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GRILL CONCEPTS INC
Form 10-K/A
May 27, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A

(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 28, 2003

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) (I.R.S. Employer Identification Number)

11661 San Vicente Blvd., Suite 404, Los Angeles, California 90049

(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Include Area Code: (310) 820-5559

Securities Registered Under Section 12(b) of the Exchange Act:

| Title of Each Class | Name of Each Exchange on Which Registered |
|---------------------|---|
| ----- | ----- |
| None | None |

Securities Registered Under Section 12(g) of the Exchange Act:

Common Stock, \$.00004 par value

(Title of Class)

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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

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Yes [] No [X]

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the closing price on the NASDAQ Small-Cap Market, as of the close of business June 30, 2003 was approximately \$ 7,424,000.

Number of shares outstanding of the registrant's common stock, \$.00004 par value, as of March 12, 2004: 5,537,071 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive annual proxy statement to be filed within 120 days of the Registrant's fiscal year ended December 28, 2003 are incorporated by reference into Part III.

EXPLANATORY NOTE

See Note 1 of the consolidated financial statements for information regarding revisions of previously issued financial statements filed in this Form 10-K/A . All disclosures in this amendment, other than those related to these financial statement revisions, are as of the date of the original filing and have not been updated.

TABLE OF CONTENTS

| PART I | | Page |
|----------|--|------|
| | | ---- |
| ITEM 1. | BUSINESS | 3 |
| ITEM 2. | PROPERTIES | 15 |
| ITEM 3. | LEGAL PROCEEDINGS. | 16 |
| ITEM 4. | SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS. . . | 16 |
| PART II | | |
| ITEM 5. | MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS. | 17 |
| ITEM 6. | SELECTED FINANCIAL DATA. | 18 |
| ITEM 7. | MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS. | 19 |
| ITEM 7A. | QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK | 36 |
| ITEM 8. | FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA. | 36 |
| ITEM 9. | CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE. | 36 |
| ITEM 9A. | CONTROLS AND PROCEDURES. | 37 |
| PART III | | |
| ITEM 10. | DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT . . . | 38 |
| ITEM 11. | EXECUTIVE COMPENSATION | 38 |
| ITEM 12. | SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT | 38 |
| ITEM 13. | CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS | 38 |
| ITEM 14. | PRINCIPAL ACCOUNTING FEES AND SERVICES | 38 |
| PART IV | | |
| ITEM 15. | EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND | |

PART I

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The Company's actual results could differ materially from those set forth in the forward-looking statements. Certain factors that might cause such a difference are discussed in the section entitled "Certain Factors Affecting Future Operating Results" beginning on page 33 of this Form 10-K.

ITEM 1. BUSINESS

Except as expressly indicated or unless the context otherwise requires, as used herein, "GCI," the "Company", "we", "our", or "us", means Grill Concepts, Inc., a Delaware corporation and its subsidiaries.

GENERAL

Grill Concepts, Inc. and its subsidiaries (the "Company") develop and operate casual dining restaurants under the name "Daily Grill" and fine dining restaurants under the name "The Grill on the Alley." In addition, we own and operate, or have management or licensing agreements with respect to, other restaurant properties.

The Company was incorporated under the laws of the State of Delaware in November of 1985 to acquire and operate franchised Pizzeria Uno restaurants. Since our acquisition of Grill Concepts, Inc., a California corporation ("GCI"), in March of 1995, we have focused principally on the expansion of the "Daily Grill" and "The Grill on the Alley" restaurant formats of GCI.

At December 28, 2003, we owned and operated fourteen restaurants and managed or licensed eight additional restaurants. Of the total ten Daily Grill restaurants and four The Grill on the Alley restaurants are owned and operated, five Daily Grill restaurants are managed and two Daily Grill restaurants and a City Bar & Grill restaurant are licensed by us. With the exception of three The Grill on the Alley restaurants, which are operated by partnerships, all of the Daily Grill and The Grill on the Alley restaurants which were owned and operated at December 28, 2003 were solely owned and operated on a non-franchise basis by us.

In 2001 the Company entered into a strategic alliance with Starwood Hotels and Resorts Worldwide, Inc. to jointly develop the Company's restaurant properties in Starwood hotels. Management believes that the opening of restaurants in hotel properties in strategic markets will help further establish brand name recognition for the opening of free-standing restaurants in those markets.

During 2002, we opened two managed restaurants, consisting of (1) a Daily Grill restaurant, not subject to the Starwood alliance, opened in February 2002 in the Handlery Union Square Hotel in San Francisco, California, and (2) a Daily Grill restaurant opened in July 2002 in the Westin Galleria Hotel in Houston, Texas pursuant to our alliance with Starwood. During 2002, we (1) sold our last Pizzeria Uno franchise in Cherry Hill, New Jersey and (2) closed the Daily Grill in Encino, California.

During 2003, the Company continued to pursue a strategic growth plan whereby the Company plans to open, and/or convert, and operate, and/or manage,

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Daily Grill and The Grill on the Alley restaurants in hotel properties, and free-standing restaurants, in strategic markets throughout the United States.

During 2003, we opened one owned and one managed restaurant, being (1) a 50.1% owned Daily Grill opened in January 2003 in El Segundo (South Bay), California, and (2) a managed Daily Grill opened in September 2003 in the Portland Westin Hotel in Portland, Oregon operated pursuant to our alliance with Starwood.

In January 2004, a 100% owned Daily Grill, not covered by the Starwood alliance, was opened in the Hyatt Bethesda Hotel in Bethesda, Maryland.

3

The following table sets forth unaudited restaurant count information, per restaurant sales information, comparable restaurant sales information for restaurants open twelve months in both periods, and total sales information during 2003 and 2002 by restaurant concept for both owned restaurants ("Company Restaurants") and managed and/or licensed restaurants ("Managed Restaurants"):

| | 2002 | 2003 |
|--------------------------------------|-------|-------|
| | ----- | ----- |
| Number of restaurants: | | |
| Daily Grill restaurants: | | |
| Company Restaurants: | | |
| Beginning of year | 10 | 9 |
| Restaurant opening | - | 1 |
| Restaurant closings | (1) | - |
| | ----- | ----- |
| End of year | 9 | 10 |
| Managed or Licensed Restaurants: | | |
| Beginning of year | 4 | 6 |
| Restaurant openings | 2 | 1 |
| | ----- | ----- |
| End of year | 6 | 7 |
| Total Daily Grill restaurants: | | |
| Beginning of year | 14 | 15 |
| Restaurant openings | 2 | 2 |
| Restaurants closed or sold | (1) | - |
| | ----- | ----- |
| End of year | 15 | 17 |
| | ===== | ===== |
| Grill restaurants: | | |
| Company Restaurants: | | |
| Beginning of year | 4 | 4 |
| Restaurant openings | - | - |
| | ----- | ----- |
| End of year | 4 | 4 |
| Total Grill restaurants: | | |
| Beginning of year | 4 | 4 |
| Restaurant openings | - | - |
| | ----- | ----- |
| End of year | 4 | 4 |
| | ===== | ===== |

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| | | |
|----------------------------------|-------|-------|
| Other restaurants(1): | | |
| Company Restaurants: | | |
| Beginning of year | 1 | - |
| Restaurants closed or sold. | (1) | - |
| | ----- | ----- |
| End of year | - | - |
| Managed or Licensed Restaurants: | | |
| Beginning of year | 1 | 1 |
| | ----- | ----- |
| End of year | 1 | 1 |
| Total Other restaurants: | | |
| Beginning of year | 2 | 1 |
| Restaurants closed or sold. | (1) | - |
| | ----- | ----- |
| End of year | 1 | 1 |
| | ===== | ===== |
| Total restaurants: | | |
| Beginning of year | 20 | 20 |
| Restaurant openings | 2 | 2 |
| Restaurants closed or sold. | (2) | - |
| | ----- | ----- |
| End of year | 20 | 22 |
| | ===== | ===== |

(1) Includes one Pizzeria Uno Restaurant in 2002 operated pursuant to a franchise agreement.

4

| | 2002 | 2003 |
|---|-----------|-----------|
| | ----- | ----- |
| Weighted average weekly sales per restaurant: | | |
| Daily Grill restaurants: | | |
| Company Restaurants | \$ 57,133 | \$ 62,365 |
| Managed Restaurants | n.a. | n.a. |
| Grill restaurants: | | |
| Company Restaurants | \$ 73,057 | \$ 78,728 |
| Managed Restaurants | n.a. | n.a. |
| Other restaurants: | | |
| Company Restaurants | \$ 29,239 | - |
| Change in comparable restaurant sales: | | |
| Daily Grill restaurants | | |
| Company Restaurants | (4.2)% | 5.3% |
| Managed Restaurants | n.a. | n.a. |
| Grill restaurants | | |
| Company Restaurants | (2.3)% | 7.8% |
| Managed Restaurants | n.a. | n.a. |
| Other restaurants: | | |
| Company Restaurants | - | - |
| Total system sales: | | |

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| | | |
|---|--------------|--------------|
| Daily Grill | \$25,593,000 | \$29,051,000 |
| Grill | 15,196,000 | 16,376,000 |
| Pizza Restaurants | 497,000 | - |
| Management and license fees | 1,006,000 | 1,147,000 |
| | ----- | ----- |
| Total consolidated revenues | 42,292,000 | 46,574,000 |
| | | |
| Managed restaurants | 13,975,000 | 15,711,000 |
| Licensed restaurants. | 6,963,000 | 8,762,000 |
| Less: management and license fees . . . | (1,006,000) | (1,147,000) |
| | ----- | ----- |
| | | |
| Total system sales. | \$62,224,000 | \$69,900,000 |
| | ===== | ===== |

RESTAURANT CONCEPTS

- DAILY GRILL RESTAURANTS

Background. At December 28, 2003, we, through our subsidiaries, GCI and Grill Concepts Management, Inc., owned and operated, managed or licensed ten Daily Grill restaurants in Southern California, three Daily Grill restaurants in the Washington, D.C./Virginia market, one Daily Grill restaurant in Skokie, Illinois, one Daily Grill restaurant in San Francisco, California, one Daily Grill restaurant in Houston, Texas and one Daily Grill in Portland, Oregon. Daily Grill restaurants are patterned after "The Grill on the Alley" in Beverly Hills, a fine dining American-style grill restaurant which we acquired during 1996. See "-- The Grill on the Alley." The Grill on the Alley was founded by Robert Spivak, Michael Weinstock and Richard Shapiro (the founders of GCI) in the early 1980's to offer classic American foods in the tradition of the classic American dinner house. After successfully operating The Grill on the Alley for a number of years, in 1988, Messrs. Spivak, Weinstock and Shapiro decided to expand on that theme by opening the first Daily Grill restaurant. Daily Grill, in an effort to offer the same qualities that made The Grill on the Alley successful, but at more value oriented prices, adopted six operating principles that characterize each Daily Grill restaurant: high quality food, excellent service, good value, consistency, appealing atmosphere and cleanliness. GCI emphasized those principles in an effort to create a loyal patron who will be a "regular" at its restaurants.

Restaurant Sites. Current and planned Daily Grill restaurants can be characterized as either owned, in part or in whole, managed or licensed and as either hotel based or based in shopping malls and other commercial properties. At December 28, 2003, seventeen Daily Grill restaurants were in operation, eight of which were 100% owned by us and located in shopping malls and other commercial properties, one of which was 50% owned and located in Universal CityWalk, California, one of which was 50.1% owned by us and located in an office park, five of which were managed by us and located in hotels and two of which were licensed restaurants.

Daily Grill locations opened, in the following months and years, are owned, managed or licensed as indicated and, where indicated, are located in the referenced hotels:

| | |
|-----------|-----------|
| | Ownership |
| Opened or | Interest, |

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| Location ----- | Scheduled Opening ----- | Licensed or Managed ----- |
|---|-------------------------------|---------------------------------|
| Brentwood, California | September 1988 | 100% |
| Los Angeles, California | April 1990 | 100% |
| Newport Beach, California | April 1991 | 100% |
| Studio City, California | August 1993 | 100% |
| Palm Desert, California | January 1994 | 100% |
| Irvine, California | September 1996 | 100% |
| Los Angeles International Airport Washington, D.C. | January 1997 | Licensed |
| | March 1997 | 100% |
| Tysons Corner, Virginia | October 1998 | 100% |
| Burbank, California (Hilton Hotel) | January 1999 | Managed |
| Washington, D.C. (Georgetown Inn) | April 1999 | Managed |
| Universal CityWalk, California | May 1999 | 50% |
| Skokie, Illinois (DoubleTree Hotel) | September 2000 | Licensed |
| San Francisco, California (Handlery Union Square Hotel) | February 2002 | Managed |
| Houston, Texas (Westin Galleria) | July 2002 | Managed |
| El Segundo (South Bay), California | January 2003 | 50.1% |
| Portland, Oregon (Portland Westin) | September 2003 | Managed |
| Bethesda, Maryland (Hyatt Hotel) | January 2004 | 100% |

Each 100% owned Daily Grill restaurant is located in leased facilities. Site selection is viewed as critical to the success of our restaurants and, accordingly, significant effort is exerted to assure that each site selected is appropriate. For non-hotel based restaurants, the site selection process focuses on local demographics and household income levels, as well as specific site characteristics such as visibility, accessibility, parking availability and traffic volume. Each site must have sufficient traffic such that management believes the site can support at least twelve strong meal periods a week (i.e., five lunches and seven dinners). Preferred Daily Grill sites, which characterize the existing 100% owned restaurants, are high-end, mid-size retail shopping malls in large residential areas with significant daytime office populations and some entertainment facilities. Historically, Daily Grill restaurants have been viewed as desirable tenants drawing traffic to the high profile malls where we locate and, therefore, have received significant tenant improvement allowances.

Hotel based Daily Grill restaurants may be newly constructed facilities or remodeled facilities on the premises of, or adjacent to, a hotel. Such facilities may be leased by us, operated pursuant to a partnership, a joint venture, a license arrangement, or a management agreement. As with non-hotel based restaurants, site selection is viewed as critical and, accordingly, significant effort is exerted to assure that each site selected is appropriate. The site selection process for hotel based restaurants is the responsibility of Hotel Restaurant Properties, Inc. ("HRP") which identifies suitable locations and negotiates leases, license or management agreements for those properties. See "-- Hotel Property Agreement."

Existing non-hotel based Daily Grill restaurants range in size from 3,750 to 7,000 square feet -- of which approximately 30% is devoted to kitchen and service areas -- and seat between 100 and 250 persons. Our costs for existing non-hotel based restaurants, including leasehold improvements, furniture, fixtures and equipment and pre-opening expenses, have averaged \$325 per foot per restaurant, less tenant improvement allowances.

Existing hotel based Daily Grill restaurants range in size from 5,000 to

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8,000 square feet -- of which approximately 30% is devoted to kitchen and service areas -- and seat between 140 and 250 persons. Management anticipates that additional hotel based Daily Grill restaurants will require minimal capital investment on our part. However, each hotel restaurant arrangement will be negotiated separately and our capital investment may vary widely. Our portion of opening costs of existing hotel restaurants, including leasehold improvements, furniture, fixtures and equipment and pre-opening expenses, have ranged from \$64,000 to \$513,000 per restaurant.

Menu and Food Preparation. Each Daily Grill restaurant offers a similar extensive menu featuring over 100 items. The menu was designed to be reminiscent of the selection available at American-style grill restaurants of the 1930's and 1940's. Daily Grill offers such "signature" items as Cobb salad, Caesar salad, meatloaf with mashed potatoes, chicken pot pie, chicken burgers, hamburgers, rice pudding and fresh fruit cobbler. The emphasis at the Daily Grill is on freshly prepared American food served in generous portions.

Entrees range in price, subject to regional differences, from \$8.95 for a hamburger to \$23.95 for a char-broiled New York steak with all the trimmings. The average lunch check is \$17.00 per person and the average dinner check is \$25.00 per person, including beverage. Daily Grill restaurants also offer a children's menu with reduced portions of selected items at reduced prices. All of the existing Daily Grill restaurants offer a full range of beverages, including beer, wine and full bar service. During the year ended December 28, 2003, food and non-alcoholic beverage sales constituted approximately 85% of the total restaurant revenues for the Daily Grill restaurants, with alcoholic beverages accounting for the remaining 15%.

Proprietary recipes have been developed for substantially all of the items offered on the Daily Grill menu. The same recipes are used at each location and all chefs undergo extensive training in order to assure consistency and quality in the preparation of food. Virtually all of the menu items offered at the Daily Grill are cooked from scratch utilizing fresh food ingredients. Our management believes that our standards for ingredients and the preparation of menu items are among the most stringent in the industry.

Each Daily Grill restaurant has up to seven cooks on duty during regular lunch and dinner hours to provide prompt, specialized service. Restaurant staff members utilize a "point-of-sale" computer system to monitor the movement of food items to assure prompt and proper service of guests and for fiscal control purposes.

Atmosphere and Service. All Daily Grill restaurants are presently open for lunch and dinner seven days a week and for Sunday brunch. Each Daily Grill location is designed to provide the sense and feel of comfort. In the tradition of an old-time American-style grill, the setting is very open with a mix of booths and tables. Several of the restaurants have counters for singles to feel comfortable. A number of the Daily Grill restaurants have private dining rooms for banquets or additional seating. Each restaurant emphasizes the quality and freshness of Daily Grill food dishes in addition to the cleanliness of operations. The dining area is well-lit and is characterized by a "high energy level". Reservations are accepted but not required.

Attention to detail and quality of decor is carried through to the professional service. All Daily Grill employees are trained to treat each person who visits the restaurant as a "guest" and not merely a customer. Each server is responsible for assuring that his or her guest is satisfied. In keeping with the traditions of the past, each Daily Grill employee is taught that at the Daily Grill "the guest is always right." The Daily Grill's policy is to accommodate all guest requests, ranging from substitutions of menu items to take-out orders.

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In order to assure that our philosophy of guest service is adhered to, all Daily Grill employees from the kitchen staff to the serving staff undergo extensive training making each employee knowledgeable not only in our procedures and policies but in every aspect of Daily Grill operations. Our policy of promoting from within and providing access to senior management for all employees has produced a work force which works in a cooperative team approach and has resulted in an employee turnover rate of just under 57% per year for hourly employees, considerably below the industry average which management believes to be approximately 125%.

We believe that the familiarity and feeling of comfort which accompanies dining in a familiar setting, with familiar food and quality service by familiar servers, produces satisfied customers who become "regulars." Management believes that at the Daily Grills which have been open for over a year repeat business is significantly greater than the industry average, with many guests becoming "regulars" in the tradition of the neighborhood restaurant.

7

THE GRILL ON THE ALLEY

Background. At December 28, 2003, we, through our subsidiary, GCI, owned and operated four The Grill on the Alley restaurants ("Grill"), one in Beverly Hills, California, one in San Jose, California, one in Chicago, Illinois and one in Hollywood, California, named The Grill on Hollywood.

The original Grill is a fine dining Beverly Hills restaurant which opened in 1984 and served as the model for the Daily Grill restaurants. The Grill is set in the traditional style of the old-time grills of New York and San Francisco, with black-and-white marbled floors, polished wooden booths and deep green upholstery. In 1995, the Grill was inducted into Nation's Restaurant News' Fine Dining Hall of Fame and was described by W Magazine as "home of the quintessential Beverly Hills power lunch." The Grill offers five-star American cuisine and uncompromising service in a comfortable, dignified atmosphere.

In April of 1996, we acquired the original Grill from a partnership, the managing partner of which was controlled by our then principal shareholders and directors.

Restaurant Sites. At December 28, 2003, we operated four Grill restaurants, two of which are non-hotel based facilities and two of which are hotel-based facilities.

Grill locations opened in the following months and years, are owned or managed as indicated and, where indicated, in the referenced hotels:

| Location | Opened | Ownership Interest or Managed |
|---------------------------------------|---------------|-------------------------------|
| Beverly Hills, California | January 1984 | 100.00% |
| San Jose, California (Fairmont Hotel) | May 1998 | 50.05% |
| Chicago, Illinois (Westin Hotel) | June 2000 | 60.00% |
| Hollywood, California | November 2001 | 51.00% |

Our Grill restaurants are located in leased facilities. As with the Daily

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Grill restaurants, site selection is viewed as critical to success and, accordingly, significant effort is exerted to assure that each site selected is appropriate. For non-hotel based Grill restaurants, the site selection process focuses on local demographics and household income levels, as well as specific site characteristics such as visibility, accessibility, parking availability and traffic volume. Because of the upscale nature of Grill restaurants, convenience for business patrons is considered a key site selection criterion.

Hotel based Grill restaurants may be newly constructed facilities or remodeled facilities on the premises of, or adjacent to, a hotel. Such facilities may be leased by us, operated pursuant to a partnership, a joint venture arrangement, or a management agreement. As with free standing restaurants, site selection is viewed as critical to success and, accordingly, significant effort is exerted to assure that each site selected is appropriate.

The Beverly Hills based Grill restaurant is approximately 4,300 square feet -- of which approximately 35% is devoted to kitchen and service areas -- and seats 120 persons. The Hollywood based Grill restaurant is approximately 5,600 square feet - of which approximately 36% is devoted to kitchen and service areas - and seats 200 persons.

The San Jose based Grill restaurant is approximately 8,000 square feet -- of which approximately 38% is devoted to kitchen and service areas -- and seats 280 persons. The Chicago based Grill restaurant is approximately 8,500 square feet, of which approximately 35% is devoted to kitchen and service areas, and seats more than 300 guests.

Because of the unique nature of Grill restaurants, the size, seating capacity and opening costs of future sites cannot be reasonably estimated. Management anticipates that additional hotel based Grill restaurants will require minimal capital investment on our part. However, each hotel restaurant arrangement will be negotiated separately and our capital investment may vary widely. Total project costs of the existing hotel based restaurants, including

8

leasehold improvements, furniture, fixtures and equipment and pre-opening expenses, have ranged from \$2.1 million to \$3.1 million.

Menu and Food Preparation. Each Grill restaurant offers a similar extensive menu featuring over 100 items. The menu was designed to be reminiscent of the selection available at fine American-style grill restaurants of the 1930's and 1940's, featuring steaks and seafood and freshly prepared salads and vegetables served in generous portions.

Entrees range in price from \$13.25 for a cheeseburger to \$36.75 for a prime porterhouse steak. The average lunch check is \$28.00 per person and the average dinner check is \$55.00 per person, including beverage. All of the existing Grill restaurants offer a full range of beverages, including beer, wine and full bar service. During the year ended December 28, 2003, food and non-alcoholic beverage sales constituted approximately 71% of the total restaurant revenues for Grill restaurants, with alcoholic beverages accounting for the remaining 29%.

Proprietary recipes have been developed for substantially all of the items offered on the Grill menu. The same recipes are used at each location and all chefs undergo extensive training in order to assure consistency and quality in the preparation of food. Virtually all of the menu items offered at the Grill are cooked from scratch utilizing fresh food ingredients. Our management believes that our standards for ingredients and the preparation of menu items are among the most stringent in the industry.

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Each Grill has up to 8 cooks on duty during regular lunch and dinner hours to provide prompt, specialized service. Restaurant staff members utilize a "point-of-sale" computer system to monitor the movement of food items to assure prompt and proper service of guests and for fiscal control purposes.

Atmosphere and Service. Each Grill restaurant is presently open for lunch six days a week and dinner seven days a week. Each Grill location is designed to provide the sense and feel of comfort and elegance. In the tradition of an old-time American-style grill, the setting is an open kitchen adjacent to tables and booths. The open kitchen setting emphasizes the quality and freshness of food dishes in addition to the cleanliness of operations. The dining area is well-lit and is characterized by a "high energy level". Reservations are accepted but are not required.

Attention to detail and quality of decor is carried through to the professional service. All Grill employees are trained to treat each person who visits the restaurant as a "guest" and not merely a customer. Each server is responsible for assuring that his or her guest is satisfied. In keeping with the traditions of the past, each Grill employee is taught that "the guest is always right." The Grill's policy is to accommodate all guest requests, ranging from substitutions of menu items to take-out orders.

In order to assure that our philosophy of guest service is adhered to, all Grill employees from the kitchen staff to the serving staff undergo extensive training making each employee knowledgeable not only in our procedures and policies but in every aspect of Grill operations. Our policy of promoting from within and providing access to senior management for all employees has produced a work force which works in a cooperative team approach.

We believe that the familiarity and feeling of comfort which accompanies dining in a familiar setting, with familiar food and quality service by familiar servers, produces satisfied customers who become "regulars." Management believes that at the original Grill repeat business is significantly greater than the industry average, with many guests becoming "regulars" in the tradition of the neighborhood restaurant.

SALE OF PIZZERIA UNO RESTAURANTS

In April 2002, with the sale of our Cherry Hill, New Jersey Pizzeria Uno Restaurant for \$325,000, we completed our planned divestiture of our interests in Pizzeria Uno Restaurants. Previously, we operated as many as three franchised Pizzeria Uno Restaurants. During 1998, we determined that the continued ownership and operation of the Pizza Restaurants did not fit with our strategic growth plan. Based on that determination, in July 2000, we closed our Pizzeria Uno restaurant in Media, Pennsylvania and, in July 2001, we sold our Pizzeria Uno restaurant in South Plainfield, New Jersey for \$700,000.

9

OTHER RESTAURANT ACTIVITIES

In addition to owning and operating Daily Grills and The Grills, we, at December 28, 2003, also provided management services for Daily Grill restaurants at the Burbank Hilton, the Georgetown Inn, the Handlery Hotel, the Westin Galleria and the Portland Westin and had granted licenses to operate a Daily Grill at LAX, a Daily Grill at the DoubleTree Hotel in Skokie, Illinois and for the City Bar & Grill in the San Jose Hilton.

- RESTAURANT MANAGEMENT SERVICES

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Restaurant management services include overseeing the design, development, construction, equipping, furnishing and operation of the restaurant. Once the restaurant is open to the public, the manager is responsible for rendering and performing all services in connection with the operation of the restaurant. Those services include employing, training and supervision personnel, purchasing and maintaining adequate inventory, etc.

In May 1998, pursuant to our agreement with HRP, we began providing management services for a restaurant in the Burbank Hilton Hotel. The restaurant was converted from its former concept to a Daily Grill in January 1999. Pursuant to our management agreement with the hotel, we invested \$500,000 for conversion of the restaurant to a Daily Grill and are responsible for management and supervision of the restaurant. We are entitled to a management fee equal to 8.5% of the gross receipts of the restaurant. Additionally, we are entitled to 30% of the annual profits of the restaurant in excess of a base amount increased annually by the CPI.

In March 1999, pursuant to the Hotel Property Agreement (see below), we began providing management services for a Daily Grill restaurant at the Georgetown Inn. Pursuant to our management agreement with the hotel, we were not required to invest in the restaurant but we are responsible for management and supervision of the restaurant. We are entitled to a management fee equal to 8% of the gross receipts of the restaurant. Additionally, we are entitled to 30% of the annual profits of the restaurant.

In February 2002, pursuant to the Hotel Property Agreement, we began providing management services for a Daily Grill restaurant at the Handlery Hotel in San Francisco. Pursuant to our management agreement with the hotel, we advanced the restaurant \$331,000 to be paid out of future operating profits. We are entitled to a management fee equal to 6% of gross receipts of the restaurant. Additionally, we are entitled to 25% of the net income of the restaurant.

In July 2002, pursuant to the Hotel Property Agreement, we began providing management services for a Daily Grill restaurant at the Westin Galleria in Houston, Texas. Pursuant to our management agreement with the hotel, we advanced the restaurant \$64,000 which was repaid out of net income available for distribution in May 2003. We are entitled to a management fee equal to 5% of gross receipts of the restaurant. Additionally, we are entitled to 35% of the annual profits of the restaurant after working capital requirements are satisfied.

In September 2003, pursuant to the Hotel Property Agreement, we began providing management services for a Daily Grill restaurant at the Portland Westin in Portland, Oregon. We were not required to invest in the restaurant. We are entitled to a management fee of 5% of gross receipts of the restaurant and 35% of annual profit after working capital requirements are satisfied.

- RESTAURANT LICENSING

Under restaurant licensing agreements, we earn a licensing fee in exchange for use of our brand, as well as, the proprietary menu.

LAX Daily Grill. Since January 1997, CA One Services, Inc. has operated a Daily Grill restaurant (the "LAX Daily Grill") in the International Terminal of the Los Angeles International Airport. The LAX Daily Grill was originally operated as a joint venture between us and CA One Services, Inc., and since April 1998 has been operated by CA One Services under a license agreement.

Pursuant to the terms of the License Agreement, we are entitled to receive royalties in an amount equal to 2.5% of the first \$5 million of annual revenues from the restaurant and 4% of annual revenues in excess of \$5 million.

Skokie Daily Grill. In September 2000, pursuant to the Hotel Property Agreement, a licensed Daily Grill restaurant was opened in the DoubleTree Hotel in Skokie, Illinois. Under the terms of the license, the hotel operator paid all costs to build and open the restaurant and we are entitled to a license fee equal to the greater of \$65,000 or 2% of sales per year.

San Jose City Bar and Grill. In conjunction with our entry into the hotel restaurant market, in May 1998, we began providing management services at the City Bar & Grill at the San Jose Hilton. In September 2002 the agreement relating to our management of the City Bar and Grill was converted to a license agreement under which we are entitled to receive license fees equal to the greater of \$2,500 per month or 1.5% on sales.

HOTEL PROPERTY AGREEMENT

In order to facilitate our efforts to open restaurants on a large scale basis in hotel properties, in August of 1998, we entered into the Hotel Property Agreement with Hotel Restaurant Properties, Inc. ("HRP") pursuant to which HRP has agreed to assist us in locating suitable hotel locations for the opening of our restaurants. HRP is considered a related party as one of its owners is a family member of a director and preferred stock holder. HRP is responsible for identifying suitable hotel locations in which a Grill or Daily Grill can be operated ("Managed Outlets") and negotiating and entering into leases or management agreements for those properties. We will, in turn, enter into management agreements with HRP or the hotel owners, as appropriate. We may advance certain pre-opening costs and certain required advances ("Manager Loans") and will manage and supervise the day-to-day operations of each Managed Outlet. We will be entitled to receive from HRP a base overhead fee equal to \$1,667 per month per Managed Outlet. Net income derived from management or licensing of restaurants covered by the Hotel Property Agreement, after repayments required on Manager Loans from each Managed Outlet, will be allocated 75% to us and 25% to HRP.

In July 2001, in conjunction with an investment in the Company by Starwood Hotels, the Hotel Property Agreement was amended to limit, for so long as we are subject to the exclusivity provisions of a Property Development Agreement with Starwood, the amounts payable to HRP to \$400,000 annually plus 12.5% of the amounts otherwise payable to HRP with respect to the Burbank, Georgetown and San Jose Hilton restaurants.

The Agreement with HRP also provides that, beginning in May 2004, we shall have the right to acquire HRP and HRP shall have the right to cause the Company to acquire HRP. The purchase price of HRP shall be computed by (1) multiplying the operating income of HRP over the preceding twelve months, excluding operating income attributable to certain defined restaurants, by ten, (2) subtracting from the product the principal balance of loans made in connection with the development of restaurants pursuant to the HRP Agreement, and (3) multiplying that amount by 25%. The purchase price shall be payable in our common stock based on the average closing price of the common stock over the ten trading days immediately preceding closing.

Pursuant to the July 2001 amendment to the Hotel Property Agreement, the maximum purchase price of HRP will not exceed \$4,500,000.

BUSINESS EXPANSION

Our expansion plans focus on the addition of Daily Grill restaurants with selected expansion of the Grill restaurant concept also planned.

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Management continually reviews possible expansion into new markets and within existing markets. Such reviews entail careful analysis of potential locations to assure that the demographic make-up and general setting of new restaurants is consistent with the patterns which have proven successful at the existing Daily Grills and Grills. While the general appearance and operations of future Daily Grills and Grill restaurants are expected to conform generally to those of existing facilities, we intend to monitor the results of any modifications to our existing restaurants and to incorporate any successful modifications into future restaurants. All future restaurants are expected to feature full bar service.

Our future expansion efforts are expected to concentrate on (1) expansion into new markets through the establishment of hotel based restaurants pursuant to the Hotel Property Agreement, and (2) expansion within existing markets through the opening of non-hotel based restaurants. With the assistance of HRP, we expect to establish name recognition and market presence through the opening of Daily Grill and Grill restaurants in fine hotel

11

properties in strategic markets throughout the United States. Upon establishing name recognition and a market presence in a market, we intend to construct and operate clusters of free-standing restaurants within those markets. Management intends to limit the construction and operation of Grill restaurants to one restaurant per market while constructing multiple Daily Grill restaurants within each market. The exact number of Daily Grill restaurants to be constructed within any market will vary depending upon population, demographics and other factors.

At December 28, 2003, we operated non-hotel based Daily Grill and Grill restaurants in Southern California, principally the greater-Los Angeles market, and metropolitan Washington, D.C. Management is presently evaluating the opening of additional non-hotel based Daily Grill and Grill restaurants in existing markets and in other major metropolitan areas. Existing markets will be evaluated for expansion in order to establish market presence and economies of scale. As of March 2004, negotiations are under way for several sites, however no definitive site had been identified for future construction of free-standing restaurants. Management anticipates that the cost to open additional free standing Daily Grill and Grill restaurants will average \$325 per square foot per restaurant, less tenant improvement allowances, with each restaurant expected to be approximately 6,000 to 7,000 square feet in size. Actual costs may vary significantly depending upon the tenant improvements, market conditions, rental rates, labor costs and other economic factors prevailing in each market in which we pursue expansion.

At December 28, 2003, hotel based Daily Grill restaurants were operated under management or licensing agreements in Southern California, Washington, D.C., Skokie, Illinois, San Francisco, California, Houston, Texas, and Portland, Oregon and hotel based Grill restaurants were operated in San Jose, California and Chicago, Illinois. We, and HRP, are presently evaluating the opening of additional hotel based Daily Grill restaurants in existing markets and in other major metropolitan areas. Each hotel restaurant arrangement will be negotiated separately and the size of the restaurants, ownership and operating arrangements and capital investment on our part may vary widely. We opened a hotel-based company owned Daily Grill restaurant in Bethesda, Maryland in January 2004.

STARWOOD DEVELOPMENT AGREEMENT

On July 27, 2001, in conjunction with the purchase by Starwood Hotels and Resorts of 666,667 shares of our common stock and 666,667 \$2.00 warrants for

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\$1,000,000, we and Starwood entered into a Development Agreement under which we and Starwood agreed to jointly develop our restaurant properties in Starwood hotels.

Under the Starwood Development Agreement, either we, or Starwood, may propose to develop a Daily Grill, Grill or City Bar and Grill restaurant in a Starwood hotel property. If the parties agree in principal to the development of a restaurant, the parties will attempt to negotiate either a management agreement or a license agreement with respect to the operation of the restaurant.

So long as Starwood continues to meet certain development thresholds set forth in the Development Agreement, we are prohibited from developing, managing, operating or licensing our restaurants in any hotel owned, managed or franchised by a person or entity, other than Starwood, with more than 50 locations operated under a single brand. Existing hotel based restaurants are excluded from the exclusive right of Starwood. The development thresholds required to be satisfied to maintain Starwood's exclusive development rights require, generally, (1) the signing of an average of one management agreement or license agreement with respect to Daily Grill restaurants annually over the life of the Development Agreement, (2) the signing of one management agreement or license agreement in any two year period with respect to Grill restaurants, and (3) the signing of an aggregate average of three management agreements or license agreements with respect to all of our restaurants annually over the life of the Development Agreement. Satisfaction of the thresholds set forth in the Development Agreement are determined on each anniversary of the Development Agreement. With respect to satisfaction of the specific thresholds applying to Daily Grill restaurants and Grill restaurants, the failure to satisfy the development thresholds with respect to those individual brands will terminate the exclusivity provisions relative to such brand but will not affect the exclusivity rights as to the other brand or in general.

Under the Development Agreement, we are obligated to issue to Starwood warrants to acquire a number of shares of our common stock equal to four percent of the outstanding shares upon the attainment of certain development milestones. Such warrants are issuable upon execution of management agreements and/or license agreements relating to the development and operation, and the commencement of operation, of an aggregate of five, ten, fifteen and twenty of our branded restaurants. If the market price of our common stock on the date the warrants are to be issued is greater than the market price on the date of the Development Agreement, the warrants will be exercisable at a price equal to the greater of (1) 75% of the market price as of the date such warrant becomes

12

issuable, or (2) the market price on the date of the Development Agreement. If the market price of our common stock on the date the warrants are to be issued is less than the market price on the date of the Development Agreement, the warrants will be exercisable at a price equal to the market price as of the date such warrants become issuable. The warrants will be exercisable for a period of five years.

In addition to the warrants described above, if and when the aggregate number of restaurants operated under the Development Agreement exceeds 35% of the total Daily Grill, Grill and City Grill-branded restaurants, we will be obligated to issue to Starwood a warrant to purchase a number of shares of our common stock equal to 0.75% of the outstanding shares on that date exercisable for a period of five years at a price equal to the market price at that date. On each anniversary of that date on which the restaurants operated under the Development Agreement continues to exceed the 35% threshold, for so long as the Development Agreement remains effective, we shall issue to Starwood additional

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warrants to purchase 0.75% of the outstanding shares on that date at an exercise price equal to the market price on that date.

Following the events of September 11, 2001, Starwood substantially curtailed new development activities and only two management agreements have, as yet, been entered into under the Development Agreement. Certain portions of the exclusivity agreement have terminated due to the lack of performance on Starwood's part.

RESTAURANT MANAGEMENT

We strive to maintain quality and consistency in our restaurants through the careful hiring, training and supervision of personnel and the adherence to standards relating to food and beverage preparation, maintenance of facilities and conduct of personnel. We believe that our concept and high sales volume enable it to attract quality, experienced restaurant management and hourly personnel. We have experienced a relatively low turnover at every level at its Daily Grill and Grill restaurants. See "-- Daily Grill Restaurants" above.

Each Daily Grill and Grill restaurant, including both free standing and hotel-based restaurants, is managed by one general manager and up to four managers or assistant managers. Each restaurant also has one head chef and one or two sous chefs, depending on volume. On average, general managers have approximately seven years experience in the restaurant industry and three years with us. The general manager has primary responsibility for the operation of the restaurant and reports directly to an Area Director who in turn reports to our Director of Operations. In addition to ensuring that food is prepared properly, the head chef is responsible for product quality, food costs and kitchen labor costs. Each restaurant has approximately 77 employees. Restaurant operations are standardized, and a comprehensive management manual exists to ensure operational quality and consistency.

We maintain financial and accounting controls for each Daily Grill and Grill restaurant through the use of a "point-of-sale" computer system integrated with centralized accounting and management information systems. In the year 2000, the point of sale systems in the original six Daily Grills were updated to new systems similar to those in newer restaurants. Inventory, expenses, labor costs, and cash are carefully monitored with appropriate control systems. With the current systems, revenue and cost reports, including food and labor costs, are produced every night reflecting that day's business. The restaurant general manager, as well as corporate management, receive these daily reports to ensure that problems can be identified and resolved in a timely manner. All employees receive appropriate training relating to cost, revenue and cash control. Financial management and accounting policies and procedures are developed and maintained by our Corporate Controller, Director of Information Systems, and Chief Financial Officer.

All managers participate in a comprehensive six-week training program during which they are prepared for overall management of the dining room. The program includes topics such as food quality and preparation, customer service, food and beverage service, safety policies and employee relations. In addition, we have developed training courses for assistant managers and chefs. We typically have a number of employees involved in management training, so as to provide qualified management personnel for new restaurants. Our senior management meets bi-weekly with each restaurant management team to discuss business issues, new ideas and revisit the manager's manual. Overall performance at each location is also monitored with shoppers' reports, guest comment cards and third party quality control reviews.

Servers at each restaurant participate in approximately ten days of training during which the employee works under close supervision, experiencing all aspects of the operations both in the kitchen and in the dining room. The

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extensive training is designed to improve quality and customer satisfaction. Experienced servers are given

13

responsibility for training new employees and are rewarded with additional hourly pay plus other incentives. Management believes that such practice fosters a cooperative team approach which contributes to a lower turnover rate among employees. Representatives of corporate management regularly visit the restaurants to ensure that our philosophy, strategy and standards of quality are being adhered to in all aspects of restaurant operations.

PURCHASING

We have developed proprietary recipes for substantially all the items served at our Daily Grill and Grill restaurants. In order to assure quality and consistency at each of the Daily Grill and Grill restaurants, ingredients approved for the recipes are ordered on a unit basis by each restaurant's head chef from a supplier designated by our Vice President-Operations and Development. Because of the emphasis on cooking from scratch, virtually all food items are purchased "fresh" rather than frozen or pre-cooked, with the exception being bread, which is ordered from a central supplier which prepares the bread according to a proprietary recipe and delivers daily to assure freshness. In order to reduce food preparation time and labor costs while maintaining consistency, we work with outside suppliers to produce a limited number of selected proprietary items such as salad dressings, soups and seasoning combinations.

We utilize our point-of-sale computer system to monitor inventory levels and sales, then order food ingredients daily based on such levels. We employ contract purchasing in order to lock in food prices and reduce short-term exposure to price increases. Our Vice President-Operations and Development establishes general purchasing policies and is responsible for controlling the price and quality of all ingredients. The Vice President - Operations and Development in conjunction with our team of chefs, constantly monitors the quality, freshness and cost of all food ingredients. All essential food and beverage products are available, or upon short notice can be made available, from alternative qualified suppliers.

ADVERTISING AND MARKETING

Our marketing philosophy is to provide our guests with an exceptional and enjoyable dining experience that creates loyalty and frequent visits. Our marketing and promotional efforts have been fueled historically by our quality reputation, word of mouth, and positive local reviews. The Grill on the Alley and The Daily Grill have been featured in articles and reviews in numerous local as well as national publications. We supplement our reputation with a program of marketing and public relations activities designed to keep the Daily Grill and Grill name before the public. Such activities include media advertising, direct mail promotions, a birthday club, as well as holiday and special interest events. We also support and participate in local charity campaigns. These activities are managed by a full time Vice President of Marketing. Guest feedback is solicited regularly through a comment card program. During 2003, expenditures for advertising and promotion were approximately 1.6% of gross revenues.

COMPETITION

The Daily Grill restaurants compete within the mid-price, full-service casual dining segment. Daily Grill competitors include national and regional chains, such as Cheesecake Factory and Houston's, as well as local

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owner-operated restaurants. Grill restaurants compete within the fine dining segment. Grill competitors include a limited number of national fine dining chains as well as selected local owner-operated fine dining establishments. Competition for our hotel-based restaurants is primarily limited to restaurants within the immediate proximity of the hotels.

The restaurant business is highly competitive with respect to price, service, restaurant location and food quality and is affected by changes in consumer tastes, economic conditions and population and traffic patterns. We believe we compete favorably with respect to these factors. We believe that our ability to compete effectively will continue to depend in large measure on our ability to offer a diverse selection of high quality, fresh food products with an attractive price/value relationship served in a friendly atmosphere.

14

EMPLOYEES

We, and our subsidiaries, employ approximately 1,569 people, 32 of whom are corporate personnel and 122 of whom are restaurant managers, assistant managers and chefs. The remaining employees are restaurant personnel. Of our employees, approximately 40% are full-time employees, with the remainder being part-time employees.

Management believes that its employee relations are good at the present time. An anonymous employee survey is taken each year and the results are disseminated to keep management aware of the level of employee satisfaction.

With the exception of the Chicago Grill on the Alley, none of our employees are represented by labor unions or are subject to collective bargaining or other similar agreements. The current union contract expires in August 2005. Management believes that its employee relations are good at the present time.

TRADEMARKS AND SERVICE MARKS

We regard our trademarks and service marks as having significant value and as being important to our marketing efforts. We have registered our "Daily Grill" mark and logo and our "Satisfaction Served Daily," "Think Daily," "Daily Grind" and other marks with the United States Patent and Trademark Office as service marks for restaurant service, and have secured California state registration of such marks. Our policy is to pursue registration of our marks and to oppose strenuously any infringement.

GOVERNMENT REGULATION

We are subject to various federal, state and local laws affecting our business. Each of our restaurants is subject to licensing and regulation by a number of governmental authorities, which may include alcoholic beverage control, health and safety, and fire agencies in the state or municipality in which the restaurants are located. Difficulties or failures in obtaining or renewing the required licenses or approvals could result in temporary or permanent closure of our restaurants.

Alcoholic beverage control regulations require each of our restaurants to apply to a state authority and, in certain locations, county and municipal authorities for a license or permit to sell alcoholic beverages on the premises. Typically, licenses must be renewed annually and may be revoked or suspended for cause at any time. Alcoholic beverage control regulations relate to numerous aspects of the daily operation of our restaurants, including minimum age of patrons and employees, hours of operation, advertising, wholesale purchasing, inventory control, and handling, storage and dispensing of alcoholic beverages.

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We may be subject in certain states to "dram-shop" statutes, which generally provide a person injured by an intoxicated person the right to recover damages from an establishment which served alcoholic beverages to such person. In addition to potential liability under "dram-shop" statutes, a number of states recognize a common-law negligence action against persons or establishments which serve alcoholic beverages where injuries are sustained by a third party as a result of the conduct of an intoxicated person. We presently carry liquor liability coverage as part of our existing comprehensive general liability insurance.

Various federal and state labor laws govern our relationship with our employees, including such matters as minimum wage requirements, overtime and other working conditions. Significant additional government-imposed increases in minimum wages, paid leaves of absence and mandated health benefits, or increased tax reporting requirements for employees who receive gratuities, could be detrimental to the economic viability of our restaurants. Management is not aware of any environmental regulations that have had a material effect on us to date.

15

ITEM 2. PROPERTIES

With the exception of certain properties that may be operated pursuant to management arrangements or partnership or joint venture arrangements, all of our restaurants are located in space leased from unaffiliated third parties. The leases have initial terms ranging from 10 to 25 years, with varying renewal options on all but one of such leases. Most of the leases provide for a base rent plus payment of real estate taxes, insurance and other expenses, plus additional percentage rents based on revenues of the restaurant. See "Business."

The Grill restaurant in San Jose is located in space leased from a hotel management company that may be deemed to be controlled by one of our directors, Lewis Wolff.

Our executive offices are located in 3,300 square feet of office space located in Los Angeles, California. Such space is leased from an unaffiliated party pursuant to a lease expiring in May 2005.

Management believes that our existing restaurant and executive office space is adequate to support current operations. We intend to lease, from time to time, such additional office space and restaurant sites as management deems necessary to support our future growth plans.

ITEM 3. LEGAL PROCEEDINGS

Restaurants such as those we operate are subject to litigation in the ordinary course of business, most of the related costs we expect to be covered by our general liability insurance. However, punitive damages awards are not covered by general liability insurance. Punitive damages are routinely claimed in litigation actions against us. No material causes of action are presently pending against us. However, there can be no assurance that punitive damages will not be given with respect to any actions that may arise in the future.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our stockholders through the solicitation of proxies, or otherwise, during the fourth quarter of our fiscal year ended December 28, 2003.

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EXECUTIVE OFFICERS

Our executive officers as of March 9, 2004, and their ages and current positions as of that date are as follows:

| NAME | AGE | POSITION |
|-------------------|-----|--|
| Robert Spivak | 60 | President and Chief Executive Officer |
| Michael Weinstock | 61 | Chairman of the Board and Executive Vice President |
| John Sola | 51 | Vice President - Operations and Development |
| Daryl Ansel | 42 | Chief Financial Officer |

ROBERT SPIVAK has served as our President, Chief Executive Officer and a director since 1995. Mr. Spivak was a co-founder of our predecessor, Grill Concepts, Inc. (a California corporation) ("GCI") and served as President, Chief Executive Officer and a director of GCI from the company's inception in 1988 until 1995. Prior to forming GCI, Mr. Spivak co-founded, and operated, The Grill on the Alley restaurant in Beverly Hills in 1984. Mr. Spivak is a founder and past president of the Beverly Hills Restaurant Association. Mr. Spivak also chairs the executive advisory board of the Collins School of Hotel and Restaurant Management at California State Polytechnic University at Pomona, is Director Emeritus of the California Restaurant Association and is a member of the Board of Directors of DiRoNA - Distinguished Restaurants of North America.

MICHAEL WEINSTOCK has served as our Executive Vice President and a director since 1995 and as Chairman of the Board since 2000. From 1995 to 2000, Mr. Weinstock served as Vice-Chairman of the Board. Mr. Weinstock was a co-founder of GCI and served as Chairman of the Board, Vice President and a director of GCI from 1988 until 1995. Prior to forming GCI, Mr. Weinstock co-founded The Grill on the Alley restaurant in Beverly Hills in 1984. Mr. Weinstock previously served as President, Chief Executive Officer and a director of Morse Security Group, Inc., a security systems manufacturer.

16

JOHN SOLA has served as our Vice President - Operations and Development since September 2001. Previously, Mr. Sola served as Executive Chef for GCI from 1988 until 1995 when he assumed the position of Vice President - Executive Chef of the Company. Mr. Sola oversees all kitchen operations, including personnel, food preparation and food costs, as well as monitoring and maintaining the overall performance of the kitchens and establishing procedures and policies in connection with the opening of new Daily Grill restaurants. Mr. Sola, along with Mr. Spivak, created the Daily Grill menu. Prior to joining GCI, Mr. Sola served as opening chef at The Grill on the Alley from inception in 1984 to 1988. Previously, Mr. Sola served in various positions, including Executive Chef, at a wide range of restaurants.

DARYL ANSEL has served as our Chief Financial Officer since January 2001. Prior to joining the Company, Mr. Ansel served as food and beverage finance manager at Universal Studios from June 1999 to January 2001. Previously, Mr. Ansel owned and operated catering and restaurant businesses from 1990 to 1997, and served, from 1983 to 1990, in various senior finance positions with the University of California, Berkeley.

There are no family relationships among the executive officers and

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directors. Except as otherwise provided in employment agreements, each of the executive officers serves at the discretion of the Board.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is currently traded in the over-the-counter market and is quoted on the Nasdaq Small-Cap Market ("Nasdaq") under the symbol "GRIL". The following table sets forth the high and low bid price per share for our common stock for each quarterly period during the last two fiscal years:

| | High | Low | |
|----------------------|-------|-------|--|
| | ----- | ----- | |
| 2002 - First Quarter | 1.850 | 1.220 | |
| Second Quarter | 2.000 | 1.500 | |
| Third Quarter | 1.900 | 1.400 | |
| Fourth Quarter | 1.850 | 0.970 | |
| 2003 - First Quarter | 1.620 | 0.830 | |
| Second Quarter | 2.850 | 1.050 | |
| Third Quarter | 2.950 | 2.010 | |
| Fourth Quarter | 2.900 | 1.940 | |

The quotations reflect inter-dealer prices without retail mark-up, mark-down or commission and may not represent actual transactions.

At March 8, 2004, the closing bid price of our Common Stock was \$3.43.

As of March 8, 2004, there were approximately 412 holders of record of our Common Stock.

We have never declared or paid any cash dividend on our Common Stock and do not expect to declare or pay any such dividend in the foreseeable future.

17

ITEM 6. SELECTED FINANCIAL DATA

The following tables present selected historical consolidated financial data derived from our consolidated financial statements. The following data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements included elsewhere herein. As discussed in Note 1 of the consolidated financial statements, the Company's consolidated financial statements have been restated from those originally issued to reflect the accounting for employee stock options using variable accounting treatment and other miscellaneous corrections. These adjustments are described in further detail in Management's Discussion and Analysis of Financial Condition and Results of Operations.

| Fiscal Year Ended December | | | | |
|----------------------------|-------|-------|-------|-------|
| | 1999 | 2000 | 2001 | 2002 |
| | ----- | ----- | ----- | ----- |
| | 2 | | | |

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| | | Restated | Restated | Res | Res |
|--|-----------|-----------|-----------|-----------|-------|
| (In thousands except per share data) | | | | | |
| Statement of Operations Data: | | | | | |
| Sales | \$ 38,432 | \$ 44,598 | \$ 44,529 | \$ 41,286 | \$ |
| Management and license fees | 544 | 1,078 | 872 | 1,006 | |
| | ----- | ----- | ----- | ----- | ----- |
| Total revenues | 38,976 | 45,676 | 45,401 | 42,292 | |
| | ----- | ----- | ----- | ----- | ----- |
| Gross profit | 28,090 | 32,674 | 32,985 | 30,858 | |
| Operating expenses: | | | | | |
| Restaurant operating expenses | 23,426 | 27,226 | 27,263 | 25,678 | |
| General and administration | 3,296 | 3,313 | 3,530 | 3,568 | |
| Depreciation and amortization | 1,196 | 1,334 | 1,457 | 1,492 | |
| Pre-opening costs | 54 | 330 | 199 | 69 | |
| Gain on sale of assets | - | - | (225) | (71) | |
| Unusual charges | - | 73 | - | - | |
| | ----- | ----- | ----- | ----- | ----- |
| Total | 27,972 | 32,276 | 32,224 | 30,736 | |
| | ----- | ----- | ----- | ----- | ----- |
| Income from operations | 118 | 398 | 761 | 122 | |
| Interest expense, net | (376) | (478) | (394) | (214) | |
| | ----- | ----- | ----- | ----- | ----- |
| Income (loss) before taxes, minority interest, equity in loss of joint venture | (258) | (80) | 367 | (92) | |
| Provision for income taxes | (6) | (14) | (65) | (37) | |
| Equity in loss of joint venture | (74) | (9) | (9) | (23) | |
| Minority interests | (68) | 102 | 211 | 285 | |
| | ----- | ----- | ----- | ----- | ----- |
| Net income (loss) | (406) | (1) | 504 | 133 | |
| | ----- | ----- | ----- | ----- | ----- |
| Preferred dividends accrued | (50) | (50) | (50) | (50) | |
| | ----- | ----- | ----- | ----- | ----- |
| Net income (loss) applicable to common stock | \$ (456) | \$ (51) | \$ 454 | \$ 83 | \$ |
| | ===== | ===== | ===== | ===== | ===== |
| Net income (loss) per share applicable to common stock (1): | | | | | |
| Basic | \$ (0.11) | \$ (0.01) | \$ 0.10 | \$ 0.02 | \$ |
| | ===== | ===== | ===== | ===== | ===== |
| Diluted | \$ (0.11) | \$ (0.01) | \$ 0.09 | \$ 0.02 | \$ |
| | ===== | ===== | ===== | ===== | ===== |
| Weighted average shares outstanding | | | | | |
| Basic | 4,003,738 | 4,104,360 | 4,776,741 | 5,537,071 | 5, |
| | ===== | ===== | ===== | ===== | ===== |
| Diluted | 4,003,738 | 4,104,360 | 4,866,449 | 5,551,751 | 5,6 |
| | ===== | ===== | ===== | ===== | ===== |

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| | Fiscal Year Ended December | | | | |
|--------------------------------|--------------------------------------|------------|----------|----------|----------|
| | 1999 | 2000 | 2001 | 2002 | 2003 |
| | Restated | | | Restated | |
| | (In thousands except per share data) | | | | |
| Balance Sheet Data: | | | | | |
| Working deficit | \$ (3,685) | \$ (2,754) | \$ (693) | \$ (996) | \$ (444) |
| Total assets | 11,288 | 12,534 | 14,344 | 13,665 | 13,887 |
| Long-term debt, less | | | | | |
| current portion | 2,033 | 2,866 | 1,534 | 976 | 606 |
| Stockholders' equity | 3,461 | 3,460 | 6,045 | 6,178 | 6,428 |