

Edgar Filing: GRILL CONCEPTS INC - Form 10-Q

GRILL CONCEPTS INC  
Form 10-Q  
May 14, 2003

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 30, 2003

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  
-----

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  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 May12, 2003, 5,537,071 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

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ASSETS

	March 30, 2003	December 29, 2002
	-----	-----
	(unaudited)	
Current assets:		
Cash and cash equivalents	\$ 984,000	\$ 1,275,000
Inventories	491,000	469,000
Receivables, net of reserve (\$46,000 in 2003 and 2002)	834,000	549,000
Prepaid expenses & other current assets	792,000	527,000
	-----	-----
Total current assets	3,101,000	2,820,000
Furniture, equipment and improvements, net	8,534,000	8,768,000
Goodwill	205,000	205,000
Liquor licenses	318,000	332,000
Restricted cash	150,000	616,000
Advance to managed outlets	351,000	351,000
Note receivable	122,000	121,000
Other assets	441,000	452,000
	-----	-----
Total assets	\$ 13,222,000	\$ 13,665,000
	=====	=====

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 30, 2003	December 29, 2002
	-----	-----
	(unaudited)	
Current liabilities:		
Accounts payable	\$ 969,000	\$ 978,000
Accrued expenses	2,159,000	2,454,000

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Current portion of long term debt	412,000	403,000
Notes payable - related parties	310,000	306,000
	-----	-----
Total current liabilities	3,850,000	4,141,000
Long-term debt	431,000	538,000
Notes payable - related parties	398,000	438,000
	-----	-----
Total liabilities	4,679,000	5,117,000
Minority interest	2,018,000	2,370,000
Stockholders' equity:		
Series I, Convertible Preferred Stock, \$.001 par Value; 1,000,000 shares authorized, none Issued and outstanding in 2003 and 2002	-	-
Series II, 10% Convertible Preferred Stock, \$.001 par Value; 1,000,000 shares authorized, 500 shares issued And outstanding in 2003 and 2002	-	-
Common stock, \$.00004 par value; 12,000,000 shares Authorized in 2003 and 2002, 5,537,071 issued and Outstanding in 2003 and 2002	-	-
Additional paid-in capital	13,152,000	13,152,000
Accumulated deficit	(6,627,000)	(6,974,000)
	-----	-----
Total stockholders' equity	6,525,000	6,178,000
Total liabilities, minority interest and stockholders' equity	\$13,222,000	\$ 13,665,000
	=====	=====

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 30,	March 31,
	2003	2002
	-----	-----
Revenues:		
Sales	\$11,667,000	\$11,550,000
Management and license fees	255,000	222,000
	-----	-----
Total revenues	11,922,000	11,772,000

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Cost of sales	3,174,000	3,181,000
	-----	-----
Gross Profit	8,748,000	8,591,000
	-----	-----
Operating expenses:		
Restaurant operating expenses	6,995,000	7,033,000
Gain on disposal of assets	(12,000)	-
General and administrative	907,000	929,000
Depreciation and amortization	432,000	371,000
Pre-opening costs	187,000	-
	-----	-----
Total operating expenses	8,509,000	8,333,000
	-----	-----
Income from operations	239,000	258,000
Interest expense, net	(48,000)	(45,000)
	-----	-----
Income before provision for income taxes, equity in loss of joint venture and minority interest	191,000	213,000
Provision for income taxes	(55,000)	(18,000)
Minority interest in net loss of subsidiaries	216,000	53,000
Equity in loss of joint venture	(5,000)	(5,000)
	-----	-----
Net income	347,000	243,000
	-----	-----
Preferred dividends accrued or paid	(13,000)	(13,000)
	-----	-----
Net income applicable to common stock	\$ 334,000	\$ 230,000
	=====	=====
Net income per share applicable to common stock:		
Basic net income	\$ 0.06	\$ 0.04
	=====	=====
Diluted net income	\$ 0.06	\$ 0.04
	=====	=====
Weighted average share outstanding:		
Basic	5,537,071	5,537,071
	=====	=====
Diluted	5,537,071	5,537,071
	=====	=====

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

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-----  
 March 30,  
 2003  
 -----

Cash flows from operating activities:	
Net income	\$ 347,0
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation and amortization	432,0
Gain on sale of liquor license	(12,0
Minority interest in loss of subsidiaries	(216,0
Equity in loss of joint venture	5,0
Changes in operating assets and liabilities:	
Inventories	(22,0
Receivables	(285,0
Prepaid expenses and other current assets	(269,0
Liquor licenses and other assets	(4,0
Accounts payable	(9,0
Accrued expenses	(316,0
Net cash used in operating activities	(349,0
Cash flows from investing activities:	
Additions to furniture, equipment and improvements	(184,0
Release of restricted cash	466,0
Proceeds from liquor license	26,0
Advance to managed outlets	
Net cash provided by (used in) investing activities	308,0
Cash flows from financing activities:	
Payments on related party debt	(36,0
Payments on long term debt	(98,0
Return of capital to minority shareholder	(72,0
Preferred return to minority shareholder	(44,0
Net cash used in financing activities	(250,0
Net decrease in cash and cash equivalents	(291,0
Cash and cash equivalents, beginning of period	1,275,0
Cash and cash equivalents, end of period	\$ 984,0
Supplemental cash flow information:	
Cash paid during the period for:	
Interest	\$ 38,0
Income taxes	\$ 16,0

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

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### 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 29, 2002 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 29, 2002. 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 28, 2003.

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

#### 2. RESTRICTED CASH

Capital contributions from both the Company and the minority member of The Daily Grill at Continental Park, LLC ("South Bay Daily Grill") have been deposited into an escrow account. The escrow agent is issuing checks directly to the contractor or to the Company for payment to other vendors for expenses associated with the construction of the new restaurant and pre-opening activities.

#### 3. RECENTLY ISSUED ACCOUNTING REQUIREMENTS

In May 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Standards No. 145, ("SFAS 145"), "Rescission of FAS Nos. 4, 44 and 64, Amendment of FAS 13, and Technical Corrections." Among other things, SFAS 145 rescinds various pronouncements regarding early extinguishment of debt and allows extraordinary accounting treatment for early extinguishment only when the provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations and Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" are met. SFAS 145 provisions regarding early extinguishment of debt are generally effective for fiscal years beginning after May 15, 2002. Adoption of this statement has not had a material impact on our consolidated financial statements.

In July 2002, the FASB issued Statement of Financial Standards No. 146, ("SFAS 146"), "Accounting for Costs Associated with Exit or Disposal Activities," which superceded EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity." SFAS 146 requires that a liability for a cost associated with an exit activity or disposal activity be recognized and measured initially at fair value only when the liability is incurred. EITF Issue No. 94-3 requires recognition of a liability at the date an entity commits to an exit plan. All provisions of SFAS 146 will be effective for exit or disposal activities that are initiated after December 31, 2002. Adoption of this statement has not had a material impact on our consolidated financial statements.

In November 2002, the FASB issued FASB Interpretation No. ("FIN") 45,

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"Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 required that upon issuance of a guarantee, the entity (i.e., the guarantor) must recognize a liability for the fair value of the obligation it assumes under the guarantee. FIN 45's provisions for initial recognition and measurement will be effective on a prospective basis to guarantees issued or modified after December 31, 2002. Consistent with the provisions of FIN 45, the Company will apply this statement prospectively. As required by FIN 45, the disclosure provisions, when required, have been included in the Company's consolidated financial statements for the three months ended March 30, 2003.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," which amends SFAS No. 123. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results of operations.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities." FIN 46 will be the guidance that determines (1) whether consolidation is required under the "controlling interest" model of Accounting Research Bulletin No. 51 ("ARB 51"), "Consolidated Financial Statements" or, alternatively, (2) whether the variable interest model under FIN 46 should be used to account for existing and new entities. The variable interest model of FIN 46 looks to identify the "primary beneficiary" of a variable interest entity. The primary interest entity would be required to be consolidated if certain conditions are met. FIN 46 effective dates and transition provisions will be required to be applied to preexisting entities as of the first interim period beginning after June 15, 2003. Management does not believe that the adoption of this statement will have a material impact on our consolidated financial statements.

#### 4. 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, distributions of distributable cash will be made first, 16 2/3% as an incentive to the manager and of the balance 50.05% to the Company and 49.05% to the minority member. In March 2003 a distribution of distributable cash in the amount of \$72,000 was made to the minority member that reduced the member's interest. The minority member's unrecovered capital contribution at March 30, 2003 was \$78,000.

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 capital contribution. Preferred return payments of \$44,000 were paid to the non-manager member during the first quarter of 2003. These payments are treated as a reduction of equity. Payments returning \$11,000 of converted capital contribution were made in the first quarter of 2003. The minority member's unrecovered capital contribution at March 30, 2003 was \$706,000. If there is sufficient cash for distribution after payment of the preferred return and converted capital, it would go first to the manager member to repay capital contributions and thereafter, 60% to the Company and 40% to the



minority member.

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The Operating Agreement for The Grill on Hollywood, LLC stipulates that distributions of distributable cash shall be made first, 90% to the non-manager member and 10% to the manager member until non-manager member's preferred return, unrecovered contribution account and additional contribution account are reduced to zero. Second, 90% to the manager member and 10% to the non-manager member until the manager member's preferred return and unrecovered contribution account have been reduced to zero. Thereafter, distributions of distributable cash shall be made 51% to the Company and 49% to the minority member. No distribution of distributable cash has been made through March 30, 2003. The minority member's unrecovered capital contribution at March 30, 2003 was \$1,200,000.

The Operating Agreement for the Daily Grill at Continental Park, LLC stipulates that both members are entitled to a 10% preferred return on their unrecovered capital contribution. Additionally, the manager member is entitled to a 10% preferred return on unpaid management fees. Distributions of distributable cash shall be made first to the manager member until all deferred management fees have been paid. Second, ratably to the members until additional capital contributions, if any, and preferred returns have been paid. Third, \$300,000 payable 2/3 to the non-manager member and 1/3 to the manager member. Fourth, 90% to the non-manager member and 10% to the manager member until the non-manager member has received all accrued and unpaid preferred return. Fifth, 90% to non-manager member and 10% to the manager member until the non-manager's capital contribution has been recovered. Sixth, 90% to the manager member and 10% to the non-manager member until the manager member has received any accrued and unpaid preferred return. Seventh, 90% to the manager member and 10% to the non-manager member until the manager member has recovered all their capital contribution. Thereafter, 50.1% to the Company and 49.9% to the minority member. No distribution of distributable cash has been made in 2003. The minority member's unrecovered capital contribution at March 30, 2003 was \$1,000,000.

#### 5. STOCK-BASED COMPENSATION

The Company accounts for stock-based employee compensation arrangements in accordance with provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, and complies with the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Under APB 25, compensation expense is based on the difference, if any, on the date of grant between the fair value of the Company's stock and the amount an employee must pay to acquire the stock. The Company accounts for stock and options to non-employees at fair value in accordance with the provisions of SFAS No. 123 and the Emerging Issues Task Force Consensus on Issue No. 96-18.

The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," and will continue to use the intrinsic value-based method of accounting prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation expense has been recognized for the stock option plans. Compensation expense for the Company's stock option plans determined based on the fair value at the grant date for awards in the first quarter of 2003 and 2002 would have decreased net income by \$42,000 and \$42,000, respectively on a pro forma basis.

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	2003	2002
	-----	-----
Net income, as reported	\$334,000	\$230,000
Net income (loss), pro forma	\$292,000	\$188,000
Net income per share, as reported:		
Basic	\$ 0.06	\$ 0.04
Diluted	\$ 0.06	\$ 0.04
Net income (loss) per share, pro forma:		
Basic	\$ 0.05	\$ 0.03
Diluted	\$ 0.05	\$ 0.03

6. PER SHARE DATA

Pursuant to SFAS No. 128, "Earnings Per Share," basic net income per share is computed by dividing the net income attributable to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed by dividing the net income attributable to common shareholders by the weighted-average number of common and common equivalent shares outstanding during the period. Common share equivalents included in the diluted computation represent shares issuable upon assumed exercise of stock options, warrants and convertible preferred stocks using the treasury stock method.

A reconciliation of earnings available to common stockholders and diluted earnings available to common stockholders and the related weighted average shares for the quarters ended March 30, 2003 and March 31, 2002 follow:

	2003		2002	
	Earnings	Shares	Earnings	Shares
	-----		-----	
Net income	\$ 347,000		\$ 243,000	
Less: preferred stock dividend	(13,000)		(13,000)	
	-----		-----	
Earnings available for common stockholders	334,000	5,537,071	230,000	5,537,071
Dilutive securities:				
Stock options	-	-	-	-
Warrants	-	-	-	-
	-----		-----	
Dilutive earnings available to common stockholders	\$ 334,000	5,537,071	\$ 230,000	5,537,071
	=====			

Stock options for 664,525 and 536,813 shares for 2003 and 2002, respectively,

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were excluded from the calculation of diluted earnings per share because they were anti-dilutive. Warrants for 1,922,786 and 2,297,786 shares for 2003 and 2002, respectively, were excluded from the calculation of diluted earnings per share because they were anti-dilutive. 500 shares of preferred stock were excluded from the calculation of diluted earnings per share because they were anti-dilutive for both 2003 and 2002.

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### 7. ADVANCES TO MANAGED OUTLETS

On February 25, 2002 the Company began management of the San Francisco Daily Grill in the Handlery Hotel near Union Square in San Francisco, California. The Company advanced approximately \$287,000 to the restaurant during 2002 that will be reimbursed through future operations.

In July 2002 the Company began management of a Daily Grill restaurant in the Westin Galleria in Houston, Texas. The Company advanced approximately \$64,000 to the restaurant for initial working capital during 2002 that will be repaid from future cash flows.

### 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 looking 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 29, 2002.

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### 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	
	March 30, 2003	March 31, 2002
	----- %	----- %
Revenues:		
Company restaurant sales	97.9	98.1

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Management and license fees	2.1	1.9
	-----	-----
Total revenues	100.0	100.0
Cost of sales	26.6	27.0
	-----	-----
Gross profit	73.4	73.0
	-----	-----
Restaurant operating expenses	58.7	59.7
Gain on sale of liquor license	(0.1)	-
General and administrative	7.6	7.9
Depreciation and amortization	3.6	3.2
Pre-opening costs	1.6	0.0
	-----	-----
Total operating expenses	71.4	70.8
	-----	-----
Operating income	2.0	2.2
Interest expense, net	(0.4)	(0.4)
	-----	-----
Income before taxes, equity in loss of joint venture and minority interest	1.6	1.8
Provision for income taxes	(0.5)	(0.2)
Minority interest	1.8	0.5
Equity in loss of joint venture	0.0	0.0
	-----	-----
Net income	2.9	2.1
	=====	=====

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 2003	FY 2002	FY 2003	FY 2002
Daily Grill Restaurants:				
Company owned	1	-	10	10
Managed and/or licensed	-	1	6	5
Grill on the Alley restaurants:				
Company owned	-	-	4	4
Pizza restaurants	-	-	-	1
Other restaurants				
Managed and/or licensed	-	-	1	1
	-----	-----	-----	-----
Total	1	1	21	21
	=====	=====	=====	=====

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	Three Months Ended	
	March 30, 2003	March 31, 2002
Weighted average weekly sales per company owned restaurant:		
Daily Grill	\$ 67,800	\$ 61,200
Grill on the Alley	75,500	76,500
Pizza restaurants	n.a.	31,100
Change in comparable restaurants (1)		
Daily Grill	3.4%	(8.7)%
Grill on the Alley	(1.3)%	(8.3)%
Pizza restaurants	n.a.	(11.9)%
Total Company revenues:		
Daily Grill	\$ 7,739,000	\$ 7,166,000
Grill on the Alley	3,928,000	3,980,000
Pizza restaurants	-	404,000
Management and license fees	255,000	222,000
Total consolidated revenues	11,922,000	11,772,000
Managed restaurants sales	3,302,000	2,795,000
Licensed restaurants sales	2,295,000	1,447,000
Less management and license fees	(255,000)	(222,000)
Total system sales	\$ 17,264,000	\$ 15,792,000