GRILL CONCEPTS INC
Form 10-Q
May 14, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended April 1, 2001

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	13-3319172
(State or other jurisdiction of incorporation or organization)	(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 X No

As of May 5, 2001, 4,203,838 shares of Common Stock of the issuer were outstanding.

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

	April 1, 2001	December 31, 2000
	(unaudited)	
Current assets:		
Cash and cash equivalents	$423,506	$ 623,097
Inventories	534,284	541,579
Receivables	401,285	654,594
Prepaid expenses & other current assets	371,371	270,672
Total current assets	1,730,446	2,089,942

Furniture, equipment and improvements, net	9,018,653	9,300,548
Goodwill, net	210,957	213,053
Liquor licenses	587,494	587,614
Other assets	375,753	342,921
Total assets	$11,923,303	$12,534,078

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

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

LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY

	April 1, 2001 (unaudited)	December 31, 2000
Current liabilities:		
Bank line of credit	$100,000	$ 100,000
Accounts payable	1,096,959	1,420,591
Accrued expenses	2,135,839	2,358,699
Current portion of long term debt	743,564	737,881
Note payable - related parties	192,465	191,716
Total current liabilities	4,268,827	4,808,887
Long-term debt	2,186,109	2,408,151
Notes payable - related parties	445,306	458,132
Total liabilities	6,900,242	7,675,170
Minority interest	1,198,859	1,363,494
Stockholders' equity:		
Series A, 10% Convertible Preferred Stock, $.001 par value; 1,000,000 shares authorized, none issued and outstanding in 2001 and 2000	-	-
Series B, 8% Convertible Preferred Stock, $.001 par value; 1,000,000 shares authorized, none issued and outstanding in 2001 and 2000	-	-
Series I, Convertible Preferred Stock, $.001 par value; 1,000,000 shares authorized, none issued and outstanding in 2001 and 2000	-	-
Series II, 10% Convertible Preferred Stock, $.001 par value; 1,000,000 shares		

authorized, 500 shares issued and outstanding in 2001 and 2000	1	1
Common stock, .00004 par value; 7,500,000 shares Authorized, 4,203,888 shares issued and outstanding in 2001 and 2000	168	168
Additional paid-in capital	11,071,055	11,071,055
Accumulated deficit	(7,247,022)	(7,575,810)
Total stockholders' equity	3,824,202	3,495,414
Total liabilities, minority interest and stockholders' equity	$ 11,923,303	$12,534,078

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	
	April 1, 2001	March 26, 2000
Revenues:		
Sales	$12,278,861	$10,675,990
Management and license fees	156,507	149,740
Total revenues	12,435,368	10,825,730
Cost of sales	3,372,267	3,009,685
Gross Profit	9,063,101	7,816,045
Costs and expenses		
Restaurant operating expenses	7,326,903	6,304,113
General and administrative	1,023,509	801,295
Depreciation and amortization	309,554	286,684
Preopening costs		20,509
Total operating expenses	8,659,966	7,412,601
Income from operations	403,135	403,444
Interest expense, net	(90,252)	(83,907)
Income before provision for income taxes, equity in loss of joint venture		

and minority interest	312,883	319,537
Provision for income taxes	(99)	(4,000)
Minority interest	16,004	(32,636)
Equity in loss of joint venture	-	(9,469)
Net income	$328,788	$ 273,432
Preferred stock:		
Preferred dividends accrued or paid	(12,500)	(12,500)
Basic net income applicable to common stock	$ 316,288	$ 260,932
Net income per share:		
Basic net income	$0.08	$0.07
Preferred stock:		
Dividends	0.00	0.00
Basic net income applicable to common stock	$0.08	$0.07
Weighted average share outstanding	4,203,738	4,003,738

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

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

	Three Months Ended	
	April 1, 2001	March 26, 2000
Cash flows from operating activities:		
Net income	$328,788	$ 273,432
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	309,554	286,684
Minority interest in earnings (loss) of subsidiary	(16,004)	32,636
Equity in loss of joint venture	-	9,469
Changes in operating assets and liabilities		
Inventories	7,295	(6,496)
Receivables	253,309	(88,133)
Prepaid expenses	(103,342)	173,115
Liquor Licenses and other assets	(32,713)	(42,345)
Accounts payable	(323,632)	29,256
Accrued expenses	(222,860)	308,732
Net cash provided by operating activities	200,395	976,350

Cash flows from investing activities:		
Additions to furniture, equipment and improvements	(22,920)	(1,115,114)
Return of capital to minority shareholder	(89,910)	
Net cash used in investing activities	(112,830)	(1,115,114)
Cash flows from financing activities		
Payments on line of credit	-	(111,600)
Payments to related party	(12,077)	(239,474)
Payments on debt	(216,358)	(129,013)
Preferred return to minority shareholders	(58,721)	-
Borrowings on notes payable	-	114,612
Proceeds from investment in Chicago Grill		876,881
Net cash (used in) provided by financing activities	(287,156)	511,406
Net (decrease) increase in cash and cash equivalents	(199,591)	372,642
Cash and cash equivalents, beginning of period	623,097	352,453
Cash and cash equivalents, end of period	$ 423,506	$ 725,095
Supplemental cash flow information: Cash paid during the period for:		
Interest	$94,579	$84,629
Income taxes	$8,900	$ 4,000

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

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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 independent accountants. The December 31, 2000 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 dated December 31, 2000. In the opinion of management, these interim financial statements reflect all adjustments of a normal recurring 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 30, 2001.

Certain prior year amounts have been reclassified to conform to current year presentation.

2. FUTURE ACCOUNTING REQUIREMENTS

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". This Statement requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives will be recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. The new rules were effective the first quarter of 2001. The new standard did not have a material impact on the Company's financial statements.

3. DISTRIBUTION OF CAPITAL AND PREFERRED RETURNS

The Operating Agreement for San Jose Grill LLC, stipulates that distributions of distributable cash shall be made first, 10% to the Manager and 90% to the Members in the ratio of their percentage interests until the Members have received the amount of their initial capital contribution. Second, to the payment of the preferred return of ten percent per annum on the unpaid balance of the Member's adjusted capital contribution until the entire accrued but unpaid preferred return has been paid. Third, to the Members in the ratio of their percentage interests until the additional capital contributions have been repaid. Thereafter, to the Manager and Members in the ratio of their percentage interests.

The Operating Agreement and the Senior Promissory Note for Chicago - The Grill on the Alley, LLC stipulates that the non-manager member of Chicago - The Grill on the Alley, LLC is entitled to a cumulative preferred return of eight percent annually of their converted capital contribution.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis should be read in conjunction with the Company's financial statements and notes thereto included elsewhere in this Form 10-Q. Except for the historical information contained herein, the discussion in this Form 10-Q contains certain forward looking statements that involve risks and uncertainties, such as statements of the Company's plans, objectives, expectations and intentions. The cautionary statements made in this Form 10-Q should be read as being applicable to all related forward statements wherever they appear in this Form 10-Q. The Company's actual results could differ materially from those discussed here. For a discussion of certain factors that could cause actual results to be materially different, refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

Results of Operations

The following table sets forth, for the periods indicated, information derived from the Company's consolidated statements of operations expressed as a percentage of total operating revenues, except where otherwise noted.

	Three Months Ended	
	April 1, 2001	March 26, 2000
	%	%
Revenues:		
Company restaurant sales	98.7	98.6
Management and license fees	1.3	1.4

Total revenues	100.0	100.0
Cost of sales	27.1	27.8
Gross profit	72.9	72.2
Restaurant operating expenses	58.9	58.2
General and administrative	8.2	7.4
Depreciation and amortization	2.5	2.7
Preopening costs	0.0	0.2
Total operating expenses	69.6	68.5
Operating income	3.3	3.7
Interest expense, net	(1.0)	(0.8)
Income before taxes, equity in loss of joint venture and minority interest	2.6	2.9
Provision for income taxes	0.0	0.0
Minority interest	0.1	(0.3)
Equity in loss of joint venture	(0.0)	(0.1)
Net income	2.7	2.5

The following table sets forth certain unaudited financial information and other restaurant data relating to Company owned restaurants and Company managed and/or licensed restaurants.

	First Quarter Openings		Total open at End of Quarter	
	FY 2001	FY 2000	FY 2001	FY 2000
Daily Grill Restaurants:				
Company owned	-	-	10	10
Managed and/or licensed	-	-	4	3
Grill on the Alley restaurants:				
Company owned	-	-	3	2
Pizza restaurants	-	-	2	3
Other restaurants				
Managed and/or licensed	-	-	1	1
Total	0	0	20	19

	Three Months Ended	
	April 1, 2001	March 26, 2000
Weighted average weekly sales per company owned restaurant:		
Daily Grill	$67,050	$61,886
Grill on the Alley	89,920	83,939

Pizza restaurants	35,660	32,127
Change in comparable restaurants (1)		
Daily Grill	7.8%	4.8%
Grill on the Alley	6.2%	11.6%
Pizza restaurants	(2.8%)	(3.5%)
Total Company revenues:		
Daily Grill	$ 7,844,833	$ 7,240,622
Grill on the Alley	3,506,863	2,182,405
Pizza restaurants	927,165	1,252,963
Management and license fees	156,507	149,740
Total consolidated revenues	$12,435,368	$10,825,730
Managed restaurants	2,832,544	2,771,116
Licensed restaurants	1,943,411	1,247,371
Less management and license fees	(156,507)	(149,740)
Total system sales	$17,054,816	$14,694,477

(1) When computing comparable restaurant sales, restaurants open for at least 12 months are compared from period to period.

Material Changes in Results of Operations for the Three Months Ended April 1, 2001 as Compared to the Three Months Ended March 26, 2000.

On July 11, 2000, the Company made a strategic decision to close, and closed, its Pizzeria Uno restaurant in Media, Pennsylvania due to declining operations. Additionally, the 2001 period includes the operations of the Company's Chicago - The Grill on the Alley restaurant that opened on June 12, 2000 and license fees from the Skokie Daily Grill restaurant that opened in September 2000.

The Company's revenues for the three-month period increased 14.9% to $12,435,000 from $10,826,00 for the same period in 2000. Total revenues included $12,279,000 of sales revenues and $157,000 of management and licensing fees in 2001 as compared to $10,676,000 of sales revenues and $150,000 of management and licensing fees in 2000. The increase of $1,603,000, or 15.0%, in sales revenues is primarily attributable to the operation of Chicago - Grill on the Alley ($1,214,000) and increases in same store sales ($699,000), offset by the closure of the Pizzeria Uno in Media ($319,000). Same store sales (for restaurants open at least 12 months) increased 6.8% due to average ticket price increases at the Daily Grill restaurants ($730,000) and the Grill restaurants ($182,000) offset by a decrease in the number of guests at the Grill and Daily Grill restaurants ($199,000). Management and licensing fees increased 4.5% to $157,000 in 2001 from $150,000 for the same period in 2000. This resulted primarily from the addition of fees from the Daily Grill in Skokie, which opened in September 2000.

Cost of sales increased 12.0% yet decreased as a percentage of sales from 27.8% to 27.1%. This decrease in cost of sales as a percentage of sales during the 2001 period is principally attributable to a price increase effective in the fourth quarter of 2000 for the Daily Grill restaurants. As a result, dollar gross profit increased 16.0% from $7,816,000 (72.2% of sales) in 2000 to $9,063,000 (72.9% of sales) in 2001.

Restaurant operating expenses increased 16.2% to $7,327,000 in 2001 from

$6,304,000 in 2000. The dollar increase in restaurant operating expenses was primarily attributable to increased payroll and employee benefits. Restaurant operating expenses as a percentage of sales increased from 58.2% in 2000 to 58.9% in 2001.

General and administrative expenses increased 27.7% to represent 8.2% of sales in the 2001 three month period while amounting to 7.4% of sales in the 2000 three month period. Corporate payroll and related benefits increased $147,000 and represent 66.2% of the increase while professional services increased $42,000 and represent 19.4% of the increase.

Depreciation and amortization expense increased 8.0% for the 2001 three month period representing 2.5% of sales in 2001 and 2.6% of sales in 2000 due to the Chicago Grill assets being in service for the full quarter.

All preopening costs incurred during the 2000 three month period relate to the opening of Chicago Grill on the Alley, L.L.C. and were fully funded through landlord contributions, partnerships or a combination thereof and were expensed as incurred.

The 2001 three month operations also reflect income due to a minority interest in the net loss of subsidiaries of $16,000 from San Jose Grill, L.L.C. and the Chicago Grill on the Alley, L.L.C. compared to a loss in 2000 of $33,000 due to the allocation of minority interest in the net income of the San Jose Grill L.L.C. for the 2000 three month period.

The Company incurred a charge in 2000 of $9,000 for its equity in the loss of joint venture, which reflects the Company's 50% interest in the Daily Grill Short Order at Universal Studios CityWalk. As generally accepted accounting principles limit the loss the Company can record to the amount invested in the joint venture and losses in the amount of the Company's investment in the joint venture had previously been charged, the Company recorded no charge with respect to the joint venture during the 2001 period.

The Company recorded only minimal income taxes for the three month period due to the available federal and state net operating loss carry forwards that can be utilized to offset federal and state taxable earnings.

The Company reported accrued dividends on preferred stock of $12,500 in each of the three-month periods ending April 1, 2001 and March 26, 2000.

Material Changes in Financial Condition, Liquidity and Capital Resources.

At April 1, 2001 the Company had negative working capital of $ 2.5 million and a cash balance of $ 0.4 million compared to negative working capital of $ 2.7 million and a cash balance of $ 0.6 million at December 31, 2000.

The favorable change in working capital was primarily attributable to the operating profit during the period along with a decrease in receivables partially offset by decreases in accounts payable and accrued expenses.

The Company's need for capital resources has resulted from, and for the foreseeable future is expected to relate primarily to, the construction of restaurants. Historically, the Company has funded its day-to-day operations through its operating cash flow, while funding growth through a combination of bank borrowing, loans from stockholders/officers, the sale of Debentures, the sale of Preferred Stock, the issuance of warrants, loans and tenant allowances from certain of its landlords and, beginning in 1998, through joint venture arrangements. At April 1, 2001, the Company had existing bank borrowing of $1.1 million, an SBA loan of $0.1 million, loans from stockholders/officers of $0.6 million, equipment loans of $1.3 million and loans/advances from a landlord and others of $0.5 million.

As of May 1, 2001 the Company had opened no new restaurants in 2001. The Company is scheduled to begin management of a San Francisco hotel-based Daily Grill restaurant in November 2001. The Company will be responsible for approximately $250,000 of pre-opening costs in San Francisco. Management anticipates that new non-hotel based restaurants will cost between $1 million and $2 million per restaurant to build and open depending upon the location and available tenant allowances. Hotel based restaurants may involve remodeling existing facilities, substantial capital contributions from the hotel operators and other factors which will cause the cost to the Company of opening such restaurants to be less than the Company's cost to build and open non-hotel based restaurants.

The Company may enter into investment/loan arrangements in the future on terms similar to the San Jose Fairmont Grill and Chicago Westin Grill arrangements to provide for the funding of selected restaurants. Management believes that the Company has adequate resources on hand and operating cash flow to sustain operations for at least the following 12 months. In order to fund the opening of additional restaurants, the Company will require, and intends to raise, additional capital through additional bank borrowings, the issuance of debt or equity securities, or the formation of additional investment/loan arrangements, or a combination thereof. The Company presently has no commitments in that regard.

Future Accounting Requirements

In June 1998, the FASB issued SFAS No.133, "Accounting for Derivative Instruments and Hedging Activities". This Statement requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives will be recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is the type of hedge transaction. The new rules were effective the first quarter of 2001. The new standard did not have a material impact on the Company's financial statements.

Certain Factors Affecting Future Operating Results

In addition to the opening of new restaurants during 2001, as described above, and the various factors described in the Company's Annual Report on Form 10-K for the year ended December 31, 2000, the following developments during the first half of this year may impact future operating results.

In October 2000, the Company entered into an agreement to sell its South Plainfield, New Jersey Pizza Restaurant for $700,000. Sale of the South Plainfield Restaurant is subject to certain contingencies.

There can be no assurance that the Company will be successful in opening new restaurants in accordance with its anticipated opening schedule; that sufficient capital resources will be available to fund scheduled restaurant openings and start-up costs; that new restaurants can be operated profitably; that hotel restaurant management services will produce satisfactory cash flow and operating results to support such operations; that additional hotels will elect to retain the Company's hotel restaurant management services; that the Pizza Restaurants can be sold on terms satisfactory to the Company; that proceeds, if any, from the sale of the Pizza Restaurants can be deployed in a manner so as to replace the cash flows, revenues and operating profits from the Pizza Restaurants.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to market risk from changes in interest rates on funded debt. This exposure relates to its non-revolving credit and term loan facility (the "Credit Facility"). Borrowings outstanding under the Credit Facility totaled $1,125,000 at April 1, 2001. Borrowings under the Credit Facility bear interest at the lender's reference rate plus 0.25%. A hypothetical 1% interest rate change would not have a material impact on the Company's results of operations.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.1 Employment Agreement with Robert Spivak, amended effective January 1, 2001

(b) Reports on Form 8-K

None

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GRILL CONCEPTS, INC.

May 11, 2001

By: /s/ Robert Spivak

Robert Spivak
President and Chief
Executive Officer

By: /s/ Daryl Ansel

Daryl Ansel
Chief Financial Officer