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GRILL CONCEPTS INC
Form 10-Q
June 01, 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 March 27, 2005

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACTS 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 past 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 May 5, 2005, 5,650,146 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
CONSOLIDATED CONDENSED BALANCE SHEETS

ASSETS

| March 27, 2005 | December 26, 2004 |
|-------------------|----------------------|
| ----- | ----- |
| (unaudited) | |

Current assets:

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| | | |
|---|---------------|--------------|
| Cash and cash equivalents | \$ 1,639,000 | \$ 1,407,000 |
| Inventories | 627,000 | 620,000 |
| Receivables, net of reserve (\$162,000 in 2005 and \$143,000 in 2004) | 934,000 | 836,000 |
| Reimbursable costs receivable | 993,000 | 928,000 |
| Prepaid expenses & other current assets | 733,000 | 2,372,000 |
| | ----- | ----- |
| Total current assets | 4,926,000 | 6,163,000 |
| Furniture, equipment and improvements, net | 12,864,000 | 11,864,000 |
| Goodwill, net | 205,000 | 205,000 |
| Liquor licenses | 367,000 | 350,000 |
| Restricted cash | 1,042,000 | 882,000 |
| Note receivable | 102,000 | 101,000 |
| Other assets | 178,000 | 184,000 |
| | ----- | ----- |
| Total assets | \$ 19,684,000 | \$19,749,000 |
| | ===== | ===== |

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

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

LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY

| | March 27, 2005 | December 26, 2004 |
|---|-------------------|----------------------|
| | ----- | ----- |
| | (unaudited) | |
| Current liabilities: | | |
| Accounts payable | \$ 1,321,000 | \$ 1,988,000 |
| Accrued expenses | 2,618,000 | 2,548,000 |
| Reimbursable costs payable | 993,000 | 928,000 |
| Current portion of long term debt | 142,000 | 196,000 |
| Current portion notes payable - related parties | 298,000 | 294,000 |
| | ----- | ----- |
| Total current liabilities | 5,372,000 | 5,954,000 |
| Long-term debt | 136,000 | 148,000 |
| Notes payable - related parties | 791,000 | 829,000 |
| Other long-term liabilities | 7,885,000 | 8,054,000 |
| | ----- | ----- |
| Total liabilities | 14,184,000 | 14,985,000 |
| Minority interest | 988,000 | 934,000 |
| Stockholders' equity: | | |
| Series I, Convertible Preferred Stock, \$.001 par | | |

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| | | |
|---|--------------|--------------|
| 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, 5,650,146 issued and outstanding in 2005 and 5,588,019 issued and outstanding 2004 | | |
| Additional paid-in capital | 13,649,000 | 13,649,000 |
| Accumulated deficit | (9,137,000) | (9,819,000) |
| Total stockholders' equity | 4,512,000 | 3,830,000 |
| Total liabilities, minority interest and stockholders' equity | \$19,684,000 | \$19,749,000 |

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

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

| | Three Months Ended | |
|-------------------------------|--------------------|-------------------|
| | March 27, 2005 | March 28, 2004 |
| | | (restated) |
| Revenues: | | |
| Sales | \$13,387,000 | \$13,013,000 |
| Cost reimbursements | 3,469,000 | 3,190,000 |
| Management and license fees | 356,000 | 296,000 |
| Total revenues | 17,212,000 | 16,499,000 |
| Operating expenses: | | |
| Cost of sales | 3,738,000 | 3,772,000 |
| Restaurant operating expenses | 7,701,000 | 7,672,000 |
| Reimbursed costs | 3,469,000 | 3,190,000 |
| General and administrative | 1,046,000 | 1,180,000 |
| Depreciation and amortization | 461,000 | 479,000 |
| Pre-opening costs | 91,000 | 147,000 |
| Total operating expenses | 16,506,000 | 16,440,000 |
| Income from operations | 706,000 | 59,000 |

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| | | |
|--|------------|------------|
| Interest expense, net | (37,000) | (66,000) |
| | ----- | ----- |
| Income (loss) before provision for income taxes and minority interest | 669,000 | (7,000) |
| Provision for income taxes | (78,000) | (23,000) |
| Minority interest in net loss of subsidiaries | 91,000 | 147,000 |
| | ----- | ----- |
| Net income | 682,000 | 117,000 |
| Preferred dividends accrued | (13,000) | (13,000) |
| | ----- | ----- |
| Net income applicable to common stock | \$ 669,000 | \$ 104,000 |
| | ===== | ===== |
| Net income per share applicable to common stock: | | |
| Basic net income | \$ 0.12 | \$ 0.02 |
| | ===== | ===== |
| Diluted net income | \$ 0.11 | \$ 0.02 |
| | ===== | ===== |
| Weighted average share outstanding: | | |
| Basic | 5,650,146 | 5,545,864 |
| | ===== | ===== |
| Diluted | 6,092,223 | 6,192,910 |
| | ===== | ===== |

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

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

| | Three Months Ended | |
|--|--------------------|-------------------|
| | March 27, 2005 | March 28, 2004 |
| | ----- | ----- |
| Cash flows from operating activities: | | |
| Net income | \$ 682,000 | \$ 117,000 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 461,000 | 479,000 |
| Lease incentives and deferred rent amortization | (169,000) | (86,000) |
| Stock based compensation expense | - | 187,000 |
| Allowance for doubtful accounts | 19,000 | - |
| Minority interest in loss of subsidiaries | (91,000) | (147,000) |
| Changes in operating assets and liabilities: | | |
| Inventories | (7,000) | (1,000) |
| Receivables | (117,000) | 170,000 |
| | | (restated) |

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| | | |
|---|--------------|--------------|
| Reimbursable costs receivable | (65,000) | 38,000 |
| Prepaid expenses and other current assets | 79,000 | (287,000) |
| Lease incentive receivables | 1,560,000 | 885,000 |
| Other assets | 2,000 | 28,000 |
| Accounts payable | (667,000) | 301,000 |
| Accrued expenses | 69,000 | (276,000) |
| Reimbursable costs payable | 65,000 | (38,000) |
| | ----- | ----- |
| Net cash provided by operating activities | 1,821,000 | 1,370,000 |
| | ----- | ----- |
| Cash flows from investing activities: | | |
| Purchase of furniture, equipment and improvements | (1,457,000) | (1,241,000) |
| Restricted cash | (160,000) | - |
| Purchase of liquor license | (17,000) | - |
| | ----- | ----- |
| Net cash used in investing activities | (1,634,000) | (1,241,000) |
| | ----- | ----- |
| Cash flows from financing activities: | | |
| Proceeds from minority interest in LLC | 145,000 | 35,000 |
| Payments to related parties | (34,000) | (58,000) |
| Payments on long term debt | (66,000) | (119,000) |
| Return of capital and profits to minority shareholder | - | (68,000) |
| | ----- | ----- |
| Net cash provided by (used in) financing activities | 45,000 | (210,000) |
| | ----- | ----- |
| Net increase (decrease) in cash and cash equivalents | 232,000 | (81,000) |
| Cash and cash equivalents, beginning of period | 1,407,000 | 1,496,000 |
| | ----- | ----- |
| Cash and cash equivalents, end of period | \$ 1,639,000 | \$ 1,415,000 |
| | ===== | ===== |
| Supplemental cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | \$ 27,000 | \$ 51,000 |
| Income taxes | \$ - | \$ 36,000 |

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

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

1. INTERIM FINANCIAL PRESENTATION

The interim 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, these interim financial statements reflect all adjustments of a normal recurring

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nature necessary for a fair statement 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.

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 March 28, 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 ended March 28, 2004.

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 for the three months ended March 28, 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 below, 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 \$47,000 for the three months ended March 28, 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 \$497,000 in the first quarter 2004, restaurant operating expenses decreased by \$451,000 and general and administrative expenses decreased by \$46,000. 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 March 28, 2004 are summarized as

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follows.

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

| | MARCH 28, 2004 | |
|---|---------------------------|------------|
| | AS PREVIOUSLY REPORTED | RESTATED |
| Sales | 13,510,000 | 13,013,000 |
| Total Revenue | 16,996,000 | 16,499,000 |
| Restaurant operating expenses | 8,125,000 | 7,672,000 |
| General & administrative | 1,227,000 | 1,180,000 |
| Depreciation & amortization | 449,000 | 479,000 |
| Total operating expenses | 16,910,000 (1) | 16,440,000 |
| Income from operations | 86,000 | 59,000 |
| Income (loss) before taxes | 20,000 | (7,000) |
| Loss before minority interest | (3,000) | (30,000) |
| Minority interest | 100,000 | 147,000 |
| Net income | 97,000 | 117,000 |
| | | |
| Net income applicable to common stock | 84,000 | 104,000 |
| | | |
| Net income per share applicable to common stock: | | |
| Basic | \$ 0.02 | \$ 0.02 |
| Diluted | \$ 0.01 | \$ 0.02 |