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

## GRILL CONCEPTS INC

Form 10-Q
August 10, 2005

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR $15(\mathrm{D})$ OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
$\qquad$

Commission File No. 0-23226

GRILL CONCEPTS, INC.
(Exact name of registrant as specified in its charter)
 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
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(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 [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as
defined in Rule $12 \mathrm{~b}-2$ of the Exchange Act). Yes [ ] No [X]

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

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PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
GRILL CONCEPTS, INC. AND SUBSIDIARIESCONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
June 26, December 26,
2005
2004

```
Current assets:
    Cash and cash equivalents $ 1,537,000 $ 1,407,000
    Inventories
    Receivables, net of reserve ($182,000 in
                2005 and $143,000 in 2004)
    Reimbursement receivables from
        managed outlets
    Prepaid expenses
        Total current assets
Furniture, equipment, & improvements, net
Goodwill, net
Restricted cash
Note receivable
Liquor licenses
Other assets
Total assets
```



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

|  | $\begin{gathered} \text { June } 26, \\ 2005 \end{gathered}$ | $\begin{array}{r} \text { December } 26, \\ 2004 \end{array}$ |
| :---: | :---: | :---: |
| 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
Accumulated deficit

Total stockholders' equity

Total liabilities, minority interest and stockholders' equity


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

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


Income (loss) before provision for income taxes and minority interest


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


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    Tenant improvement allowances
    Other assets
    Accounts payable
    Accrued expenses
    Reimburseable costs payable
    Net cash provided by operating activities
Cash flows from investing activities:
    Proceeds from disposal of assets - 1,000
    Restricted cash
    (160,000) -
    Purchase of liquor license
    Purchase of furniture, equipment and improvements
Net cash used in investing activities
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
    Proceeds from equipment financing
        15,000
        118,000
    Proceeds from exercise of stock options
            24,000
    Payments to related parties
            (68,000)
            (124,000)
                ------------
-----------------------
Net increase in cash and cash equivalents
\begin{tabular}{rr}
130,000 & 136,000 \\
\(1,407,000\) & \(1,496.000\) \\
---------- & \(--------1,00\)
\end{tabular}
Cash and cash equivalents, end of period
$
Cash and cash equivalents, beginning of period
======
Supplemental cash flow information:
    Cash paid during the period for:
        Income taxes
\begin{tabular}{rr}
81,000 & \(\$\) \\
129,000
\end{tabular}\(\quad\)\begin{tabular}{rl}
100,000 \\
& 93,000
\end{tabular}
The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.
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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 $10-\mathrm{K}$ for the year ended December 26 , 2004 . In the opinion of management,
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 $27,2004$.

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 10 K 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:

| 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) | (\$0.0 |
| Diluted | (\$0.03) | (\$0.03) | (\$0.01) | (\$0.01 |

