

NEWS

Spectrum eyes Grandy's spinoff in 2nd Ch. 11 filing

Big creditor claims 'diversion' of funds

By Lisa Jennings

IRVINE, CALIF. — After filing for its second Chapter 11 bankruptcy reorganization in three years, Spectrum Restaurant Group is planning to shrink its nine-brand base by spinning off the 84-unit Grandy's chain and possibly converting other low-performing concepts.

One day before the Irvine-based company's Aug. 29 court petition for protection from creditors, Spectrum's owner, the long-time chain conglomerate leader Anwar Soliman, resigned as chief executive and stated plans to retire from the board.

Replacing Soliman as chief executive was Tony Wolf, formerly of the turnaround firm Glass & Associates.

The company declared that it owed \$7.4 million in secured and \$22 million in unsecured debt. Spectrum said its secured creditor is BET Associates, a New York-based private-equity firm involved in the 1999 purchase of Grandy's and the other brands from Newport Beach, Calif.-based American

Restaurant Group, or ARG.

However, according to court documents filed by BET Associates, Spectrum owed it \$9 million. BET also accused the Soliman ownership regime of cannibalizing assets to fund operations in the face of mounting losses by selling and converting restaurants and diverting funds for "personal use."

Those charges, however, remain on hold while the federal bankruptcy court reviews the company's reorganization plan.

In its original incarnation more than 20 years ago under former leader Larry Mindel, Spectrum had as its nucleus a trend-setting group of authentic, upscale Italian restaurants. But the reconstituted company's largest holding currently is Grandy's, a quick-service chicken specialist known for "home-style" cooking. All but four branches of that chain are franchised, primarily in Texas and Oklahoma.

Headquartered in Lewisville, Texas, Grandy's reported sys-



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temwide sales of \$60.1 million for 2005.

No potential buyers for Grandy's were immediately identified. The three-daypart concept was founded by Walter Johnson and Rex Sanders in 1973 as Grandy's Country Cookin', featuring chicken, fresh-baked biscuits, country steaks, catfish, vegetables and signature "Sinnamon" rolls at breakfast.

Among Spectrum's other operations, mostly in California, are the five-unit Spoons Grill & Bar, a casual Tex-Mex concept; two Crabby Bob's full-service seafood restaurants; two National Sports Grills; and nine upscale specialty restaurants, including three Prego

Ristorante branches in Southern California and two Tutto Mare restaurants, in Newport Beach and La Jolla, Calif. Spectrum's upscale concepts also include the MacArthur Park restaurants in San Francisco and Palo Alto, Calif.; Harry's Bar & American Grill in La Jolla; and the Mexican restaurant Guaymas in Tiburon, Calif.

Spectrum's Spoons units are reportedly to be converted to the National Sports Grill format within six to nine months, though Wolf would not confirm specifics of conversions under consideration as part of the company's planned reorganization.

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Late lunch emerges as a lucrative, new daypart

Many segments report growth in 2-to-5 p.m. sales

By Milford Prewitt

The hours between 2 p.m. and 5 p.m. are becoming a thriving daypart for restaurant operators nationwide as they discover the cash-rich potential of serving late lunch.

Given lifestyle changes that have people working longer and nontraditional hours, and with technological advances allowing workers to carry their offices with them, many operators are finding a hungry clientele to fill their seats during the hours when many eateries used to close to prepare for the evening rush.

A host of seismic changes in the lifestyles and habits of consumers have forced some operators to rethink what used to be an underutilized daypart.

From the 75-unit regional chain Salad Works based in the Philadelphia suburb of Conshohocken, Pa., to the upscale pan-Latin restaurant Chispa in Coral Gables, Fla., to midtown Manhattan and sister concepts Brooklyn Diner USA and Red Eye Grill, to the six-unit Artuzzi's Italian Kitchen chain in Atlanta, operators in every segment are beaming about the double-digit sales percentages that many are seeing between 2 p.m. and 5 p.m.

For at least one operator — the 13-unit Max's restaurant chain in San Francisco — sales increases registered during the late afternoon had gone undetected until the company ran a report on transactions by time of day following a reporter's request.

With one unit in Chicago and the rest operating in the San Francisco Bay Area, Max's officials discovered that 11 stores are reporting sales

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Fla. operators hopeful for robust winter sales

By Jack Hayes

ORLANDO, FLA. — On the eve of a new winter tourist season and despite continuing labor shortages and steep hikes in insurance, utility and labor costs, restaurateurs across Florida say they are hopeful

adjusting to a minimum-wage hike that went into effect in January. "We're bullish because we think gasoline prices are finally settling down," said Dave Reid, operations vice president for 39-unit Ale House Restaurants, which is based in Jupiter, Fla. "We'd been watching the fuel situation closely because everything connects with the price of gasoline."

Like most operators who depend on tourism to complement local traffic, Reid is optimistic that the approach of November will sweep many snowbirds into dining rooms from Miami to Tallahassee and Jacksonville to Tampa.

But, like his casual-dining peers who experienced a drop in sales when gasoline costs peaked this summer, Reid spoke with keen awareness of the economic subtleties that influence guest traffic, especially at lunch.

"At management meetings, we wondered what we were doing wrong until we realized that people were going to McDonald's for lunch," Reid said. "We have a \$4.99 hamburger on the menu, but that didn't matter because people were just acting on perception."

Fuel costs also are the suspected culprit in causing a 2.7-percent

dip in statewide hotel occupancy during the first half of 2006, even though the number of visitors to Florida in that time equaled total visits for the year earlier, said Bud Nocera, president and chief executive of Visit Florida. Meanwhile, Visit Florida officials said in-state travel during the first half of 2006 was up by a strong 12.7 percent.

"Our comparative-store sales are still up 5 percent for the year," said Nick Vojnovic, president of Tampa, Fla.-based Beef O'Brady's, which operates or franchises 200-plus casual-family sports-theme restaurants in the Sunshine State. About half of the chain's units are company-owned.

"But we're seeing more adult customers ordering kid's meals," added Vojnovic, who also is 2006 chairman of the FRLA. "It's not a question of whether people are eating out, it's more about what they're eating and at what restaurant."

In every segment, but particularly in the upscale casual-dining niche where check averages exceed \$30 per person, operators said they are focused more strongly than ever on guest service as a competitive point of differentiation.

"In our niche, service is about

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Mike Maglin, left, of Woody's Bar-B-Q, and Dave Reid, of Ale House Restaurants, were among attendees at the newly formed Florida Restaurant & Lodging Association's first annual trade show, in Orlando.

that the state's lingering construction boom and falling gasoline prices will drive sales in the months ahead.

But such confidence is not worry-free, said operators attend-

Restaurant Association. While two years of hurricane devastation have fueled a healthy pace of rebuilding, electricity and property insurance costs are skyrocketing. Also, operators say they still are

Late lunch now a lucrative daypart in many segments

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gains between 22 percent and 29 percent during the 2 p.m. to 4 p.m. time frame, said Billy Berkowitz, director of operations.

Max's, whose marketing tagline reads, "Everything you've always wanted to eat," is an elegant but casual restaurant concept with midrange price points and a store prototype that seats 200. Average lunchtime checks are about \$13.

"[The late-lunch sales were] somewhat of a surprise," Berkowitz said. "If some of our stores are averaging 1,700 transactions over a week, about 500 were between 2 and 4.

"If you are doing that kind of business, you certainly don't want to close," Berkowitz added, referring to the full-service segment's widespread practice of closing after lunch and reopening by dinner in order to prepare for evening business, assess inventory and hold staff meetings to discuss specials and other issues.

Seismic changes in the lifestyles and work habits of consumers — not the least of which is that people are working more hours and commuting longer than previous generations — have forced some operators to rethink what used to be an underutilized daypart, said Rick Van Warner, president of the Parquet Group, an Orlando, Fla.-based restaurant consulting firm.

Beyond lifestyle changes of those in the workforce, Van Warner added that advances in computers and telecommunications mean office workers can take their desks, file cabinets and phones with them in hardware packages that get tinier and thinner with each passing year. In response, more and more restaurants are investing in and promoting Wi-Fi accessibility to a degree that rivals the installation of lighting, tables and seats.

"Unfortunately, all of this means that people are working harder and longer," Van Warner added. "This idea of working 9 to 5

is way out the window, and if you are one of the fortunate few who has survived a white-collar corporate layoff, chances are you are probably doing the work of two to three people.

"So the whole notion of when to eat lunch and lunchtime has just changed, and this is what smart operators are picking up on with late lunch."



Saladworks, a 75-unit chain offering made-to-order salads, has found that sales between 2 p.m. and 5 p.m. are up 18 percent in the past four months compared with a year ago.

Based on late-afternoon sales figures, Berkowitz of Max's said that installing Wi-Fi connectivity in his chain's units would be a tempting option to lure late-afternoon diners.

"We are already seeing a lot of people using their laptops and everything else," he said. "We are not Wi-Fi-friendly yet, but I'm a bit wary about people coming in here making an office out of our dining room."

Richard Green, director of operations for the Union Square Hospitality Group in Manhattan — parent company of five fine-dining restaurants, including Union Square Café — said operators enjoying a surge in late-afternoon

sales owe their good fortune to Starbucks.

"For some time now, our guests have been telling us, the industry that is, that [they] need [us] throughout the day, not just from 11 to 2, or 5 to closing," Green said. "Starbucks listened and saw an opportunity, and now you go into a Starbucks and you see that they have allowed these communities to

lunch sales at his chain. Meanwhile, lunch makes up 75 percent of daily average-unit volume, he reported.

He said customers who dine between 2 p.m. and 5 p.m. are usually solo males — both white-collar corporate types and home-office entrepreneurs — who seem to enjoy the ease and quiet of a later lunch where they can have a quality meal at a good price and get some work done at the same time.

Caswick, who considers himself a late-afternoon diner, said in handling negotiations for four new units and fielding franchising inquiries, he is not much different from the guests he serves.

"We are not necessarily seeing the classic businessman lunch diner," he said. "What we do see are a lot of men, in suits or casual, coming in the late afternoon with their BlackBerry [handheld computer units] and laptops and trying to get a little work done."

Chispa, a pan-Latin concept in Coral Gables, Fla., has developed a late-lunch period for a specific market — the auto mechanics and salesmen who work nearby at a luxury-car dealership called The Collection. To serve that clientele, chef Adam Votaw has crafted a special late-afternoon menu called The Collection Quickie, comprised of classic Latin dishes that can be served quickly but are savory and eclectic. The menu has become a big hit with local elected officials, celebrities and affluent shoppers as well.

Chispa's check average at lunch is about \$25, Votaw said.

Paul Steck, senior vice president and chief operating officer of the 75-unit Saladworks chain offer-

ing made-to-order salads, said late-afternoon sales for the past four months are up 18 percent between 2 p.m. and 5 p.m., compared with year-ago levels.

Steck noted that lifestyle changes, consumer concerns about eating more healthfully, and a sizable number of area housewives who work out and dine later are all benefiting his business.

He said that although Saladworks has a small marketing budget, the company relies on the physical design of the units, which are equipped with larger tabletops and Wi-Fi connectivity, to appeal to late-lunch diners who tend to need to spread out their laptops and other work supplies.

"We are not spending any marketing dollars to chase this daypart, but I can tell you that we are continually tweaking our units from the music [smooth jazz], to the lighting, to the Wi-Fi connection to say, 'Use us,'" he said. "You can move our tables around, pull them together, have a business meeting. All of this is driving sales in this daypart."

At El Pollo Loco, the 350-unit grilled-chicken chain based in Irvine, Calif., late lunch — or as the company refers to it, the "snack daypart" — has seen an 11-percent increase in traffic in the past year, reports Mark Hardison, director of marketing.

In Philadelphia's Old Town tourist district, Ellen Yin, owner of Fork, says many of her late-afternoon guests are tourists visiting nearby attractions, such as the Liberty Bell or Constitution Hall, or shopping.

But she wonders if all the emphasis on late lunch is a new name for an old phenomenon.

"This is our ninth year in business, and almost from the start, we had what we called our midday menu," she said, conceding that without a location in a tourist area, late-afternoon dining could be a challenge for Fork. ■

mprewitt@nrn.com

Wendy's seen as ripe for takeover after Hortons spinoff

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Already results have improved, he added, and new management, including interim chief executive Anderson and chief operations officer Dave Near, have helped to focus everyone's attention on operations.

"Clearly, the Wendy's part for a while was not getting the attention and emphasis that was necessary," he said. "But that's beginning to happen."

In August, the chain posted its largest monthly same-store sales gain in more than two years, with help from new products like the Frescata deli sandwich line and a vanilla Frosty. Same-store sales increased 4.7 percent at domestic corporate stores for the four weeks ended Sept. 3.

Chain officials have said new products and new marketing will continue throughout the year and into 2007. Double-melt

burgers are expected to launch in November, according to analyst reports, and a breakfast initiative is planned for next year or early 2008, which could include sandwiches, biscuits, muffins, cinnamon twists and various coffees.

While analysts noted that sales during the breakfast daypart would no doubt improve average unit volumes and make better use of assets in the long

term, in the short term Wendy's could see incremental expenses and possible losses. Wendy's has said breakfast could add sales of \$160,000 per restaurant annually. Analyst Kalinowski noted that it took McDonald's five years to become profitable during breakfast after launching their morning items in the 1970s.

As Wendy's moves ahead with plans to shore up sales and reduce corporate costs, trouble in the sys-

tem still brews. A 50-unit franchisee in the St. Louis area, WenAmerica, has filed for bankruptcy protection and as of presstime was locked in a legal battle over whether Wendy's International could refuse to provide them with burgers and buns, effectively halting the operations of at least two dozen restaurants, according to reports. ■

stockyer@nrn.com