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GRILL CONCEPTS INC
Form 10-Q
August 10, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended June 26, 2005

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission File No. 0-23226

GRILL CONCEPTS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

13-3319172

(IRS Employer Identification No.)

11661 San Vicente Blvd., Suite 404, Los Angeles, California 90049

(Address of principal executive offices) (Zip code)

(310) 820-5559

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of August 10, 2005, 5,660,546 shares of Common Stock of the issuer were outstanding.

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GRILL CONCEPTS, INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GRILL CONCEPTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)
ASSETS

June 26, December 26,
2005 2004

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Current assets:		
Cash and cash equivalents	\$ 1,537,000	\$ 1,407,000
Inventories	675,000	620,000
Receivables, net of reserve (\$182,000 in 2005 and \$143,000 in 2004)	860,000	836,000
Reimbursement receivables from managed outlets	806,000	928,000
Prepaid expenses	675,000	2,372,000
	-----	-----
Total current assets	4,553,000	6,163,000
Furniture, equipment, & improvements, net	14,179,000	11,864,000
Goodwill, net	205,000	205,000
Restricted cash	1,042,000	882,000
Note receivable	88,000	101,000
Liquor licenses	411,000	350,000
Other assets	178,000	184,000
	-----	-----
Total assets	\$20,656,000	\$19,749,000
	=====	=====

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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GRILL CONCEPTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(Continued)

LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY

	June 26, 2005	December 26, 2004
	-----	-----
Current liabilities:		
Accounts payable	\$ 1,659,000	\$ 1,988,000
Accrued expenses	2,983,000	2,548,000
Accrued managed outlet operating expenses	806,000	928,000
Current portion of long term debt	111,000	196,000
Current portion notes payable - related parties	303,000	294,000
	-----	-----
Total current liabilities	5,862,000	5,954,000
Long-term debt	227,000	148,000
Notes payable - related parties	752,000	829,000
Other long-term liabilities	7,725,000	8,054,000
	-----	-----
Total liabilities	14,566,000	14,985,000
Minority interest	1,429,000	934,000

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Stockholders' equity:

Series I, Convertible Preferred Stock, \$.001 par value; 1,000,000 shares authorized, none issued and outstanding in 2005 and 2004	-	-
Series II, 10% Convertible Preferred Stock, \$.001 par value; 1,000,000 shares, authorized, 500 shares issued and outstanding in 2005 and 2004	-	-
Common stock, \$.00004 par value; 12,000,000 shares authorized in 2005 and 2004, 5,660,546 shares issued and outstanding in 2005, 5,650,146 shares issued and outstanding in 2004	-	-
Additional paid-in capital	13,673,000	13,649,000
Accumulated deficit	(9,012,000)	(9,819,000)
	-----	-----
Total stockholders' equity	4,661,000	3,830,000
	-----	-----
Total liabilities, minority interest and stockholders' equity	\$ 20,656,000	\$19,749,000
	=====	=====

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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GRILL CONCEPTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended		Six Months
	June 26, 2005	June 27, 2004	June 26, 2005
	-----	-----	-----
Revenues:		(restated)	
Sales	\$13,417,000	\$12,181,000	\$26,804,000
Cost reimbursements	5,085,000	2,903,000	8,554,000
Management and license fees	369,000	306,000	725,000
	-----	-----	-----
Total revenues	18,871,000	15,390,000	36,083,000
	-----	-----	-----
Operating expenses:			
Cost of sales	3,814,000	3,607,000	7,552,000
Restaurant operating expenses	8,047,000	7,627,000	15,748,000
Reimbursed costs	5,085,000	2,903,000	8,554,000
General and administrative	1,224,000	1,041,000	2,270,000
Depreciation and amortization	482,000	485,000	943,000
Pre-opening costs	153,000	1,000	244,000
	-----	-----	-----
Total operating expenses	18,805,000	15,664,000	35,311,000
	-----	-----	-----
Income (loss) from operations	66,000	(274,000)	772,000
Interest expense, net	(43,000)	(66,000)	(80,000)
	-----	-----	-----
Income (loss) before provision for income taxes and minority interest	23,000	(340,000)	692,000

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Provision for income taxes	(131,000)	(5,000)	(209,000)
Minority interest in loss of subsidiaries	233,000	214,000	324,000
	-----	-----	-----
Net income (loss)	125,000	(131,000)	807,000
Preferred dividends accrued	(12,000)	(12,000)	(25,000)
	-----	-----	-----
Net income (loss) applicable to common stock	\$ 113,000	\$ (143,000)	\$ 782,000
	=====	=====	=====
Net income (loss) per share applicable to common stock:			
Basic net income (loss)	\$ 0.02	\$ (0.03)	\$ 0.14
	=====	=====	=====
Diluted net income (loss)	\$ 0.02	\$ (0.03)	\$ 0.13
	=====	=====	=====
Weighted average shares outstanding:			
Basic	5,652,230	5,590,445	5,651,188
	=====	=====	=====
Diluted	6,064,781	5,590,445	6,018,508
	=====	=====	=====

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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GRILL CONCEPTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended	
	June 26, 2005	June 27, 2004
	-----	-----
Cash flows from operating activities:		(restated)
Net income (loss)	\$ 807,000	\$ (14,000)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	943,000	964,000
Stock based compensation expense	-	71,000
Allowance for doubtful accounts	39,000	6,000
Amortized deferred rent and lease incentives	(329,000)	(174,000)
Gain on sale of assets	-	(1,000)
Minority interest in loss of subsidiaries	(324,000)	(361,000)
Changes in operating assets and liabilities:		
Inventories	(55,000)	(1,000)
Receivables	(63,000)	45,000
Reimbursable costs receivable	122,000	41,000
Prepaid expenses and other current assets	(75,000)	(151,000)

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Tenant improvement allowances	1,772,000	1,002,000
Other assets	(4,000)	28,000
Accounts payable	(329,000)	736,000
Accrued expenses	419,000	(181,000)
Reimbursable costs payable	(122,000)	(41,000)
	-----	-----
Net cash provided by operating activities	2,801,000	1,969,000
	-----	-----
Cash flows from investing activities:		
Proceeds from disposal of assets	-	1,000
Restricted cash	(160,000)	-
Purchase of liquor license	(61,000)	(5,000)
Purchase of furniture, equipment and improvements	(3,248,000)	(1,431,000)
	-----	-----
Net cash used in investing activities	(3,469,000)	(1,435,000)
	-----	-----
Cash flows from financing activities:		
Proceeds from minority interest in LLC	976,000	35,000
Return of capital and profits to minority shareholder	(143,000)	(135,000)
Collections on note receivable	15,000	-
Proceeds from equipment financing	118,000	-
Proceeds from exercise of stock options	24,000	-
Payments to related parties	(68,000)	(116,000)
Payments on long-term debt	(124,000)	(182,000)
	-----	-----
Net cash provided by (used in) financing activities	798,000	(398,000)
	-----	-----
Net increase in cash and cash equivalents	130,000	136,000
Cash and cash equivalents, beginning of period	1,407,000	1,496,000
	-----	-----
Cash and cash equivalents, end of period	\$ 1,537,000	\$ 1,632,000
	=====	=====
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	\$ 81,000	\$ 100,000
Income taxes	129,000	93,000

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

GRILL CONCEPTS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. INTERIM FINANCIAL PRESENTATION

The interim condensed consolidated financial statements are prepared pursuant to the requirements for reporting on Form 10-Q. These financial statements have not been audited by our independent registered public accounting firm. The December 26, 2004 balance sheet data was derived from audited financial statements but does not include all disclosures required by generally accepted accounting principles. The interim financial statements and notes thereto should be read in conjunction with the financial statements and notes included in the Company's Form 10-K for the year ended December 26, 2004. In the opinion of management,

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these interim financial statements reflect all adjustments of a normal recurring nature necessary for a fair presentation of the results for the interim periods presented. The current period results of operations are not necessarily indicative of results, which ultimately will be reported for the full year ending December 25, 2005.

2004 RESTATEMENT OF FINANCIAL STATEMENTS

The Company began a review of its lease accounting policies following announcements in February 2005 that the Chief Accountant of the Securities and Exchange Commission ("SEC") issued a letter to the American Institute of Certified Public Accountants expressing the SEC staff's views relating to certain lease accounting issues. As a result of this review, the Company revised its accounting for leases in 2004 and restated its historical financial statements as of June 27, 2004 to correct for these errors in its lease accounting.

Historically, the Company recognized straight-line rents and amortized tenant improvement allowances using the initial non-cancelable term of the lease commencing on the date rent payments began. Under generally accepted accounting principles, as highlighted in the SEC guidance, the Company should have recognized rent expense (net of the related tenant improvement allowance amortization) on a straight-line basis over the initial non-cancelable term of the lease, beginning on the later of when the Company had access to the site or the lease was executed. The impact of correctly calculating rent expense was to decrease restaurant operating expenses and decrease general and administrative expenses by \$2,000 and \$1,000, respectively, for the three months and by \$4,000 and \$2,000 for the six months ended June 27, 2004.

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In closing the 2004 books and records, the Company reviewed the estimated useful lives that it was using to amortize its leasehold improvements. In the case of six restaurants, it was found that the incorrect lives had been used. The Company has revised the amortization period to reflect the shorter of their estimated useful lives or the initial lease term. The impact of the change is to increase depreciation and amortization expense by \$30,000 and \$61,000 for the three and six months ended June 27, 2004.

A portion of the above adjustments was recorded on the books of the LLC's in which we have a majority ownership or we consolidate under FIN 46. As discussed in the footnotes to Form 10K dated December 26, 2004, the Company allocates results to the minority interests based on the underlying economics of the investment. The impact of the above adjustments increased the amount of loss allocated to the minority interests by \$48,000 and \$95,000, respectively for the three and six months ended June 27, 2004.

During fourth quarter of 2004, the Company eliminated amounts that had previously been recorded as restaurant sales revenue arising from complimentary meals and promotional activities. The Company's previous method of recording these activities as restaurant sales revenue with a corresponding increase in operating expense is not in accordance with generally accepted accounting principles. Historically the amounts associated with complimentary meals and promotional activities have been recorded as restaurant revenues, with an offsetting amount in restaurant operations and corporate general and administrative expenses. As revised, the Company has eliminated all amounts for complimentary meals and promotional activities. As a result of these adjustments, revenues were decreased by \$465,000 in the second quarter 2004, restaurant operating expenses decreased by \$424,000 and general and administrative expenses decreased by \$41,000. The adjustments for the full six month period ended June 27, 2004 was a decrease in revenues of \$962,000, a

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decrease in restaurant operating expenses of \$875,000 and a decrease in general and administrative expenses of \$87,000. These adjustments have no impact on previously reported income and are non-cash.

The effects of our revisions to previously reported Consolidated Financial Statements as of and for the quarter ended June 27, 2004 are summarized as follows.

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The following table reflects the effects of the restatement on the Consolidated Statement of Operations:

	JUNE 27, 2004			
	THREE MONTHS		SIX MONTHS	
	AS PREVIOUSLY REPORTED	RESTATED	AS PREVIOUSLY REPORTED	RESTATED
Sales	12,646,000	12,181,000	26,156,000	25,194,000
Total Revenue	15,855,000	15,390,000	32,851,000	31,889,000
Restaurant operating expenses	8,054,000	7,628,000	16,179,000	15,300,000
General & administrative	1,083,000	1,041,000	2,310,000	2,221,000
Depreciation & amortization	454,000	485,000	903,000	964,000
Total operating expenses	12,494,000 (1)	15,664,000	25,632,000	32,104,000
Loss from operations	(246,000)	(274,000)	(160,000)	(215,000)
Loss before taxes	(312,000)	(340,000)	(292,000)	(347,000)
Loss before minority interest	(317,000)	(345,000)	(320,000)	(375,000)
Minority interest	166,000	214,000	266,000	361,000
Net loss	(151,000)	(131,000)	(54,000)	(14,000)
Net loss applicable to common stock	(163,000)	(143,000)	(79,000)	(39,000)
Net loss per share applicable to common stock:				
Basic	(\$0.03)	(\$0.03)	(\$0.01)	(\$0.01)
Diluted	(\$0.03)	(\$0.03)	(\$0.01)	(\$0.01)