SHELLS SEAFOOD RESTAURANTS INC
Form 10-Q
August 14, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

__x__ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Quarterly Period Ended June 30, 2002

____ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Transition Period from ______to ______

Commission File No. 0-28258

SHELLS SEAFOOD RESTAURANTS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	65-0427966
(State or other jurisdiction of incorporation or organization)	(IRS) Employer Identification Number

16313 North Dale Mabry Highway, Suite 100, Tampa, FL 33618
(Address of principal executive offices) (zip code)

(813) 961-0944
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ____

Class	Outstanding at August 14, 2002
Common stock, $0.01 par value	4,454,015
Preferred stock, $0.01 par value	66,862

SHELLS SEAFOOD RESTAURANTS, INC. AND SUBSIDIARIES
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SHELLS SEAFOOD RESTAURANTS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	(Unaudited) June 30, 2002	December 30, 2001
ASSETS		
Cash	$ 2,627,542	$ 969,680
Inventories	503,484	457,610
Other current assets	463,540	84,465
Receivables from related parties	48,124	78,137
Income tax refund receivable	1,177,411	898,338
Total current assets	4,820,101	2,488,230
Property and equipment, net	7,799,318	8,106,500
Property held for sale, net	-	1,022,060
Other assets	479,124	549,492
Goodwill	2,577,505	2,680,603
TOTAL ASSETS	$ 15,676,048	$ 14,846,885
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 2,439,623	$ 4,079,396
Accrued expenses	3,737,332	3,872,266
Sales tax payable	254,034	207,913
Current portion of long-term debt	1,168,517	1,908,379
Total current liabilities	7,599,506	10,067,954
Deferred rent	1,228,930	1,243,057
Long-term debt, less current portion	3,346,813	1,633,073
Total liabilities	12,175,249	12,944,084
Minority partner interest	440,579	427,642

STOCKHOLDERS' EQUITY:		
Preferred stock, $0.01 par value; authorized 2,000,000 shares; 66,862 shares issued and outstanding	669	669
Common stock, $0.01 par value; authorized 20,000,000 shares; 4,454,015 shares issued and outstanding	44,540	44,540
Additional paid-in-capital	14,240,576	14,240,576
Retained earnings (deficit)	(11,225,565)	(12,810,626)
Total stockholders' equity	3,060,220	1,475,159
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 15,676,048	$ 14,846,885

See notes to consolidated financial statements.

SHELLS SEAFOOD RESTAURANTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	13 Weeks Ended	
	June 30, 2002	July 1, 2001
REVENUES	$ 12,508,630	$ 4,997,727
COST AND EXPENSES:		
Cost of revenues	4,244,906	5,685,237
Labor and other related expenses	3,743,467	4,563,775
Other restaurant operating expenses	2,682,438	2,962,983
General and administrative expenses	962,831	1,077,894
Depreciation and amortization	330,715	418,437
Provision for impairment of assets	-	-
Provision for store closings	-	-
	11,964,357	14,708,326
INCOME (LOSS) FROM OPERATIONS	544,273	289,401
OTHER INCOME (EXPENSE):		
Interest expense	(127,936)	(131,021)
Interest income	10,290	463
Other expense, net	(28,082)	(14,775)
	(145,728)	(145,333)
INCOME (LOSS) BEFORE ELIMINATION OF MINORITY PARTNER INTEREST AND INCOME TAXES	398,545	144,068
ELIMINATION OF MINORITY PARTNER INTEREST	(57,532)	(36,902)
INCOME (LOSS) BEFORE BENEFIT FROM INCOME TAXES	341,013	107,166

BENEFIT FROM INCOME TAXES	318,377	-	
NET INCOME (LOSS)	$ 659,390	$ 107,166	
BASIC NET INCOME (LOSS) PER SHARE OF COMMON STOCK	$ 0.15	$ 0.02	
BASIC WEIGHTED AVERAGE NUMBER OF SHARES OF COMMON STOCK OUTSTANDING	4,454,015	4,454,015	
DILUTED NET INCOME (LOSS) PER SHARE OF COMMON STOCK	$ 0.06	$ 0.02	
DILUTED WEIGHTED AVERAGE NUMBER OF SHARES OF COMMON STOCK OUTSTANDING	11,194,642	4,633,009	

See notes to consolidated financial statements.

SHELLS SEAFOOD RESTAURANTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	26 Weeks Ended	
	June 30, 2002	July 1, 2001
OPERATING ACTIVITIES:		
Net income (loss)	$ 1,585,061	$ (2,911,285)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Provision for impairment of assets	-	1,582,137
Depreciation and amortization	657,503	954,460
Loss (gain) on sale of assets	2,616	(5,249)
Minority partner interest	12,937	(36,891)
Changes in assets and liabilities:		
(Increase) decrease in inventories	(45,874)	403,201
(Increase) decrease in other assets	(219,836)	289,539
Decrease in prepaid rent	25,200	25,200
Increase in income tax refunds receivable	(279,073)	-
Decrease in deferred tax asset	-	228,061
(Decrease) increase in accounts payable	(1,639,773)	1,361,872
Decrease in accrued expenses	(264,984)	(385,757)
Increase (decrease) in sales tax payable	46,121	(63,729)
Decrease in deferred rent	(14,127)	(527,998)
Total adjustments	(1,719,290)	3,824,846
Net cash (used in) provided by operating activities	(134,229)	913,561
INVESTING ACTIVITIES:		
Proceeds from the sale of assets, net	1,091,324	1,089,421
Purchase of property and equipment	(252,151)	(488,400)
Net cash provided by investing activities	839,173	601,021
FINANCING ACTIVITIES:		

Proceeds from debt financing	2,304,317	227,636
Repayment of debt	(1,351,399)	(1,744,981)
Net cash provided by (used in)financing activities	952,918	(1,517,345)
Net increase (decrease) in cash	1,657,862	(2,763)
CASH AT BEGINNING OF PERIOD	969,680	1,261,937
CASH AT END OF PERIOD	$ 2,627,542	$ 1,259,174
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 289,692	$ 579,751
Cash refunds received for income taxes	$ 40,000	$ 211,283
Note receivable on sale of assets	$ 100,000	$ -

See notes to consolidated financial statements.

SHELLS SEAFOOD RESTAURANTS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and, therefore, these statements do not include all of the information and footnotes required by generally accepted accounting principles for annual financial statements. In the opinion of management, all material adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included.

The consolidated financial statements of Shells Seafood Restaurants, Inc. (the "Company") should be read in conjunction with the audited consolidated financial statements and notes thereto contained in the Form 10-K for the year ended December 30, 2001 filed with the Securities and Exchange Commission. Company management believes that the disclosures are sufficient for interim financial reporting purposes. Certain prior year amounts have been reclassified in the accompanying condensed consolidated financial statements to conform with the current year presentation.

2. EARNINGS PER SHARE

The following table represents the computation of basic and diluted earnings per share of common stock as required by Financial Accounting Standards Board ("FASB") Statement No. 128, "Earnings Per Share":

	13 Weeks Ended		26
	June 30, 2002	July 1, 2001	June 30, 2

Net income (loss) applicable to common stock	$ 659,390	$ 107,166	$ 1,585,
Weighted common shares outstanding	4,454,015	4,454,015	4,454,
Basic net income (loss) per share of common stock	$ 0.15	$ 0.02	$ 0
Effect of dilutive securities:			
Warrants	6,344,568	-	5,110,
Stock options	396,059	178,994	224,
Diluted weighted common shares outstanding	11,194,642	4,633,009	9,789,
Diluted net income (loss) per share of common stock	$ 0.06	$ 0.02	$ 0

The earnings per share calculations excluded warrants and options to purchase an aggregate of 310,827 and 1,011,858 shares of common stock during the 13 weeks ended June 30, 2002 and July 1, 2001, respectively, and warrants and options to purchase an aggregate of 2,193,248 and 1,587,358 shares of common stock during the 26 weeks ended June 30, 2002 and July 1, 2001, respectively, as the exercise price of the warrants and options were greater than the average market price of the common shares.

3. NEW ACCOUNTING PRONOUNCEMENT

In July 2001, the FASB issued Statement No. 141, "Accounting for Business Combinations," and Statement No. 142, "Goodwill and Other Intangible Assets." These Statements modify accounting for business combinations after June 30, 2001. The Statements require that goodwill existing at the date of adoption be reviewed for possible impairment and that impairment tests be periodically repeated, with impaired assets written-down to fair value. Additionally, existing goodwill and intangible assets must be assessed and classified consistent with the Statements' criteria. Intangible assets with estimated useful lives will continue to be amortized over those periods. Amortization of goodwill and intangible assets with indeterminate lives will cease. The adoption of Statement No. 142 is not expected to materially affect our consolidated financial statements.

In July 2001, the FASB issued Statement No. 143, "Accounting for Asset Retirement Obligations." This Statement requires capitalizing any retirement costs as part of the total cost of the related long-lived asset and subsequently allocating the total expense to future periods using a systematic and rational method. Adoption of this Statement is required for fiscal years beginning after June 15, 2002. The adoption of Statement No. 143 is not expected to materially affect our consolidated financial statements.

In October 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This Statement supersedes Statement No. 121 but retains many of its fundamental provisions. Additionally, this Statement expands the scope of discontinued operations to include more disposal transactions. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. The adoption of Statement No. 144 is not expected to materially affect our consolidated financial statements.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, the percentages which the items in the Company's Consolidated Statements of Income bear to total revenues.

	13 Weeks Ended		26 Weeks
	June 30, 2002	July 1, 2001	June 30, 2002
REVENUES	100.0%	100.0%	100.0%
COST AND EXPENSES:			
Cost of revenues	33.9%	37.9%	33.4%
Labor and other related expenses	29.9%	30.4%	29.4%
Other restaurant operating expenses	21.4%	19.8%	21.4%
Total restaurant costs and expenses	85.2%	88.1%	84.2%
General and administrative expenses	7.7%	7.2%	6.7%
Depreciation and amortization	2.6%	2.8%	2.6%
Provision for impairment of assets	0.0%	0.0%	0.0%
Provision for store closings	0.0%	0.0%	0.0%
Income (loss) from operations	4.5%	1.9%	6.5%
Interest expense, net	-1.0%	-0.9%	-1.1%
Other expense, net	-0.2%	-0.1%	-0.1%
Elimination of minority partner interest	-0.5%	-0.2%	-0.5%
Income (loss) before benefit from taxes	2.8%	0.7%	4.8%
Benefit from income taxes	2.5%	0.0%	1.2%
Net income (loss)	5.3%	0.7%	6.0%

13 weeks ended June 30, 2002 and July 1, 2001

Revenues. Total revenues for the second quarter of 2002 were $12,509,000 as compared to $14,998,000 for the second quarter of 2001, a $2,489,000, or 16.6% decrease. Same store sales for the second quarter of 2002 were 11.1% below the comparable period in 2001 due to declines in both check average and customer counts. The Company discontinued its Midwest operations in April 2001, with the closure of nine units. The Company operated 29 restaurants as of the second quarter ended June 30, 2002 versus 30 restaurants at the comparable period ended in 2001. Comparisons of same store sales include only stores, which were open during the entire periods being compared and, due to the time needed for a restaurant to become established and fully operational, at least six months prior to the beginning of that period.

Cost of revenues. The cost of revenues as a percentage of revenues decreased to 33.9% for the second quarter of 2002 from 37.9% for the second quarter of 2001. This decrease was due primarily to lowered protein costs, mostly shrimp and crab, greater focus on in-store cost control, and implementation

of a new menu, which spotlights more favorable margin items. The Company is continually attempting to anticipate and react to fluctuations in food costs by purchasing seafood directly from numerous suppliers, promoting certain alternative menu selections in response to price and availability of supply and adjusting its menu prices accordingly to help control the cost of revenues, both in absolute dollars and as a percentage of revenues.
Labor and other related expenses.

Labor and other related expenses as a percentage of revenues decreased to 29.9% during the second quarter of 2002 as compared to 30.4% for the second quarter of 2001. This decrease was primarily attributable to a reduction in hourly labor costs, as related to revenues.

Other restaurant operating expenses. Other restaurant operating expenses as a percentage of revenues increased to 21.4% for the second quarter of 2002 as compared with 19.8% for the second quarter of 2001. The increase primarily was due to increased media advertising and local store marketing costs.

General and administrative expenses. General and administrative expenses as a percentage of revenues increased to 7.7% for the second quarter of 2002 as compared with 7.2% for the second quarter of 2001. This increase was primarily due to a second quarter of 2002 increase in salaries for additional full-time staff along with an increase in consulting fees relating to the Company's strategic initiatives and marketing plan development.

Depreciation and amortization. Depreciation and amortization expense as a percentage of revenues were 2.6% and 2.8% for the second quarter of 2002 and 2001, respectively.

Benefit from income taxes. A benefit from income taxes was recognized for the second quarter of 2002 of $318,000 compared to no benefit for the same quarter in 2001. The increase relates to the applicable portion of a refund application to recover tax payments of $1,176,000 from prior years, resulting from the Economic Stimulus Package signed into law in March 2002. The refund was received in July 2002.

Income from operations and net income. As a result of the factors discussed above, income from operations was $544,000 for the second quarter of 2002 compared to $289,000 for the second quarter of 2001. Net income was $659,000 for the second quarter of 2002 compared to $107,000 for the second quarter of 2001. Exclusive of the non-recurring benefit from income taxes, the Company's net income for the second quarter of 2002 was $341,000.

26 weeks ended June 30, 2002 and July 1, 2001

Revenues. Total revenues for the 26 weeks ended June 30, 2002 were $26,637,000 as compared to $36,652,000 for the 26 weeks ended July 1, 2001. The $10,015,000 or 27.3% decrease primarily was due to the discontinuation of operations in 15 restaurants, 14 of which were Midwest units, during the 26 weeks ending July 1, 2001. Same store sales decreased 12.7% compared to the same period in 2001 due to declines in both check average and customer counts.

Cost of revenues. The cost of revenues as a percentage of revenues decreased to 33.4% for the 26 weeks ended June 30, 2002 from 37.7% for the same period in 2001. This decrease primarily was due to lower protein costs and the effect of our new menu that has generated improvements in margins.

Labor and other related expenses. Labor and other related expenses decreased to 29.4% as a percentage of revenues for the 26 weeks ended June 30, 2002 as compared to 30.1% for the same period in 2001. This decrease was primarily attributable to a decrease in hourly labor partially offset by an increase in manager wages.

Other restaurant operating expenses. Other restaurant operating expenses increased to 21.4% as a percentage of revenues for the 26 weeks ended June 30, 2002 as compared with 20.6% for the same period in 2001. The increase was primarily related to an increase in media advertising and local store marketing costs.

General and administrative expenses. General and administrative expenses decreased to 6.7% as a percentage of revenues for the 26 weeks ended June 30, 2002 as compared with 7.6% for the same period in 2001. This decrease was primarily attributable to reductions in legal and professional expenses. Also included in 2001is a one-time nonrecurring charge of $150,000 for severance pay related to reorganization and downsizing of administrative and supervisory staff.

Depreciation and amortization. Depreciation and amortization expenses as a percentage of revenues was 2.6% for the 26 weeks ended June 30, 2002 and July 1, 2001.

Provision for impairment of assets. The Company recorded a $1,582,000 charge in the 26 weeks ended July 1, 2001 relating to the write-down of impaired assets to their estimated fair value in accordance with FASB Statement No. 121. The asset impairment charge related to the discontinuation of Midwest operations as well as reserving for certain under-performing Florida units.

Provision for store closings. The Company recorded a one-time charge of $1,333,000 relating to store closing costs primarily from the Midwest restaurant closures during the 26 weeks ended July 1, 2001. Store closing costs consist primarily of real estate lease obligations incurred or anticipated to complete lease terminations or continuing costs while new tenants are located.

Interest expenses, net. The Company recorded a non-recurring charge of $106,000 in the first quarter of 2002 relating to the issuance of warrants on January 31, 2002 as part of the previously reported $2,000,000 financing transaction. Exclusive of the non-recurring charge, net interest expense was $201,000 for the 26 weeks ending June 30, 2002 compared to $316,000 in the comparable period in 2001. The reduction was primarily related to debt repayments associated with store closures in 2001 and related property dispositions through 2002.

Benefit from income taxes. A benefit from income taxes of $318,000 was recognized in the 26 weeks ended June 30, 2002 compared to no benefit for the same period in 2001. The increase relates to a refund application to recover tax payments of $1,176,000 from prior years, resulting from the Economic Stimulus Package signed into law in March 2002. The refund was received in July 2002.

Income (loss) from operations and net income (loss). As a result of the factors discussed above, the Company's income from operations was $1,724,000 for the 26 weeks ended June 30, 2002 compared to a loss from operations of $2,399,000 for the 26 weeks ended July 1, 2001. Exclusive of the provisions for impairment of assets and store closings, the Company's income from operations was $516,000 for the 26 weeks ended July 1, 2001. The Company's net income for the 26 weeks ended June 30, 2002 was $1,585,000 compared to a net loss of $2,911,000 in the same period in 2001. Exclusive of the income tax benefit and interest expense on warrants, the Company's net income was $1,373,000 for the 26 weeks ended June 30, 2002. Exclusive of the provisions for impairment of assets and store closings, the Company's net income was

$4,000 for the 26 weeks ended July 1, 2001.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2002, the Company's current liabilities of $7,600,000 exceeded its current assets of $4,820,000, resulting in a working capital deficiency of $2,780,000. In comparison, the December 30, 2001 working capital deficiency was $7,580,000. The improvement in the working capital deficiency is primarily related to the cash received from the previously reported $2,000,000 financing transaction, which closed in the first quarter of 2002, and favorable operating results in the first and second quarters of 2002. In addition, as a result of the Economic Stimulus Package signed into law in March 2002, the Company recognized an income tax benefit in the fourth quarter of 2001 and the second quarter of 2002. A federal income tax refund of $1,176,000 for taxes paid in fiscal years 1996 and 1997 was received in July 2002.

The Company continues to be negatively impacted by the closure and ongoing divestiture of its Midwest locations. Such divestiture has had and, in the near term, will continue to have an adverse affect on the Company's cash position. Historically, the Company has generally operated with minimal or negative working capital as a result of the investing of current assets into non-current property and equipment as well as the turnover of restaurant inventory relative to more favorable vendor terms in accounts payable.

Cash used by operating activities for the 26 weeks ended June 30, 2002 was $134,000 compared to cash provided by operating activities of $914,000 for the comparable period in 2001. The net decrease of $1,048,000 primarily was attributable to the payoff of accounts payable and accrued expenses during 2002 compared to 2001.

The cash provided by investing activities increased to $839,000 for the 26 weeks ended June 30, 2002 from $601,000 for the same period in 2001, representing a net increase of $238,000 due to a reduction in expenditures for capital improvements.

The cash provided by financing activities was $953,000 for the 26 weeks ending June 30, 2002 compared to cash used in financing activities of $1,517,000 for the comparable period in 2001. The net increase of $2,470,000 was primarily due to the $2,000,000 financing transaction in January 2002.

The Company has existing indebtedness with Colonial Bank (previously known as Manufacturers Bank of Florida) consisting of two notes with a total principal balance, as of June 30, 2002, of $669,000. The loans, which were used to finance the purchase of a restaurant location and certain equipment, are subject to compliance by the Company with specified financial covenants. The Company is not currently in compliance with certain of these covenants, and has received a covenant waiver from the bank until September 4, 2002.

The Company has existing indebtedness with SunTrust Bank consisting of one note with a total principal balance, as of June 30, 2002, of $292,000. The loan, which was used to finance the purchase of a restaurant location, matured on August 4, 2002 and a 30-day extension has been requested to complete refinancing arrangements.

SEASONALITY

The restaurant industry in general is seasonal, depending on restaurant location and the type of food served. The Company has experienced fluctuations in its quarter-to-quarter operating results due primarily to its high concentration of restaurants in Florida. Business in Florida is influenced by seasonality due to various factors which include but are not limited to weather conditions in Florida relative to other areas of the U.S., the health of Florida's economy and the effect of world events in general and on the tourism industry in particular. The Company's restaurant sales are generally highest from January through April and June through August, the peaks of the Florida tourism season, and generally lower from September through mid-December. In many cases, locations are in coastal cities, where sales are significantly dependent on tourism and its seasonality patterns.

In addition, quarterly results have been, and in the future could be, affected by the timing and conditions under which restaurants are closed both in and outside of Florida. Because of the seasonality of the Company's business and the impact of restaurant closures and openings, if applicable, results for any quarter are not generally indicative of the results that may be achieved for a full fiscal year on an annualized basis and cannot be used to indicate financial performance for the entire year.

Item 3. - Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to market risk from changes in interest rates on debt and changes in commodity prices. The Company's exposure to interest rate risk relates to its $961,000 in outstanding debt with banks that is based on variable rates. Borrowings under the loan agreements bear interest at rates ranging from 50 basis points under the prime lending rate to 100 basis points over the prime lending rate.

Part II - OTHER INFORMATION

Item 1 - Legal Proceedings

None

Item 2 - Changes in Securities and Use of Proceeds

None

Item 3 - Defaults Upon Senior Securities

The Company has existing indebtedness with Colonial Bank (previously known as Manufacturers Bank of Florida), consisting of two notes with a total principal balance, as of June 30, 2002, of $669,000. The loans, which were used to finance the purchase of a restaurant location and certain equipment, are subject to compliance by the Company with specified financial covenants. The Company is not currently in compliance with certain of these covenants, and has received a covenant waiver from the bank until September 4, 2002.

Item 4 - Submission of Matters to a Vote of Security Holders

At the Company's Annual Meeting of Stockholders held on May 21, 2002, the stockholders voted to adopt the 2002 Equity Incentive Plan allowing for grants of options to purchase up to 1,850,000 shares of Common Stock. The adoption of the 2002 Equity Incentive Plan was approved by the vote of 1,668,074 shares for, 531,438 shares against, 10,009 shares abstaining and 1,586,155 shares representing shares not voted and broker non-votes.

In addition, at the Annual Meeting of Stockholders held on May 21, 2002, the following directors were nominated and elected by the votes indicated:

Philip R. Chapman: 3,584,162 For, 211,514 Against or Withheld, 0 Abstaining
J. Stephen Gardner: 3,584,262 For, 211,414 Against or Withheld, 0 Abstaining
John N. Giordano: 3,584,162 For, 211,514 Against or Withheld, 0 Abstaining
Michael R. Golding: 3,584,162 For, 211,514 Against or Withheld, 0 Abstaining
David W. Head: 3,584,062 For, 211,614 Against or Withheld, 0 Abstaining
Christopher D. Illick:3,584,262 For, 211,414 Against or Withheld, 0 Abstaining
Thomas R. Newkirk: 3,584,262 For, 211,414 Against or Withheld, 0 Abstaining

Item 5 - Other Information

None

Item 6 - Exhibits and Reports on Form 8-K

None

SIGNATURES

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

SHELLS SEAFOOD RESTAURANTS, INC.
(Registrant)

/s/ David W. Head August 14, 2002
David W. Head
President and Chief Executive Officer

/s/ Warren R. Nelson August 14, 2002
Warren R. Nelson
Executive Vice President and Chief Financial Officer