

Edgar Filing: GRILL CONCEPTS INC - Form 10-Q

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.

Edgar Filing: GRILL CONCEPTS INC - Form 10-Q

GRILL CONCEPTS, INC.  
-----

INDEX

	Page Number
PART I - FINANCIAL INFORMATION	
Item 1. Financial Statements	
Consolidated Condensed Balance Sheets - March 27, 2005 and December 26, 2004	3
Consolidated Condensed Statements of Operations - For the three months ended March 27, 2005 and March 28, 2004 (restated)	5
Consolidated Condensed Statements of Cash Flows - For the three months ended March 27, 2005 and March 28, 2004 (restated)	6
Notes to Consolidated Condensed Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3. Quantitative and Qualitative Disclosures About Market Risk	28
Item 4. Controls and Procedures	28
PART II - OTHER INFORMATION	
Item 6. Exhibits	29
SIGNATURES	30

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:

Edgar Filing: GRILL CONCEPTS INC - Form 10-Q

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.

3

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		

Edgar Filing: GRILL CONCEPTS INC - Form 10-Q

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.

4

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

Edgar Filing: GRILL CONCEPTS INC - Form 10-Q

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.

5

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

	Three Months Ended	
	March 27, 2005	March 28, 2004
	-----	-----
		(restated)
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

Edgar Filing: GRILL CONCEPTS INC - Form 10-Q

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

## Edgar Filing: GRILL CONCEPTS INC - Form 10-Q

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

## Edgar Filing: GRILL CONCEPTS INC - Form 10-Q

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