000, respectively, and to reduce revenues for the 2002 Predecessor Period and the 2002 Successor Period in the amounts of \$336,000 and \$294,000, respectively. The Company recorded an adjustment to retained earnings of \$1,090,000 at December 31, 2000 for the cumulative effect of these restatement adjustments in prior periods. The restatement had no effect on the Company's net operating cash position. The impact of the above-mentioned restatement on the 2002 consolidated statements of operations is as follows (amounts in thousands):

	<b>Predecessor Period</b>	
	<b>December 31, 2001 - July 24, 2002</b>	
	<b>Reported</b>	<b>Restated</b>
Revenues	\$ 132,769	\$ 132,433
Loss before income taxes	(3,674)	(4,010)
Income tax expense	949	818
Net loss	(4,623)	(4,828)
	<b>Successor Period</b>	
	<b>July 25, 2002 - December 29, 2002</b>	
	<b>Reported</b>	<b>Restated</b>
Revenues	\$ 105,998	\$ 105,704
Income before income taxes	1,815	1,521
Income tax expense	757	642
Net income	1,058	879

**(4) Restaurant Closing Costs and Other (Benefit) Charges**

(a) *Morton's Sydney, Hong Kong (Central) and Addison, Texas*



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Based on a strategic assessment of revenue trends and other factors, the Company closed the Morton's Steakhouse restaurant in Sydney, Australia in January 2002. The Company recorded a fiscal 2001 fourth quarter, pre-tax charge of approximately \$1,625,000, which consisted primarily of the write-down of the net book value of the restaurant, consisting of property and equipment of approximately \$1,300,000 (which included an unpaid invoice of \$120,000 related to the construction of the restaurant), inventory and smallwares of approximately \$100,000, security deposits of approximately \$45,000, accrued legal costs of approximately \$100,000 and certain exit costs of approximately \$60,000 associated with the closing of the restaurant. The exit costs were recorded in accordance with requirements set forth in Emerging Issues Task Force (EITF) 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring). The Company met the criteria set forth in EITF 94-3 as management began to formulate a plan to close the restaurant and terminate employees as of the commitment date and the involuntary termination benefits were not part of a pre-existing plan. The Company does not have an established plan or practice for severance costs as the majority of restaurant employees are paid hourly wages and severance costs are typically a minor component of the overall costs to close a restaurant. The plan, including the type and amount of benefits that employees were eligible to receive, was

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**MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

finalized and communicated to the relevant employees. During the second quarter of fiscal 2002, in conjunction with a mutual release with the lessor, the Company recorded a pre-tax credit of \$300,000 representing the recovery of assets previously written-down, which included inventory of approximately \$70,000 that was utilized in another Morton s steakhouse and the recovery of a security deposit of approximately \$45,000 that had not been anticipated, and exit costs, which included legal costs of approximately \$65,000, which were less than initially accrued for this restaurant. In addition, the Company reversed an accrual for a construction invoice of \$120,000, which the Company determined was no longer required.

In January 2003, the Company closed the Morton s steakhouse in Hong Kong (Central) due to its low revenues and negative cash flows. No impairment charge was recorded in connection with the closing of this steakhouse. The book value of the assets of the Hong Kong (Central) restaurant, which included property and equipment of approximately \$1,900,000, a landlord security deposit of approximately \$280,000 and other assets of approximately \$55,000, were written-down to zero as part of the fair value assessment of the Company s assets in purchase accounting resulting from our July 2002 acquisition. There were no proceeds received from the disposition of these assets. The Company also recorded in purchase accounting an accrual for certain exit costs, which included accrued severance of approximately \$155,000 and accrued legal fees of approximately \$35,000, in accordance with the requirements set forth in EITF 95-3, Recognition of Liabilities in Connection with a Purchase Business Combination. The Company met the criteria set forth in EITF 95-3 as management began to formulate a plan to close the restaurant and terminate employees as of the consummation date and the involuntary termination benefits were not part of a pre-existing plan. The plan, including the type and amount of benefits that employees were eligible to receive, was finalized and communicated to the relevant employees within a period of less than one year from the acquisition date.

In August 2003, the Company closed the Morton s steakhouse in Addison, Texas due to its low revenues and negative cash flows. No impairment charge was recorded in connection with the closing of this steakhouse. The book value of the assets of the Addison, Texas restaurant, which included property and equipment of approximately \$367,000 and other assets of approximately \$40,000, were written-down to zero as part of the fair value assessment of the Company s assets in purchase accounting resulting from our July 2002 acquisition. There were no proceeds received from the disposition of these assets. The Company also recorded in purchase accounting an accrual for certain exit costs, which included accrued severance of approximately \$60,000 and accrued legal fees of approximately \$40,000, in accordance with the requirements set forth in EITF 95-3. The Company met the criteria set forth in EITF 95-3 as management began to formulate a plan to close the restaurant and terminate employees as of the consummation date and the involuntary termination benefits were not part of a pre-existing plan. The plan, including the type and amount of benefits that employees were eligible to receive, was finalized and communicated to the relevant employees within a period of less than one year from the acquisition date.

(b) *Morton s 90 West Street, NY*

On December 23, 2004, MRG entered into a Settlement Agreement and General Release (the Agreement) with St. Paul Fire and Marine Insurance Company ( St. Paul ) pursuant to which the Company has agreed to settle its claims against St. Paul for losses sustained in connection with the September 11, 2001 attacks involving business and property of the Morton s Steakhouse restaurant located at 90 West Street, New York, New York, two blocks from the World Trade Center which was closed permanently due to structural damage. The terms of the Agreement included payment to the Company of \$4,254,000 and a mutual release and discharge with respect to the insurance contract between the Company and St. Paul for the property located at 90 West Street, New York, New York. The payment of \$4,254,000 was received in December 2004.



**Table of Contents****MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company recorded a benefit, net of related costs, in Restaurant operating expenses in the accompanying consolidated statements of operations of approximately \$997,000, \$905,000, \$857,000 and \$2,775,000 for the fiscal 2002 Predecessor Period, the fiscal 2002 Successor Period, fiscal 2003 and fiscal 2004, respectively, representing business interruption insurance recovery related to costs incurred from the closing of that restaurant. There were no such benefits recorded during the nine month periods ended October 3, 2004 and October 2, 2005. During 2002, the Company received \$3,125,000 relating to property insurance and recorded a gain of approximately \$1,443,000 in the 2002 Predecessor Period in the accompanying consolidated statement of operations. During fiscal 2004, the Company received \$986,000 relating to such property insurance and recorded a gain.

**(5) Property and Equipment**

The costs and related accumulated depreciation and amortization of major classes of assets as of January 4, 2004, January 2, 2005 and October 2, 2005 are set forth below (amounts in thousands):

	Successor Period		
	January 4, 2004	January 2, 2005	October 2, 2005 (unaudited)
Furniture, fixtures and equipment	\$ 14,131	\$ 16,499	\$ 19,791
Buildings and leasehold improvements	40,392	45,139	56,066
Land	8,474	8,474	8,474
Construction in progress	338	5,234	258
	63,335	75,346	84,589
Less accumulated depreciation and amortization	7,611	13,859	19,219
<b>Net property and equipment</b>	<b>\$ 55,724</b>	<b>\$ 61,487</b>	<b>\$ 65,370</b>

**(6) Accrued Expenses**

Accrued expenses at January 4, 2004, January 2, 2005 and October 2, 2005 consist of the following (amounts in thousands):

Successor Period

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	January 4, 2004	January 2, 2005	October 2, 2005
			(unaudited)
Deferred revenue from gift certificates	\$ 10,636	\$ 14,081	\$ 11,817
Restaurant operating expenses	3,404	4,558	6,762
Payroll and related taxes	3,552	3,642	3,720
Accrued legal costs	3,243	2,782	1,874
Sales and use tax	2,243	1,964	1,744
Rent and property taxes	1,486	1,635	1,803
Accrued construction costs	423	705	593
Interest	723	77	3,542
Other	2,245	1,458	2,057
	<u>          </u>	<u>          </u>	<u>          </u>
Total accrued expenses	\$ 27,955	\$ 30,902	\$ 33,912
	<u>          </u>	<u>          </u>	<u>          </u>

(7) 7.5% Senior Secured Notes

On July 7, 2003, the Company completed a private offering of \$105,000,000 in aggregate principal amount at maturity of its 7.5% senior secured notes due 2010. The 7.5% senior secured notes were issued at a discount of 15%. Net proceeds from the 7.5% senior secured notes offering were \$89,250,000 less expenses.

**Table of Contents****MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

On December 22, 2003, the Company filed a registration statement with the Securities and Exchange Commission with respect to the 7.5% senior secured notes having substantially identical terms as the original notes, as part of an offer to exchange registered notes for the privately-issued original notes. The new notes evidence the same debt as the original notes, are entitled to the benefits of the indenture governing the original notes and are treated under the indenture as a single class with the original notes. Interest on the 7.5% senior secured notes is payable semi-annually on January 1 and July 1. The 7.5% senior secured notes have a yield to maturity of 12.005% including the accretion of the discount and the amortization of the related deferred financing costs. The Company can redeem the 7.5% senior secured notes on or after July 1, 2007, except the Company may redeem up to 35% of the 7.5% senior secured notes prior to July 1, 2006 with the proceeds of one or more public equity offerings. The Company is required to redeem the 7.5% senior secured notes under some circumstances involving changes of control and asset sales. As of January 2, 2005 and October 2, 2005, the Company was in compliance with all of its financial covenants.

Concurrently with the closing of the original notes offering, the Company entered into a \$15,000,000 senior secured working capital facility with Wells Fargo Foothill, Inc. (see Note 9). As of January 4, 2004, January 2, 2005, and October 2, 2005 there were no outstanding borrowings under the Company's working capital facility and \$1,000,000, \$1,000,000 and \$275,000, respectively, was restricted for letters of credit. The Company used a portion of the net proceeds from the 7.5% senior secured notes offering to repay the Company's previously existing credit facility, capital leases and three mortgages (See Note 9). The Company used the remaining net proceeds for general corporate purposes. During the third quarter of fiscal 2003, the Company expensed \$2,349,000 representing: (1) the write-off of deferred financing costs of \$718,000 relating to the previously existing credit facility; (2) prepayment penalties of \$463,000 incurred with the repayment of the Company's capital leases and one mortgage; and (3) the write-off of the accumulated other comprehensive loss of \$711,000 and deferred tax assets of \$457,000 which were previously recognized in connection with two interest rate swap agreements, which expired on October 24, 2004 and October 24, 2005, which due to the repayment of its previously existing credit facility were accounted for as speculative instruments. Changes in their fair market value are charged or credited to interest expense, net in the consolidated statements of operations. Costs associated with the repayment of certain debt of \$264,000 for fiscal 2004 and the nine month period ended October 3, 2004 represent prepayment penalties that we incurred with the early repayment of two mortgages. Cost associated with the repayment of certain debt of \$174,000 for the nine month period ended October 2, 2005 represents prepayment penalties that we incurred with the early repayment of two mortgages. See Note 9.

**(8) 14.0% Senior Secured Notes**

On June 4, 2004, MHCI completed a \$40,000,000 14% senior secured notes offering due December 30, 2010. Interest is to be paid semi-annually in arrears on June 30<sup>th</sup> and December 30<sup>th</sup> in each year commencing on June 30, 2004 at the rate of 14% per annum. Interest is payable in cash, except that, on any interest payment date, the Company has the option to pay all or any portion of the interest payable by issuing additional notes ( PIK Notes ) in a principal amount equal to the interest the Company does not pay in cash on such date. Any such PIK Notes issued would be due no later than December 30, 2010. MHCI issued PIK Notes aggregating \$3,249,000 and \$2,448,000 during fiscal 2004 and the nine month period ended October 2, 2005, respectively. On May 12, 2005 and August 17, 2005, the Company redeemed approximately \$945,000 and \$453,000, respectively, of PIK notes. The notes are secured by the assets of MHCI, which include the stock of MRG. The notes are not secured by the assets of, nor are they guaranteed by, MRG or any of its subsidiaries. MHCI used the proceeds of the offering to make a distribution to MHLLC's equity holders and to pay fees and expenses related to the issuance. As of January 2, 2005 and October 2, 2005, the Company was in compliance with all of its financial covenants.

Table of Contents**MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Pursuant to the 14% senior secured notes, if at the end of a fiscal quarter the Company has cash and cash equivalents and marketable securities in excess of \$5,000,000, excluding up to \$750,000 of cash and cash equivalents held by one or more of the Company's foreign subsidiaries, and is permitted to pay a dividend under the Restricted Payments covenant of the 7.5% senior secured notes (defined therein) (Restricted Payment Covenant), the Company is required, to the extent permitted, to repay outstanding PIK Notes. The dividend will be in the amount of the lesser of the amount permitted under the Restricted Payment Covenant, the excess cash and cash equivalents and marketable securities over the \$5,000,000 threshold or the aggregate outstanding PIK notes.

**(9) Obligations to Financial Institutions**

Obligations to financial institutions consists of the following (amounts in thousands):

	Successor Period		
	January 4, 2004	January 2, 2005	October 2, 2005 (unaudited)
Credit Facility (a)	\$	\$	\$
Working Capital Facility (b)			
Loan Agreement with CNL Financial I, Inc., due in monthly principal and interest payments (c)	1,097	796	
Mortgage loans with GE Capital Franchise Finance due in monthly principal and interest payments (d)	11,835	6,361	3,608
Total obligations to financial institutions	12,932	7,157	3,608
Less current portion of obligations to financial institutions	658	521	111
Obligations to financial institutions, less current maturities	\$ 12,274	\$ 6,636	\$ 3,497

Future maturities of obligations to financial institutions and bond holders are as follows as of January 2, 2005 (amounts in thousands):

	2005	2006	2007	2008	2009	Thereafter	Total
7.5% senior secured notes (see Note 7)	\$	\$	\$	\$	\$	\$ 105,000	\$ 105,000
14.0% senior secured notes (see Note 8)	1,398	1,851				40,000	43,249
Working Capital Facility (b)							
Loan Agreement with CNL Financial I, Inc. (d)	332	334	130				796

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Mortgage loans with GE Capital Franchise Finance (c)	189	207	227	248	272	5,218	6,361
Total	\$ 1,919	\$ 2,392	\$ 357	\$ 248	\$ 272	\$ 150,218	\$ 155,406

- (a) The Company's prior credit facility was pursuant to the Second Amended and Restated Revolving Credit and Term Loan Agreement, dated June 19, 1995, between the Company and Fleet, as amended from time to time, a portion of which had been syndicated to other lenders. On July 7, 2003, the Company used a portion of the proceeds from the 7.5% senior secured notes offering (see Note 7) to repay the Company's prior credit facility in full. Following repayment, the credit facility was terminated.

On April 7, 1998 and May 29, 1998, the Company entered into interest rate swap agreements with Fleet on notional amounts of \$10,000,000 each. These agreements terminated on April 7, 2003 and May 29, 2003, respectively. Additionally, on October 24, 2002, pursuant to the July 25, 2002 amendment, the Company entered into two interest rate swap agreements with Fleet on notional amounts of \$20,000,000



**Table of Contents****MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

each, which expired on October 24, 2004 and October 24, 2005. These agreements were used to reduce the potential impact of interest rate fluctuations relating to \$40,000,000 of variable rate debt. The Company accounts for its derivative financial instruments in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 137 and SFAS No. 138. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measures those instruments at fair value. The interest rate swap agreements were originally designated as cash flow hedges for purposes of SFAS No. 133. Based on regression analysis, the Company had determined that its interest rate swap agreements were highly effective. As a result of the July 7, 2003 repayment of the Company's prior credit facility, the two interest rate swap agreements have been accounted for as speculative instruments and resulting changes in their fair market value have been charged or credited to interest expense, net in the consolidated statements of operations. As of January 4, 2004 and January 2, 2005, in accordance with SFAS No. 133, liabilities were approximately \$723,000 and \$77,000, respectively. As of October 2, 2005 in accordance with SFAS No. 133, the receivable was approximately \$25,000. The change in the fair market value has been recognized in interest expense, net in the consolidated statements of operations.

- (b) Concurrently with the closing of the original notes offering (see Note 7), the Company entered into a \$15,000,000 senior secured working capital facility with Wells Fargo Foothill, Inc. As of January 4, 2004, January 2, 2005 and October 2, 2005 there were no outstanding borrowings under the Company's working capital facility and \$1,000,000, \$1,000,000 and \$275,000, respectively was restricted for letters of credit. Interest will accrue on borrowings under the Company's working capital facility at a floating rate of prime plus 1.75%, or a LIBOR based equivalent. The Company's working capital facility matures on July 7, 2007. At January 2, 2005 and October 2, 2005, the Company was in compliance with its debt covenants relating to its working capital facility.
- (c) In March 1997, the Company entered into a \$2,500,000 loan agreement with CNL Financial I, Inc. (CNL). This loan was scheduled to mature on April 1, 2007 and bore interest at 10.002% per annum. This loan is secured by a security interest in the assets of the Morton's steakhouses located in Chicago (State Street) and Denver (downtown). Principal and interest payments are due monthly over the term of the loan. The Company repaid this loan in February 2005.
- (d) Mortgage loans relate to loan commitments entered into during 1999 and 1998 by various subsidiaries of the Company and GE Capital Franchise Finance, to fund the purchases of land and construction of restaurants. The Company repaid one mortgage in May 2003. The Company also repaid one mortgage in September 2003 and two mortgages in April 2004 with a portion of the proceeds from the 7.5% senior secured notes offering (see Note 7). The remaining two mortgages outstanding as of January 2, 2005 are scheduled to mature in February 2020 and March 2021. The interest rates for the two remaining mortgages are 8.98% and 9.26% per annum. In February 2005, the mortgage with interest of 9.26% which was scheduled to mature in February 2020 was repaid.

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## MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (10) Income Taxes

(Loss) income before income taxes for the Company's domestic and foreign operations are as follows (amounts in thousands):

	Predecessor	Successor Period		
	Period	July 25, 2002 - Dec. 29, 2002	Fiscal 2003	Fiscal 2004
	Dec. 31, 2001- July 24, 2002			
	Restated	Restated		
Domestic operations	\$ (3,930)	\$ 1,321	\$ 4,633	\$ 2,716
Foreign operations	(80)	200	831	1,414
Total	\$ (4,010)	\$ 1,521	\$ 5,464	\$ 4,130

Income tax expense is comprised of the following (amounts in thousands):

		Predecessor	Successor Period		
		Period	July 25, 2002 - Dec. 29, 2002	Fiscal 2003	Fiscal 2004
		Dec. 31, 2001- July 24, 2002			
		Restated	Restated		
Federal:	Current	\$ (1,620)	\$ 49	\$ 451	
	Deferred	2,575	474	288	3,576
		955	474	337	4,027
Foreign:	Current	39	112	308	475
	Deferred	(23)	(60)	(145)	(217)
		16	52	163	258
State and Local:	Current	153	79	293	563
	Deferred	(306)	37	431	20

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	(153)	116	724	583
Income tax expense	\$ 818	\$ 642	\$ 1,224	\$ 4,868

Income tax expense differed from the amounts computed by applying the U.S. federal income tax rates to income before income taxes as a result of the following (amounts in thousands):

	Predecessor Period	Successor Period		
	Dec. 31, 2001- July 24, 2002	July 25, 2002 - Dec. 29, 2002	Fiscal 2003	Fiscal 2004
Computed expected tax (benefit) expense	Restated \$ (1,363)	Restated \$ 517	\$ 1,857	\$ 1,404
Increase (reduction) in income taxes resulting from:				
State and local income taxes, net of federal income tax benefit	(107)	72	534	385
Foreign rate differential	2	(4)		223
FICA tax credits	1,470	(11)	(1,680)	1,591
Change in valuation allowance	270		47	80
Non-deductible interest			260	906
Non-deductible strategic costs	640			
Other, net	(94)	68	206	279
	\$ 818	\$ 642	\$ 1,224	\$ 4,868

**Table of Contents****MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at the end of fiscal 2003 and fiscal 2004 are presented below (amounts in thousands):

	Successor Period	
	January 4, 2004	January 2, 2005
Deferred tax assets:		
Federal and state net operating loss carryforwards	\$ 5,659	\$ 6,082
Capital loss carryforwards	2,705	2,321
Deferred revenue on gift certificates	4,181	2,057
Accrued timing differences	1,174	1,245
Bond discount		997
Foreign taxes payable	261	84
Property and equipment depreciation	1,925	1,448
Deferred rent and start-up amortization	1,071	1,539
FICA and other tax credits	11,967	10,455
	<u>28,943</u>	<u>26,228</u>
Total gross deferred tax assets		
Less valuation allowance	(6,110)	(5,807)
	<u>22,833</u>	<u>20,421</u>
Net deferred tax assets		
Deferred tax liabilities:		
Intangible asset	36,165	36,230
Smallwares	63	965
	<u>36,228</u>	<u>37,195</u>
Total gross deferred tax liabilities		
Net deferred tax liabilities	<u>\$ (13,395)</u>	<u>\$ (16,774)</u>

During fiscal 2004, the Company determined it would elect to treat certain of its employee-portion FICA tax payments as current income tax deductions rather than income tax credits. Such election was made in order to minimize cash paid for income taxes in the short-term. The impact of this change resulted in recording additional tax expense of approximately \$1,658,000 to the Company's income tax expense for fiscal 2004.

At January 2, 2005, the Company had federal and various state income tax net operating loss carryforwards, capital loss carryforwards, and FICA and other tax credits expiring in various periods through 2022, 2006 and 2024, respectively. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible and net operating losses can be carried forward. Management considers the scheduled reversal of deferred tax assets,

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projected future taxable income and tax planning strategies in making this assessment. Sections 382 and 383 of the Internal Revenue Code limit the amount of federal net operating losses, capital loss carryovers and FICA credits, generated prior to the Effective Date that may be used in future periods. Generally, the utilization of these attributes will be limited on an annual basis to the value of the acquired business, at the date of ownership change, multiplied by the federal long-term tax-exempt rate at the date of the transaction. In order to fully realize the net deferred tax assets, the Company will need to generate future taxable income of approximately \$51,856,000. Taxable income (loss), before the application of net operating loss carryforwards and FICA and other tax credits, for the fiscal year ended January 2, 2005 is estimated to be approximately \$8,849,000. The Company assesses the recoverability of its net deferred tax asset based upon the level of historical income and projections of future taxable income. Deferred tax assets arising from capital losses have been fully reserved. Tax benefits that are

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**Table of Contents****MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

recognized in future periods by the elimination of the valuation allowance at the acquisition date \$(6,852,000) are to be applied, first to reduce to zero any goodwill related to the acquisition, and then to reduce to zero any noncurrent intangible assets related to the acquisition. The amount of the deferred tax asset considered realizable could be reduced in the near term if estimates of future taxable income during the carryforward periods are reduced.

Goodwill has been adjusted for tax benefits of \$2,716,000 and \$389,000 during fiscal 2003 and fiscal 2004, respectively, that have been recorded with regard to changes in the valuation allowance and changes in estimates of income tax uncertainties that resulted from the purchase business combination at July 25, 2002. State net operating losses which were subject to valuation allowances have also been adjusted downward to reflect the proper balances at year end. The reduction in the deferred tax asset related to these state net operating losses did not impact the tax expense on continuing operations or goodwill because there has been an equal reduction in the valuation allowance related to these state net operating losses.

General Business Credits of \$10,455,000 have been recorded as deferred tax assets by the Company. Included in these credits are credits aggregating \$9,978,000 that are for a portion of the employer paid social security taxes on employee cash tips, the remainder of the credits are for Empowerment Zone and other credits. All of these credits are available to offset federal income tax in future years. These credits must generally be utilized after all federal net operating loss carryovers are utilized. For credits generated in tax years beginning before 1998 the carryforward period is 15 years. For credits generated in tax years beginning after 1998 the carryforward period is 20 years.

The credits will expire if unused as follows (amounts in thousands):

<u>Year Generated</u>	<u>Amount of Credit</u>	<u>Year of Potential Expiration</u>
1994	\$ 679	2009
1995	953	2010
1996	1,290	2011
1997	1,348	2012
1998	1,498	2018
1999	1,996	2019
2000	2,444	2020
2001	35	2021
2002	83	2022
2003	25	2023
2004	104	2024

The Company operates in various foreign jurisdictions including, Canada, Singapore and Hong Kong and operated in Australia through January 6, 2002. The foreign subsidiaries, with the exception of the Canadian operations, all operate as single member limited liability companies treated as disregarded for U.S. federal income tax purposes, and as incorporated entities in their jurisdiction of operation. Therefore, the taxable income or loss of these foreign subsidiaries is recognized on the Company's U.S. federal income tax return, and any foreign taxes paid are available as

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foreign tax credits subject to certain limitations, or as deductions against taxable income in the U.S. The Canadian subsidiaries operate as corporations for Canadian tax purposes and their income or loss is not reflected in the U.S. federal income tax return of the Company's U.S. deferred taxes on undistributed earnings of \$1,183,000 of the Canadian operations have not been recognized under the indefinite reversal criterion in Accounting Principles Board ( APB ) Opinion No. 23 because they are considered permanent in nature.

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**MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(11) Capital Stock**

At January 4, 2004, January 2, 2005 and October 2, 2005, the authorized capital of the Company consisted of 1,000 shares of common stock at \$0.01 par value per share. Such shares had been issued to MHLLC upon the acquisition of MRG on July 25, 2002. On June 4, 2004, MHLLC contributed its 1,000 shares of common stock of MRG to MHCI, a newly formed wholly-owned subsidiary of MHLLC, in exchange for 1,000 shares of common stock of MHCI, constituting 100% of the authorized common stock of MHCI.

On June 3, 2004, the Company paid a dividend of \$6,789,000 to MHLLC.

The Company used the proceeds of its notes offering (see Note 8) to make a distribution to MHLLC's equity holders of \$36,900,000 and to pay fees and expenses related to the issuance.

**(12) Operating Leases**

The Company's operations are generally conducted in leased premises. Including renewal options, remaining lease terms range from 2 to 38 years.

In connection with entering into leases, the Company is frequently provided with development allowances from the lessors. These allowances for leasehold improvements, furniture, fixtures and equipment are included in the related fixed asset accounts and the total amount is amortized on a straight-line basis over the shorter of the lease term or estimated useful lives of the assets. As of January 2, 2005 and October 2, 2005 approximately \$235,000 and \$643,000, respectively, of development allowances were due from lessors and are included in Prepaid expenses and other current assets in the accompanying consolidated balance sheets. There were no development allowances due from lessors at January 4, 2004. See Note 2(s).

The Company leases certain office and restaurant facilities and related equipment under noncancelable operating lease agreements with third parties. Included in obligations for restaurant operating leases are certain restaurant operating leases for which the Company or another subsidiary of the Company guarantees the performance of the restaurant operating lease for such subsidiary for a portion of the lease term, typically not exceeding the first five years. Certain leases require contingent rental provisions based upon a percent of gross revenues and or provide for rent deferral during the initial term of such leases. Included in Other liabilities in the accompanying consolidated balance sheet at January 4, 2004, January 2, 2005 and October 2, 2005 are accruals related to such rent deferrals and landlord allowances of approximately \$3,276,000, \$7,588,000 and \$12,516,000, respectively. For financial reporting purposes, such leases are accounted for on a straight-line rental basis. The Company recorded non-cash rent in accordance with SFAS No. 13 of \$(1,363,000), \$782,000, \$1,338,000, \$1,440,000, \$1,163,000 and \$683,000 for the fiscal 2002 Predecessor Period, the fiscal 2002 Successor Period, fiscal 2003, fiscal 2004 and the nine month periods ended October 3, 2004 and October 2, 2005, respectively, which is included in Restaurant operating expenses in the accompanying consolidated statements of operations.





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Future minimum annual rental commitments under the Company's operating leases are approximately as follows (amounts in thousands):

Fiscal 2005	\$ 18,484
Fiscal 2006	18,840
Fiscal 2007	18,665
Fiscal 2008	18,252
Fiscal 2009	17,629
Fiscal 2010 and thereafter	104,224
	<hr/>
<b>Total minimum lease payments</b>	<b>\$ 196,094</b>

Contingent rental payments on building leases are typically made based upon the percentage of gross revenues on the individual restaurants that exceed predetermined levels. The percentages of gross revenues to be paid, and the related gross revenues, vary by restaurant. Contingent rental expense was approximately \$902,000, \$688,000, \$1,838,000, \$2,409,000, \$1,686,000 and \$1,785,000 for the fiscal 2002 Predecessor Period, the fiscal 2002 Successor Period, fiscal 2003, fiscal 2004 and the nine month periods ended October 3, 2004 and October 2, 2005, respectively. Rental expense, inclusive of contingent rent, for all such leases was approximately \$8,267,000, \$8,329,000, \$19,121,000, \$19,710,000, \$14,935,000 and \$15,685,000 for the fiscal 2002 Predecessor Period, the fiscal 2002 Successor Period, fiscal 2003, fiscal 2004 and the nine month periods ended October 3, 2004 and October 2, 2005, respectively.

**(13) Employee Subscription Agreements**

Certain of the Company's executives and other employees have been granted common units of MHLLC, which represent an ownership interest in MHLLC, pursuant to employee subscription agreements. MHLLC's Board approved 1,711,344 common units available for grant of which 1,497,585, 26,200, 2,400, 20,800, 1,600 and 150,000 were granted on August 26, 2003, June 21, 2004, October 28, 2004, January 25, 2005, May 24, 2005 and July 26, 2005, respectively. On August 26, 2003, June 21, 2004, October 28, 2004, January 25, 2005, May 24, 2005 and July 26, 2005 the fair value of each common unit granted was \$0.01. Common units granted to an employee pursuant to employee subscription agreements are granted at no cost to the employee. These common units are subject to vesting. Fifty percent of the granted common units vest upon certain dates if the employee is employed as of such date as follows:

For selected employees employed as of July 25, 2002 in qualified positions (as determined by MHLLC's board of advisors), the dates and vesting percentages for the common units based on time-vesting will be as follows:

<u>Date</u>	<u>Percentage</u>
July 25, 2005	40%
July 25, 2006	70%

July 25, 2007

100%

For selected employees not employed as of July 25, 2002 in qualified positions, the dates and vesting percentages for the common units based on time-vesting will be as follows:

<u>Date</u>	<u>Percentage</u>
Third anniversary of date of grant	40%
Fourth anniversary of date of grant	70%
Fifth anniversary of date of grant	100%

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In addition, fifty percent of the common units vest upon certain change of control or liquidation events if, upon the occurrence of such an event, Castle Harlan Partners III, L.P. achieves an internal rate of return of at least 30% and the employee is employed as of such date. Upon termination of employment, unvested common units will be forfeited and vested common units will be subject to repurchase pursuant to the terms of MHLLC's operating agreement. Stock-based employee compensation expense related to this plan will be charged to the Company based on the recognition and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Accordingly, the Company recognized compensation expense of approximately \$2,000 and \$2,000 relating to the vesting of common units granted in the consolidated statements of operations for fiscal 2003 and fiscal 2004, respectively. This compensation expense represents the straight-line amortization of the difference between the fair value at the date of grant of \$0.01 per common unit and the exercise price (which is zero) of the common units of the outstanding time-vesting common units for the respective period. The compensation expense recorded during fiscal 2003 also includes the difference between the fair value at the date of grant and the exercise price of the common units that were immediately vested on the date of grant of August 26, 2003. The remaining compensation expense that was measured at the date of grant will be amortized on a straight-line basis over the remaining vesting period. Compensation expense relating to the other 50% of common units granted, which vest upon certain change of control or liquidation events if, upon the occurrence of such an event, Castle Harlan Partners III, L.P. achieves an internal rate of return of at least 30%, will be measured and recognized if and when these events occur.

Activity relating to the common units granted pursuant to employee subscription agreements is as follows:

	Unvested Common Units	Vested Common Units	Total Common Units
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Common units outstanding as of December 30, 2002			
Granted units	1,497,585		1,497,585
Vested units			
Forfeited units	(15,200)		(15,200)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Common units outstanding as of January 4, 2004	1,482,385		1,482,385
Granted units	28,600		28,600
Vested units			
Forfeited units	(17,600)		(17,600)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Common units outstanding as of January 2, 2005 (unaudited)	1,493,385		1,493,385
Granted units	172,400		172,400
Vested units	(255,850)	255,850	
Forfeited units	(175,254)		(175,254)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Common units outstanding as of October 2, 2005 (unaudited)	1,234,681	255,850	1,490,531
	<u>                    </u>	<u>                    </u>	<u>                    </u>

As of January 2, 2005 and October 2, 2005, there were 217,959 and 220,813, respectively, common units available for grant.



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**MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation as originally provided by SFAS No. 123, Accounting for Stock-Based Compensation. Additionally, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosure in both the annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results. The transitional requirements of SFAS No. 148 are effective for all financial statements for fiscal years ending after December 15, 2002. Due to the fact that the compensation expense on the unvested common units is based on the fair value of the common units of MHLIC at the date of grant, there is no difference between reported net income and the pro forma net income that would be recognized under SFAS No. 123.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment. This statement replaces SFAS No. 123, Accounting for Stock-Based Compensation and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS No. 123(R) requires all stock-based employee compensation to be recorded as an expense in the consolidated statement of operations and that such cost be measured according to the fair value of stock options. SFAS No. 123(R) will be effective the first annual reporting period that begins after June 15, 2005. As the Company already charges stock-based employee compensation expense related to units issued pursuant to employee subscription agreements based on the fair value of such units, the adoption of this statement will not have a material effect on the Company's consolidated financial statements.

**(14) Employment Agreements**

The Company has entered into employment agreements with its Chief Executive Officer and its Executive Vice President. The agreements, as amended, are terminable by MRG with certain restrictions. The aggregate annual 2004 base salary under these employment agreements is approximately \$1,009,000. These agreements provide for their annual base salaries to be increased each year to reflect the rate of increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers.

**(15) Employee Benefit Plans**

Employees of the Company who are over the age of 21 and who have completed one year of service are eligible for voluntary participation in the Morton's of Chicago Inc. Profit Sharing and Cash Accumulation Plan. Employer contributions to the plan are made at the discretion of the Board of Directors. Employer contributions paid in the fiscal 2002 Predecessor Period, fiscal 2003, fiscal 2004, and the nine month periods ended October 3, 2004 and October 2, 2005 were approximately \$122,000, \$437,000, \$602,000, \$459,000 and \$500,000, respectively. There were no employer contributions paid during the fiscal 2002 Successor Period.

**(16) Legal Matters and Contingencies**

Since August 2002, a number of the Company's current and former employees in New York, Massachusetts and Florida have initiated arbitrations with the American Arbitration Association in their respective states alleging that the Company has violated state (Massachusetts arbitration), state and federal (New York arbitrations) and federal (Florida arbitrations) wage and hour laws regarding the sharing of tips with

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other employees and failure to pay for all hours worked. There are two group arbitrations pending in Florida. One is proceeding in Palm Beach as a collective action with approximately 21 claimants. The second is proceeding in Miami as a consolidated action with approximately six claimants. In addition, there are two

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**MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

individual demands for arbitration pending in Florida that may ultimately be joined to the Miami arbitration. The arbitrator in the New York arbitrations has permitted the approximately 88 claimants to consolidate their arbitrations into one action and proceed as a collective action, and a decision with respect to this proceeding is expected in the near future. The Massachusetts arbitrator has ruled that the claimants may proceed as a class, but to date there are three people in the class and the arbitrator recently ruled that there would be no automatic certification. In general, the complainants are seeking restitution of tips, the difference between the tip credit wage and the minimum wage, payment for hours worked off the clock (in the Miami arbitration and in the individual Florida arbitrations only), liquidated damages and attorneys' fees and costs. The Company is contesting these matters vigorously.

In November 2004, current and former employees of the Sacramento, California Morton's steakhouse commenced a federal lawsuit asserting individual, representative and class claims against the Sacramento Morton's steakhouse and several other Morton's steakhouses. The plaintiffs asserted claims based on the Company's alleged failure to provide them with meal and rest periods, and for unlawful tip sharing and unfair competition. The plaintiffs seek restitution of tips, meal and break period compensation and attorneys' fees. Dismissals with prejudice for all defendants, except the Sacramento Morton's steakhouse, were granted. The claims against the Sacramento Morton's steakhouse have been moved to arbitration.

In May 2005, a former employee of the Boston, Massachusetts Morton's steakhouse filed a nationwide class action complaint in federal court in Massachusetts alleging that the sharing of tips with other restaurant employees violates the Fair Labor Standards Act. The Company moved to dismiss the complaint and compel arbitration. While the motion was pending, the plaintiff filed a nationwide collective action demand for arbitration with the American Arbitration Association. The demand for arbitration alleges the same facts as the lawsuit filed in federal court. The Company's motion to dismiss was granted and the matter is moving forward as an arbitration. There is currently one named claimant.

The Company has not established any accruals for judgments, and insurance is not available to cover any liabilities, with respect to these wage and hour matters. The Company is involved in various other claims and legal actions arising in the ordinary course of business. The Company does not believe, based on its current knowledge of these matters, that the ultimate resolution of these actions will have a material adverse effect on the Company's financial condition.

**(17) Related Party Transactions**

On July 25, 2002, MHLLC entered into a management agreement with Castle Harlan, Inc. (the majority unit-holder of MHLLC), which was amended as of July 7, 2003. Pursuant to the management agreement, Castle Harlan, Inc. agreed to provide business and organizational strategy, financial and investment management, advisory and merchant and investment banking services in exchange for fees of \$2,800,000 per year, which fees may be increased to an amount not exceeding \$3,500,000 in any year, plus out of pocket expenses. These fees and expenses are paid by the Company and may be paid to the extent permitted by the indenture governing the 7.5% senior secured notes. In October 2002, MHLLC, Castle Harlan, Inc. and Laurel Crown Capital, LLC: Series One LC/Morton's (a significant unit-holder of MHLLC) (Laurel Crown) entered into a letter agreement, pursuant to which Castle Harlan, Inc. agreed to provide a portion of the annual fee to Laurel Crown in exchange for Laurel Crown's assistance in providing the services to MHLLC under the management agreement. At January 4, 2004, January 2, 2005 and October 2, 2005 included in Prepaid expenses and other current assets in the accompanying consolidated balance sheets is approximately \$157,000, \$157,000 and \$157,000, respectively, representing a prepayment of this management fee.





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**MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(18) Subsequent Event (unaudited)**

Subsequent to October 2, 2005, the Company announced that Allen J. Bernstein, our Chairman, Chief Executive Officer and President will retire effective by December 31, 2005. The Company also announced that Thomas J. Baldwin, currently our Executive Vice President, Chief Financial Officer, Secretary and Treasurer will replace Mr. Bernstein. On the effective date of Mr. Bernstein's departure, Mr. Baldwin will become Chairman, Chief Executive Officer and President. At the same time, Ronald M. DiNella, currently Senior Vice President, Finance for Morton's of Chicago, Inc., one of the Company's subsidiaries, will become Senior Vice President, Chief Financial Officer, Secretary and Treasurer. The Company is currently negotiating a separation agreement with Mr. Bernstein. Upon completion of the agreement, the Company expects to incur a charge with respect to separation payments to Mr. Bernstein.

**(19) Supplemental Condensed Consolidating Financial Information**

The obligations of Morton's Restaurant Group, Inc. (the Issuer) related to the 7.5% senior secured notes are fully and unconditionally guaranteed on a joint and several basis and on a senior basis by certain of the Company's wholly-owned domestic subsidiaries (the Guarantors). These guarantees are senior secured obligations of the Guarantors, subject to liens permitted under the indenture governing the 7.5% senior secured notes, rank senior in right of payment to all subordinated indebtedness of the Guarantors and rank pari passu in right of payment with all existing and future senior indebtedness of the Guarantors. There are no restrictions on the Company's ability to obtain cash dividends or other distributions of funds from the Guarantors, except those imposed by applicable law and certain contractual restrictions, which do not exceed 25% of consolidated net assets of any Guarantor, that are permitted under the indenture governing the 7.5% senior secured notes. The following supplemental financial information sets forth, on a condensed consolidating basis, balance sheets, statements of operations and statements of cash flows for the Issuer, domestic subsidiaries of the Company that are Guarantors and foreign subsidiaries and domestic subsidiaries of the Company that are not Guarantors (collectively, the Non-Guarantor Subsidiaries). The Company has not presented separate financial statements and other disclosures concerning the Guarantor Subsidiaries because management has determined that such information is not material to investors.

**Table of Contents****MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Supplemental Consolidating Balance Sheet****January 4, 2004 (Successor Period)****(Amounts in thousands)**

	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 17,911	\$ (614)	\$ 700	\$	\$ 17,997
Restricted cash	1,100				1,100
Accounts receivable	2	3,665	162		3,829
Inventories		8,511	583		9,094
Prepaid expenses and other current assets	382	4,649	38		5,069
Deferred income taxes	1,875	5,201			7,076
<b>Total current assets</b>	<b>21,270</b>	<b>21,412</b>	<b>1,483</b>		<b>44,165</b>
Property and equipment, net	91	54,151	1,482		55,724
Intangible asset		92,000			92,000
Goodwill		61,552			61,552
Other assets and deferred expenses, net	8,899	3,251	249	(2,520)	9,879
Amounts due from affiliates	150,482	14,325	4,710	(169,517)	
	<b>\$ 180,742</b>	<b>\$ 246,691</b>	<b>\$ 7,924</b>	<b>\$ (172,037)</b>	<b>\$ 263,320</b>

**Table of Contents****MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Supplemental Consolidating Balance Sheet****January 4, 2004 (Successor Period)****(Amounts in thousands, except share and per share amounts)**

	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Liabilities and Stockholder s Equity</b>					
Current liabilities:					
Accounts payable and accrued expenses	\$ 6,090	\$ 26,704	\$ 1,272	\$	\$ 34,066
Current portion of obligations to financial institutions		658			658
Accrued income taxes	10,661	(11,774)	1,409		296
Amounts due from affiliates		165,206	4,311	(169,517)	
<b>Total current liabilities</b>	<b>16,751</b>	<b>180,794</b>	<b>6,992</b>	<b>(169,517)</b>	<b>35,020</b>
7.5% senior secured notes, net of unamortized discount of \$14,987	90,013				90,013
Obligations to financial institutions, less current maturities		12,274			12,274
Deferred income taxes	(3,860)	24,331			20,471
Other liabilities	(56)	3,207	69		3,220
<b>Total liabilities</b>	<b>102,848</b>	<b>220,606</b>	<b>7,061</b>	<b>(169,517)</b>	<b>160,998</b>
<b>Commitments and contingencies</b>					
Stockholder s equity:					
Common stock, \$0.01 par value per share. Authorized, issued and outstanding 1,000 shares					
Additional paid-in capital	97,075	2,520		(2,520)	97,075
Accumulated other comprehensive income (loss)		296	(168)		128
(Accumulated deficit) retained earnings	(19,181)	23,269	1,031		5,119
<b>Total stockholder s equity</b>	<b>77,894</b>	<b>26,085</b>	<b>863</b>	<b>(2,520)</b>	<b>102,322</b>
	<b>\$ 180,742</b>	<b>\$ 246,691</b>	<b>\$ 7,924</b>	<b>\$ (172,037)</b>	<b>\$ 263,320</b>



**Table of Contents****MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Supplemental Consolidating Balance Sheet****January 2, 2005 (Successor Period)****(Amounts in thousands)**

	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 9,523	\$ 535	\$ 630	\$	\$ 10,688
Restricted cash	548				548
Marketable securities	4,112				4,112
Accounts receivable	1	4,172	173		4,346
Inventories		8,717	585		9,302
Prepaid expenses and other current assets	677	5,866	57		6,600
Deferred income taxes	(993)	6,228			5,235
<b>Total current assets</b>	<b>13,868</b>	<b>25,518</b>	<b>1,445</b>		<b>40,831</b>
Property and equipment, net	147	60,227	1,113		61,487
Intangible asset		92,000			92,000
Goodwill		61,789			61,789
Other assets and deferred expenses, net	10,136	3,297	285	(2,520)	11,198
Amounts due from affiliates	119,894		179	(120,073)	
	<b>\$ 144,045</b>	<b>\$ 242,831</b>	<b>\$ 3,022</b>	<b>\$ (122,593)</b>	<b>\$ 267,305</b>

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**Table of Contents****MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Supplemental Consolidating Balance Sheet****January 2, 2005 (Successor Period)****(Amounts in thousands, except share and per share amounts)**

	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Liabilities and Stockholder s Equity</b>					
Current liabilities:					
Accounts payable and accrued expenses	\$ 4,348	\$ 31,698	\$ 1,246	\$	\$ 37,292
Current portion of obligations to financial institutions		521			521
Current portion of 14.0% senior secured notes	1,397				1,397
Accrued income taxes	(3,852)	4,827	(598)		377
Amounts due from affiliates		120,073		(120,073)	
<b>Total current liabilities</b>	<b>1,893</b>	<b>157,119</b>	<b>648</b>	<b>(120,073)</b>	<b>39,587</b>
7.5% senior secured notes, net of unamortized discount of \$13,283	91,717				91,717
14.0% senior secured notes, less current maturities	41,852				41,852
Obligations to financial institutions, less current maturities		6,636			6,636
Deferred income taxes	(995)	23,004			22,009
Other liabilities	(42)	7,493	95		7,546
<b>Total liabilities</b>	<b>134,425</b>	<b>194,252</b>	<b>743</b>	<b>(120,073)</b>	<b>209,347</b>
Commitments and contingencies					
Stockholder s equity:					
Common stock, \$0.01 par value per share. Authorized, issued and outstanding 1,000 shares					
Additional paid-in capital	60,953	2,520		(2,520)	60,953
Accumulated other comprehensive income (loss)		355	(166)		189
(Accumulated deficit) retained earnings	(51,333)	45,704	2,445		(3,184)
<b>Total stockholder s equity</b>	<b>9,620</b>	<b>48,579</b>	<b>2,279</b>	<b>(2,520)</b>	<b>57,958</b>
	<b>\$ 144,045</b>	<b>\$ 242,831</b>	<b>\$ 3,022</b>	<b>\$ (122,593)</b>	<b>\$ 267,305</b>

**Table of Contents****MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Supplemental Consolidating Balance Sheet****October 2, 2005 (Successor Period)****(unaudited)****(amounts in thousands)**

	<b>Issuer</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 1,764	\$ 3,779	\$ 344	\$	\$ 5,887
Restricted cash	417				417
Marketable securities	8,176				8,176
Accounts receivable		5,132	289		5,421
Inventories		8,425	566		8,991
Prepaid expenses and other current assets	626	6,750	28		7,404
Deferred income taxes	2,248	1,906			4,154
<b>Total current assets</b>	<b>13,231</b>	<b>25,992</b>	<b>1,227</b>		<b>40,450</b>
Property and equipment, net	137	64,416	817		65,370
Intangible asset		92,000			92,000
Goodwill		61,528			61,528
Other assets and deferred expenses, net	9,007	3,564	301	(2,520)	10,352
Amounts due from affiliates	103,186		1,808	(104,994)	
	<b>\$ 125,561</b>	<b>\$ 247,500</b>	<b>\$ 4,153</b>	<b>\$ (107,514)</b>	<b>\$ 269,700</b>

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**Table of Contents****MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Supplemental Consolidating Balance Sheet****October 2, 2005 (Successor Period)****(unaudited)****(amounts in thousands, except share and per share amounts)**

	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Liabilities and Stockholder s Equity</b>					
Current liabilities:					
Accounts payable and accrued expenses	\$ 7,238	\$ 31,744	\$ 953	\$	\$ 39,935
Current portion of obligations to financial institution		111			111
Current portion of 14.0% senior secured notes	4,299				4,299
Accrued income taxes	(8,416)	9,789	(879)		494
Amounts due to affiliates		104,994		(104,994)	
<b>Total current liabilities</b>	<b>3,121</b>	<b>146,638</b>	<b>74</b>	<b>(104,994)</b>	<b>44,839</b>
7.5% senior secured notes, net of unamortized discount of \$11,878	93,122				93,122
14.0% senior secured notes, less current maturities	40,000				40,000
Obligations to financial institution, less current maturities		3,497			3,497
Deferred income taxes	(3,726)	21,910			18,184
Other liabilities	(27)	12,399	117		12,489
<b>Total liabilities</b>	<b>132,490</b>	<b>184,444</b>	<b>191</b>	<b>(104,994)</b>	<b>212,131</b>
Commitments and contingencies					
Stockholder s equity:					
Common stock, \$0.01 par value per share. Authorized, issued and outstanding 1,000 shares					
Additional paid-in capital	60,953	2,520		(2,520)	60,953
Accumulated other comprehensive income (loss)		425	(220)		205
(Accumulated deficit) retained earnings	(67,882)	60,111	4,182		(3,589)
<b>Total stockholder s equity</b>	<b>(6,929)</b>	<b>63,056</b>	<b>3,962</b>	<b>(2,520)</b>	<b>57,569</b>
	<b>\$ 125,561</b>	<b>\$ 247,500</b>	<b>\$ 4,153</b>	<b>\$ (107,514)</b>	<b>\$ 269,700</b>



**Table of Contents****MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Supplemental Consolidating Statement of Operations****December 31, 2001 to July 24, 2002 (Predecessor Period)****Restated****(Amounts in thousands)**

	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Revenues	\$ 7,969	\$ 124,896	\$ 7,537	\$ (7,969)	\$ 132,433
Food and beverage costs		43,037	2,529		45,566
Restaurant operating expenses		55,593	4,518		60,111
Pre-opening costs		703			703
Depreciation and amortization	117	6,125	351		6,593
General and administrative expenses	8,483	7,969		(7,969)	8,483
Marketing and promotional expenses		2,817	188		3,005
Operating (loss) income	(631)	8,652	(49)		7,972
(Gain) loss on insurance proceeds		(1,443)			(1,443)
Costs associated with strategic alternatives and proxy contest	9,078				9,078
Restaurant closing (credit) costs		(300)			(300)
Interest expense, net	3,042	1,574	31		4,647
(Loss) income before income taxes	(12,751)	8,821	(80)		(4,010)
Income tax expense	818				818
Net (loss) income	\$ (13,569)	\$ 8,821	\$ (80)	\$	\$ (4,828)

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**Table of Contents****MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Supplemental Consolidating Statement of Operations****July 25, 2002 to December 29, 2002 (Successor Period)****Restated****(Amounts in thousands)**

	<b>Guarantor</b>		<b>Non-Guarantor</b>		<b>Consolidated</b>
	<b>Issuer</b>	<b>Subsidiaries</b>	<b>Subsidiaries</b>	<b>Eliminations</b>	
Revenues	\$ 6,327	\$ 100,266	\$ 5,438	\$ (6,327)	\$ 105,704
Food and beverage costs		34,015	1,782		35,797
Restaurant operating expenses		48,047	3,087		51,134
Pre-opening costs		1,254			1,254
Depreciation and amortization	101	1,626	186		1,913
General and administrative expenses	6,369	6,327		(6,327)	6,369
Marketing and promotional expenses		3,438	159		3,597
Operating (loss) income	(143)	5,559	224		5,640
Interest expense, net	2,236	616	24		2,876
Management fee paid to related party	1,243				1,243
(Loss) income before income taxes	(3,622)	4,943	200		1,521
Income tax expense	642				642
Net (loss) income	\$ (4,264)	\$ 4,943	\$ 200	\$	\$ 879

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**Table of Contents****MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Supplemental Consolidating Statement of Operations****Fiscal Year Ended January 4, 2004 (Successor Period)****(Amounts in thousands)**

	<b>Issuer</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues	\$ 15,483	\$ 247,441	\$ 11,227	\$ (15,483)	\$ 258,668
Food and beverage costs		82,497	3,768		86,265
Restaurant operating expenses		118,124	5,927		124,051
Pre-opening costs		904			904
Depreciation and amortization	64	4,893	403		5,360
General and administrative expenses	16,680	15,483		(15,483)	16,680
Marketing and promotional expenses		5,661	272		5,933
Operating (loss) income	(1,261)	19,879	857		19,475
Costs associated with the repayment of certain debt	2,349				2,349
Interest expense, net	7,283	1,553	26		8,862
Management fee paid to related party	2,800				2,800
(Loss) income before income taxes	(13,693)	18,326	831		5,464
Income tax expense	1,224				1,224
Net (loss) income	\$ (14,917)	\$ 18,326	\$ 831	\$	\$ 4,240

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**Table of Contents****MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Supplemental Consolidating Statement of Operations****Fiscal Year Ended January 2, 2005 (Successor Period)****(Amounts in thousands)**

	<b>Issuer</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues	\$ 16,546	\$ 263,495	\$ 12,839	\$ (16,546)	\$ 276,334
Food and beverage costs		88,966	4,256		93,222
Restaurant operating expenses		120,635	6,365		127,000
Pre-opening costs		1,059			1,059
Depreciation and amortization	12	5,875	548		6,435
General and administrative expenses	18,949	16,546		(16,546)	18,949
Marketing and promotional expenses		8,216	256		8,472
Operating (loss) income	(2,415)	22,198	1,414		21,197
(Gain) loss on insurance proceeds		(986)			(986)
Costs associated with the repayment of certain debt	264				264
Interest expense, net	14,240	749			14,989
Management fee paid to related party	2,800				2,800
(Loss) income before income taxes	(19,719)	22,435	1,414		4,130
Income tax expense	4,868				4,868
Net (loss) income	\$ (24,587)	\$ 22,435	\$ 1,414	\$	\$ (738)

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**Table of Contents****MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Supplemental Consolidating Statement of Operations****Nine month period ended October 3, 2004 (Successor Period)****(unaudited)****(amounts in thousands)**

	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Revenues	\$ 11,958	\$ 190,286	\$ 9,396	\$ (11,958)	\$ 199,682
Food and beverage costs		64,430	3,136		67,566
Restaurant operating expenses		90,680	4,777		95,457
Pre-opening costs		553			553
Depreciation and amortization	9	4,385	372		4,766
General and administrative expenses	14,011	11,958		(11,958)	14,011
Marketing and promotional expenses		6,729	273		7,002
Operating (loss) income	(2,062)	11,551	838		10,327
Costs associated with the repayment of certain debt	264				264
Interest expense, net	10,089	582			10,671
Management fee paid to related party	2,100				2,100
(Loss) income before income taxes	(14,515)	10,969	838		(2,708)
Income tax expense	86				86
Net (loss) income	\$ (14,601)	\$ 10,969	\$ 838	\$	\$ (2,794)

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**Table of Contents****MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Supplemental Consolidating Statement of Operations****Nine month period ended October 2, 2005 (Successor Period)****(unaudited)****(amounts in thousands)**

	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Revenues	\$ 12,980	\$ 206,285	\$ 10,837	\$ (12,980)	\$ 217,122
Food and beverage costs		68,785	3,543		72,328
Restaurant operating expenses		99,060	5,049		104,109
Pre-opening costs		2,050			2,050
Depreciation and amortization	45	4,925	357		5,327
General and administrative expenses	16,431	12,980		(12,980)	16,431
Marketing and promotional expenses		3,931	151		4,082
Operating (loss) income	(3,496)	14,554	1,737		12,795
Costs associated with the repayment of certain debt	174				174
(Gain) loss on sale of investment	(664)				(664)
Interest expense, net	12,798	147			12,945
Management fee paid to related party	2,100				2,100
(Loss) income before income taxes	(17,904)	14,407	1,737		(1,760)
Income tax benefit	(1,355)				(1,355)
Net (loss) income	\$ (16,549)	\$ 14,407	\$ 1,737	\$	\$ (405)

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**Table of Contents****MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Supplemental Consolidating Statement of Cash Flows****December 31, 2001 to July 24, 2002 (Predecessor Period)****Restated****(Amounts in thousands)**

	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Consolidated</u>
<b>Cash flows from operating activities:</b>				
Net (loss) income	\$ (13,569)	\$ 8,821	\$ (80)	\$ (4,828)
Adjustments to reconcile net (loss) income to net cash provided (used) by operating activities:				
Depreciation of property and equipment	117	5,879	577	6,573
Amortization of deferred occupancy costs and other deferred expenses		(1,277)	(70)	(1,347)
Deferred income taxes	1,129	1,971		3,100
Change in assets and liabilities:				
Accounts receivable		1,385	(36)	1,349
Income taxes receivable	(1,228)			(1,228)
Inventories		340	66	406
Prepaid expenses and other assets	25	(521)	543	47
Insurance receivable		1,682		1,682
Accounts payable, accrued expenses and other liabilities	2,226	1,649	(1,051)	2,824
Accrued income taxes	11,582	(11,582)		
<b>Net cash provided (used) by operating activities</b>	<b>282</b>	<b>8,347</b>	<b>(51)</b>	<b>8,578</b>
<b>Cash flows from investing activities:</b>				
Purchases of property and equipment	(13)	(5,030)	(164)	(5,207)
<b>Net cash used by investing activities</b>	<b>(13)</b>	<b>(5,030)</b>	<b>(164)</b>	<b>(5,207)</b>
<b>Cash flows from financing activities:</b>				
Principal reduction on obligations to financial institutions and capital leases	(3,738)	(2,880)	(119)	(6,737)
Proceeds from obligations to financial institutions	1,000			1,000
Issuance of treasury stock	43			43
Net proceeds from issuance of stock	50	429		479
<b>Net cash used by financing activities</b>	<b>(2,645)</b>	<b>(2,451)</b>	<b>(119)</b>	<b>(5,215)</b>

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Effect of exchange rate changes on cash		(4)	40	36
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net (decrease) increase in cash and cash equivalents	(2,376)	862	(294)	(1,808)
Cash and cash equivalents at beginning of period	3,063	902	862	4,827
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Cash and cash equivalents at end of period	\$ 687	\$ 1,764	\$ 568	\$ 3,019
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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**Table of Contents****MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Supplemental Consolidating Statement of Cash Flows****July 25, 2002 to December 29, 2002 (Successor Period)****Restated****(Amounts in thousands)**

	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Consolidated</u>
<b>Cash flows from operating activities:</b>				
Net (loss) income	\$ (4,264)	\$ 4,943	\$ 200	\$ 879
Adjustments to reconcile net (loss) income to net cash provided by operating activities:				
Depreciation of property and equipment	101	2,012	(199)	1,914
Amortization of deferred occupancy costs and other deferred expenses		782		782
Deferred income taxes	(9,470)	8,784		(686)
Change in assets and liabilities:				
Accounts receivable	(57)	(949)	28	(978)
Income taxes receivable	903			903
Inventories		(1,021)	19	(1,002)
Prepaid expenses and other assets	1,274	(2,850)	475	(1,101)
Accounts payable, accrued expenses and other liabilities	2,477	4,716	71	7,264
Accrued income taxes	10,602	(10,283)	(150)	169
<b>Net cash provided by operating activities</b>	<b>1,566</b>	<b>6,134</b>	<b>444</b>	<b>8,144</b>
<b>Cash flows from investing activities:</b>				
Purchases of property and equipment	(10)	(5,853)	(22)	(5,885)
<b>Net cash used by investing activities</b>	<b>(10)</b>	<b>(5,853)</b>	<b>(22)</b>	<b>(5,885)</b>
<b>Cash flows from financing activities:</b>				
Principal reduction on obligations to financial institutions	(3,900)	(1,444)	(123)	(5,467)
Proceeds from obligations to financial institutions	1,900			1,900
<b>Net cash used by financing activities</b>	<b>(2,000)</b>	<b>(1,444)</b>	<b>(123)</b>	<b>(3,567)</b>
Effect of exchange rate changes on cash			(8)	(8)
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(444)</b>	<b>(1,163)</b>	<b>291</b>	<b>(1,316)</b>

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Cash and cash equivalents at beginning of period	<u>687</u>	<u>1,764</u>	<u>568</u>	<u>3,019</u>
Cash and cash equivalents at end of period	<u>\$ 243</u>	<u>\$ 601</u>	<u>\$ 859</u>	<u>\$ 1,703</u>

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**Table of Contents****MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Supplemental Consolidating Statement of Cash Flows****Fiscal Year Ended January 4, 2004 (Successor Period)****(Amounts in thousands)**

	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Consolidated</u>
<b>Cash flows from operating activities:</b>				
Net (loss) income	\$ (14,917)	\$ 18,326	\$ 831	\$ 4,240
Adjustments to reconcile net (loss) income to net cash (used) provided by operating activities:				
Depreciation of property and equipment	64	4,897	399	5,360
Amortization of deferred occupancy costs, bond discount and other deferred expenses	1,310	1,294	43	2,647
Deferred income taxes	3,079	(2,171)		908
Change in assets and liabilities:				
Accounts receivable	55	(333)	26	(252)
Income taxes receivable	885			885
Inventories		(462)	95	(367)
Prepaid expenses and other assets	(3,635)	4,744	555	1,664
Accounts payable, accrued expenses and other liabilities	(2,237)	369	(1,302)	(3,170)
Accrued income taxes	12,567	(12,212)	(201)	154
<b>Net cash (used) provided by operating activities</b>	<b>(2,829)</b>	<b>14,452</b>	<b>446</b>	<b>12,069</b>
<b>Cash flows from investing activities:</b>				
Purchases of property and equipment	(99)	(4,943)	(119)	(5,161)
<b>Net cash used by investing activities</b>	<b>(99)</b>	<b>(4,943)</b>	<b>(119)</b>	<b>(5,161)</b>
<b>Cash flows from financing activities:</b>				
Principal reduction on obligations to financial institutions	(68,125)	(10,724)	(546)	(79,395)
Proceeds from the 7.5% senior secured notes offering	89,250			89,250
Proceeds from obligations to financial institutions	6,900			6,900
Payment of deferred financing costs	(6,329)			(6,329)
Increase in restricted cash	(1,100)			(1,100)
<b>Net cash provided (used) by financing activities</b>	<b>20,596</b>	<b>(10,724)</b>	<b>(546)</b>	<b>9,326</b>
<b>Effect of exchange rate changes on cash</b>			<b>60</b>	<b>60</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>17,668</b>	<b>(1,215)</b>	<b>(159)</b>	<b>16,294</b>
Cash and cash equivalents at beginning of period	243	601	859	1,703

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Cash and cash equivalents at end of period	<u>\$ 17,911</u>	<u>\$ (614)</u>	<u>\$ 700</u>	<u>\$ 17,997</u>
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**Table of Contents****MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Supplemental Consolidating Statement of Cash Flows****Fiscal Year Ended January 2, 2005 (Successor Period)****(Amounts in thousands)**

	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Consolidated</u>
<b>Cash flows from operating activities:</b>				
Net (loss) income	\$ (24,587)	\$ 22,435	\$ 1,414	\$ (738)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:				
Depreciation of property and equipment	12	5,843	580	6,435
Amortization of deferred occupancy costs, bond discount and other deferred expenses	3,037	1,421	19	4,477
Loss (gain) on marketable securities	155			155
Deferred income taxes	5,731	(1,564)		4,167
Issuance of PIK notes in lieu of interest	3,249			3,249
Change in assets and liabilities:				
Accounts receivable	1	(506)	(4)	(509)
Inventories		(207)	22	(185)
Prepaid expenses and other assets	30,293	(30,275)	(1,710)	(1,692)
Accounts payable, accrued expenses and other liabilities	(1,155)	6,884	(71)	5,658
Accrued income taxes	(14,513)	14,811	(193)	105
<b>Net cash provided by operating activities</b>	<b>2,223</b>	<b>18,842</b>	<b>57</b>	<b>21,122</b>
<b>Cash flows from investing activities:</b>				
Purchases of property and equipment	(68)	(11,918)	(152)	(12,138)
Purchase of marketable securities	(10,684)			(10,684)
Proceeds from sale of marketable securities	6,417			6,417
<b>Net cash used by investing activities</b>	<b>(4,335)</b>	<b>(11,918)</b>	<b>(152)</b>	<b>(16,405)</b>
<b>Cash flows from financing activities:</b>				
Principal reduction on obligations to financial institutions		(5,775)		(5,775)
Proceeds from the 14.0% senior secured notes offering	40,000			40,000
Payment of deferred financing costs	(3,139)			(3,139)
Decrease in restricted cash	552			552
Dividends paid	(43,689)			(43,689)
<b>Net cash used by financing activities</b>	<b>(6,276)</b>	<b>(5,775)</b>		<b>(12,051)</b>

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Effect of exchange rate changes on cash			25	25
Net (decrease) increase in cash and cash equivalents	(8,388)	1,149	(70)	(7,309)
Cash and cash equivalents at beginning of period	17,911	(614)	700	17,997
Cash and cash equivalents at end of period	\$ 9,523	\$ 535	\$ 630	\$ 10,688

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**Table of Contents****MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Supplemental Consolidating Statement of Cash Flows****Nine month period ended October 3, 2004 (Successor Period)****(unaudited)****(amounts in thousands)**

	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Consolidated</u>
<b>Cash flows from operating activities:</b>				
Net (loss) income	\$ (14,601)	\$ 10,969	\$ 838	\$ (2,794)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:				
Depreciation, amortization and other non-cash charges	2,236	5,489	431	8,156
Loss (gain) on marketable securities	110			110
Deferred income taxes	1,680	(1,973)		(293)
Issuance of PIK notes in lieu of interest	420			420
<b>Change in assets and liabilities:</b>				
Accounts receivable	(62)	(1,025)	(39)	(1,126)
Inventories		482	88	570
Prepaid expenses and other assets	9,403	(9,187)	(1,144)	(928)
Accounts payable, accrued expenses and other liabilities	2,961	(1,765)	(201)	995
Accrued income taxes	(10,630)	10,663	(192)	(159)
<b>Net cash (used in) provided by operating activities</b>	<b>(8,483)</b>	<b>13,653</b>	<b>(219)</b>	<b>4,951</b>
<b>Cash flows from investing activities:</b>				
Purchases of property and equipment	(61)	(6,348)	(29)	(6,438)
Purchase of marketable securities	(7,295)			(7,295)
Proceeds from sale of marketable securities	6,217			6,217
<b>Net cash used in investing activities</b>	<b>(1,139)</b>	<b>(6,348)</b>	<b>(29)</b>	<b>(7,516)</b>
<b>Cash flows from financing activities:</b>				
Principal reduction on obligations to financial institutions		(5,652)		(5,652)
Proceeds from the 14.0% senior secured notes	40,000			40,000
Payment of deferred financing costs	(3,141)			(3,141)
Decrease in restricted cash	323			323
Dividends paid	(43,689)			(43,689)

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Net cash used in financing activities	(6,507)	(5,652)		(12,159)
Effect of exchange rate changes on cash			3	3
Net (decrease) increase in cash and cash equivalents	(16,129)	1,653	(245)	(14,721)
Cash and cash equivalents at beginning of period	17,911	(614)	700	17,997
Cash and cash equivalents at end of period	\$ 1,782	\$ 1,039	\$ 455	\$ 3,276

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**Table of Contents****MORTON S RESTAURANT GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Supplemental Consolidating Statement of Cash Flows****Nine month period ended October 2, 2005 (Successor Period)****(unaudited)****(amounts in thousands)**

	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Consolidated</u>
<b>Cash flows from operating activities:</b>				
Net (loss) income	\$ (16,549)	\$ 14,407	\$ 1,737	\$ (405)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:				
Depreciation, amortization and other non-cash charges	2,568	5,588	377	8,533
(Gain) loss on sale of investment	(664)			(664)
(Gain) loss on marketable securities	(96)			(96)
Deferred income taxes	(5,972)	3,489		(2,483)
Issuance of PIK notes in lieu of interest	2,448			2,448
Change in assets and liabilities:				
Accounts receivable	1	(961)	(113)	(1,073)
Inventories		294	22	316
Prepaid expenses and other assets	16,759	(16,229)	(1,620)	(1,090)
Accounts payable, accrued expenses and other liabilities	2,906	4,358	(370)	6,894
Accrued income taxes	(4,564)	4,962	(270)	128
<b>Net cash (used in) provided by operating activities</b>	<b>(3,163)</b>	<b>15,908</b>	<b>(237)</b>	<b>12,508</b>
<b>Cash flows from investing activities:</b>				
Purchases of property and equipment	(35)	(9,115)	(42)	(9,192)
Proceeds from sale of investment	674			674
Purchase of marketable securities	(3,968)			(3,968)
<b>Net cash used in investing activities</b>	<b>(3,329)</b>	<b>(9,115)</b>	<b>(42)</b>	<b>(12,486)</b>
<b>Cash flows from financing activities:</b>				
Principal reduction on obligations to financial institutions		(3,549)		(3,549)
Decrease in restricted cash	131			131
Redemption of PIK notes	(1,398)			(1,398)
<b>Net cash used in financing activities</b>	<b>(1,267)</b>	<b>(3,549)</b>		<b>(4,816)</b>

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Effect of exchange rate changes on cash			(7)	(7)
Net (decrease) increase in cash and cash equivalents	(7,759)	3,244	(286)	(4,801)
Cash and cash equivalents at beginning of period	9,523	535	630	10,688
Cash and cash equivalents at end of period	\$ 1,764	\$ 3,779	\$ 344	\$ 5,887

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**Artwork to be filed by amendment**

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**MORTON S RESTAURANT GROUP, INC.**

**Shares**

**Common Stock**

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**PROSPECTUS**

**, 2005**

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**Wachovia Securities**

**Piper Jaffray**

**RBC Capital Markets**

**SG Cowen & Co.**

**Jefferies & Company**

Until \_\_\_\_\_, 2006 (the 25th day after the date of this prospectus), all dealers that effect transactions in our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealer's obligations to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

**Table of Contents****Part II.****INFORMATION NOT REQUIRED IN THE PROSPECTUS****Item 13. Other Expenses of Issuance and Distribution**

The following table shows the costs and expenses, other than underwriting discounts and commissions, payable in connection with the sale and distribution of the securities being registered. Except as otherwise noted, we will pay all of these amounts. All amounts except the SEC registration fee and the NASD fee are estimated. The missing amounts will be filed by amendment.

SEC Registration Fee	\$ 16,050
New York Stock Exchange Listing Fee	
NASD Fee	15,500
Accounting Fees and Expenses	
Legal Fees and Expenses	
Printing Fees and Expenses	
Blue Sky Fees and Expenses	
Transfer Agent Fees	
Miscellaneous	
	_____
Total	\$ _____

**Item 14. Indemnification of Directors and Officers**

Morton's Restaurant Group, Inc. is a corporation organized under the laws of the State of Delaware. Section 145(a) of the Delaware General Corporation Law, or DGCL, authorizes a corporation to indemnify any person who was or is a party, or is threatened to be made a party, to a threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation), by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding, if the person acted in good faith and in a manner the person reasonably believed to be in, or not opposed to, the best interests of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe the person's conduct was unlawful.

Section 145(b) of the DGCL provides in relevant part that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by the person in connection with the defense or settlement of such action or suit if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall

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determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

DGCL also provides that indemnification under Section 145(d) can only be made upon a determination that indemnification of the present or former director, officer or employee or agent is proper in the circumstances because such person has met the applicable standard of conduct set forth in Section 145(a) and

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(b). Such determination shall be made, with respect to a person who is a director or officer at the time of such determination, (1) by a majority vote of directors who are not a party to the action at issue (even though less than a quorum), or (2) by a majority vote of a designated committee of these directors (even though less than a quorum), or (3) if there are no such directors, or these directors authorize, by the written opinion of independent legal counsel, or (4) by the stockholders.

Section 145(g) of the DGCL also empowers a corporation to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the corporation would have the power to indemnify such person against such liability under Section 145 of the DGCL.

Section 102(b)(7) of the DGCL permits a corporation to provide for eliminating or limiting the personal liability of one of its directors for any monetary damages related to a breach of fiduciary duty as a director, as long as the corporation does not eliminate or limit the liability of a director for acts or omissions which (1) were in bad faith, (2) were the result of active and deliberate dishonesty and were material to the cause of action so adjudicated, (3) the director derived an improper personal benefit from (such as a financial profit or other advantage to which such director was not legally entitled) or (4) breached the director's duty of loyalty.

Our certificate of incorporation provides that we shall, to the fullest extent permitted by applicable law, indemnify each person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding by reason of the fact that he or she is or was, or has agreed to become, a director or officer of the Company, or is or was serving at the written request of the company, as a director, officer, trustee, partner, employee or agent of another corporation, partnership, joint venture, trust or other enterprise.

Our certificate of incorporation expressly eliminates a director's personal liability for monetary damages to the company and its stockholders for breaches of fiduciary duty as a director, except in circumstances involving a breach of a director's duty of loyalty to us or our stockholders, acts or omissions not in good faith or that involve intentional misconduct or knowing violations of the law, liability arising out of unlawful payments of dividends or unlawful stock purchases or redemptions and transactions from which the director derived an improper personal benefit.

Our certificate of incorporation provides that we shall have the power to purchase and maintain insurance to protect itself and any director, officer, employee or agent of the Company or other corporation, partnership, joint venture, trust or other enterprise against any such expense, liability or loss, whether or not the company would have the power to indemnify said persons against such expense, liability or loss under the DGCL. Our certificate of incorporation also contains provisions permitting the advancement of expenses incurred in defending any civil or criminal action, suit or proceeding, upon the receipt of an undertaking by or on behalf of the director, officer, employee or agent to repay such amount if indemnification is ultimately determined not to be appropriate. The indemnification and the advancement of expenses provisions are not exclusive of any other rights to which those seeking indemnification or the advancement of expenses may be entitled under any statute, certificate of incorporation, bylaw, agreement, vote of stockholders or disinterested directors or otherwise.

### **Item 15. Recent Sales of Unregistered Securities.**

None.



**Table of Contents****Item 16. Exhibits and Financial Statement Schedules**

The following is a list of all exhibits filed as part of this report:

Exhibit Number	Description
1.1*	Form of Underwriting Agreement
3.1*	Amended and Restated Certificate of Incorporation of Morton's Restaurant Group, Inc.
3.2*	Amended and Restated Bylaws of Morton's Restaurant Group, Inc.
4.1	Letter Agreement, dated October 23, 2002, among Fleet National Bank and Morton's Restaurant Group, Inc. regarding an Interest Rate Swap Transaction, terminating on October 24, 2004 (included as an exhibit to Amendment No. 1 to Morton's Restaurant Group, Inc.'s Registration Statement on Form S-4, filed on November 26, 2003, and incorporated by reference)
4.2	Letter Agreement, dated October 23, 2002, among Fleet National Bank and Morton's Restaurant Group, Inc. regarding an Interest Rate Swap Transaction, terminating on October 24, 2005 (included as an exhibit to Amendment No. 1 to Morton's Restaurant Group, Inc.'s Registration Statement on Form S-4, filed on November 26, 2003, and incorporated by reference)
4.3*	Specimen of Common Stock Certificate
5.1*	Opinion of Schulte Roth & Zabel LLP
10.1	Morton's of Chicago, Inc. Profit Sharing and Cash Accumulation Plan, as Amended, Effective January 1, 1989 (included as an exhibit to Morton's Restaurant Group, Inc.'s Annual Report on Form 10-K for the year ended January 1, 1995, and incorporated by reference)
10.2	Commercial Lease, between American National Investor Services, Inc. and Morton's of Chicago, Inc., dated October 15, 1992, relating to the executive offices located at 350 West Hubbard Street, Chicago, Illinois (included as an exhibit to Morton's Restaurant Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated by reference)
10.3	Commercial Lease, between X-Cell Realty Associates and Morton's Restaurant Group, Inc., dated January 18, 1994, relating to the executive offices located at 3333 New Hyde Park Road, Suite 210, New Hyde Park, New York 11042 (included as an exhibit to Morton's Restaurant Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1993, and incorporated by reference)
10.4	Form of Indemnification Agreement for directors and executive officers (included as an exhibit to Morton's Restaurant Group, Inc.'s Annual Report on Form 10-K for the year ended January 4, 2004, and incorporated by reference)
10.5	Settlement Agreement and General Release by and between Morton's Restaurant Group, Inc. and St. Paul Fire and Marine Insurance Company (included as an exhibit to Morton's Restaurant Group, Inc.'s Form 8-K date December 23, 2004, and incorporated by reference)
10.6*	Registration Rights Agreement, dated as of October 29, 2002, by and among Morton's Holdings, LLC, Castle Harlan Partners III, L.P., Laurel Crown Capital, LLC: Series One-LC/Morton's and certain other parties thereto.
21.1*	List of Subsidiaries of Morton's Restaurant Group, Inc.
23.1	Consent of KPMG LLP
23.2*	Consent of Schulte Roth & Zabel LLP (included in Exhibit 5.1)
24	Powers of Attorney (see signature page of Registration Statement)

\* To be filed by amendment.

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**Item 17. Undertakings**

The undersigned registrant hereby undertakes:

(1) to provide to the underwriter at the closing specified in the underwriting agreements certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser;

(2) That, for purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective; and

(3) That, for the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

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**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New Hyde Park, State of New York, on the 1st day of December, 2005.

MORTON S RESTAURANT GROUP, INC.

/s/ ALLEN J. BERNSTEIN

By: \_\_\_\_\_

Name: Allen J. Bernstein

Title: Chairman of the board of directors,

President and Chief Executive Officer

(Principal Executive Officer)

KNOW ALL MEN BY THESE PRESENTS, that each individual whose signature appears below constitutes and appoints Thomas J. Baldwin and Ronald M. DiNella, and each of them, as the true and lawful attorneys-in-fact and agents for the undersigned, with full power of substitution and resubstitution, for and in the name, place and stead of the undersigned, in any and all capacities, to sign any and all amendments to this registration statement including post-effective amendments and registration statements filed pursuant to Rule 462 and otherwise, and to file the same with all exhibits thereto, and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in, and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or their substitute and substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed below by the following persons in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<p>/s/ ALLEN J. BERNSTEIN</p> <p>_____</p> <p>Allen J. Bernstein</p>	<p>Chairman of the board of directors, President, Chief Executive Officer and Director (Principal Executive Officer)</p>	<p>December 1, 2005</p>
<p>/s/ THOMAS J. BALDWIN</p> <p>_____</p> <p>Thomas J. Baldwin</p>	<p>Executive Vice President, Chief Financial Officer, Treasurer, Secretary and Director (Principal Financial and Accounting Officer)</p>	<p>December 1, 2005</p>