GRILL CONCEPTS INC
Form 10-Q
November 09, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 25, 2005

OR

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

For the transition period from _________ to ________.

Commission File No. 0-23226

GRILL CONCEPTS, INC.
(Exact name of registrant as specified in its charter)

Delaware	13-3319172
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

11661 San Vicente Blvd., Suite 404, Los Angeles, California 90049
(Address of principal executive offices)(Zip code)

(310) 820-5559
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the 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 12b-2 of the Exchange Act). Yes [ ] No [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

As of November 2, 2005, 5,726,495 shares of Common Stock of the issuer were outstanding.

GRILL CONCEPTS, INC.

INDEX

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GRILL CONCEPTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)
ASSETS

	September 25, 2005	December 26, 2004
Current assets:		
Cash and cash equivalents	$ 1,659,000	$ 1,407,000
Inventories	642,000	620,000
Receivables, net of reserve ($203,000 in 2005 and $143,000 in 2004)	771,000	836,000
Reimbursement receivables from managed outlets	782,000	928,000
Prepaid expenses and other current assets	418,000	2,372,000
Total current assets	4,272,000	6,163,000
Furniture, equipment, & improvements, net	13,992,000	11,864,000
Goodwill, net	205,000	205,000
Restricted cash	1,042,000	882,000
Note receivable	90,000	101,000
Liquor licenses	421,000	350,000
Other assets	234,000	184,000
Total assets	$20,256,000	$19,749,000

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

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

LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY

	September 25, 2005	December 26, 2004
Current liabilities:		
Accounts payable	$ 1,184,000	$ 1,988,000
Accrued expenses	3,185,000	2,548,000
Accrued managed outlet operating expenses	782,000	928,000
Current portion of long term debt	63,000	196,000
Current portion notes payable - related parties	308,000	294,000
Total current liabilities	5,522,000	5,954,000
Long-term debt	216,000	148,000
Notes payable - related parties	711,000	829,000
Other long-term liabilities	7,681,000	8,054,000
Total liabilities	14,130,000	14,985,000

Minority interest	1,644,000	934,000
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, 5,726,495 shares issued and outstanding in 2005, 5,650,146 shares issued and outstanding in 2004	-	-
Additional paid-in capital	13,682,000	13,649,000
Accumulated deficit	(9,200,000)	(9,819,000)
Total stockholders' equity	4,482,000	3,830,000
Total liabilities, minority interest and stockholders' equity	$20,256,000	$19,749,000

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

3

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

	Three Months Ended		Nine Months
	September 25,	September 26,	September 25,
	2005	2004	2005
		(restated)	
Revenues:			
Sales	$13,298,000	$11,721,000	$40,102,000
Cost reimbursements	1,710,000	2,615,000	10,264,000
Management and license fees	402,000	308,000	1,127,000
Total revenues	15,410,000	14,644,000	51,493,000
Operating expenses:			
Cost of sales	3,743,000	3,367,000	11,295,000
Restaurant operating expenses	8,256,000	7,342,000	24,004,000
Reimbursed costs	1,710,000	2,615,000	10,264,000
General and administrative	1,147,000	1,081,000	3,417,000
Depreciation and amortization	660,000	484,000	1,603,000
Pre-opening costs	11,000	-	255,000
Total operating expenses	15,527,000	14,889,000	50,838,000

Income (loss) from operations	(117,000)	(245,000)	655,000	
Interest expense, net	(43,000)	(59,000)	(123,000)	
Income (loss) before provision for income taxes and minority interest	(160,000)	(304,000)	532,000	
Provision for income taxes	(68,000)	(6,000)	(277,000)	
Minority interest in loss of subsidiaries	40,000	132,000	364,000	
Net income (loss)	(188,000)	(178,000)	619,000	
Preferred dividends accrued	(13,000)	(13,000)	(38,000)	
Net income (loss) applicable to common stock	$ (201,000)	$ (191,000)	$ 581,000	
Net income (loss) per share applicable to common stock:				
Basic net income (loss)	$ (0.04)	$ (0.03)	$ 0.10	
Diluted net income (loss)	$ (0.04)	$ (0.03)	$ 0.09	
Weighted average shares outstanding:				
Basic	5,652,230	5,647,707	5,679,752	
Diluted	5,652,230	5,647,707	6,217,285	

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

4

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

	Nine Months Ended	
	September 25, 2005	September 26, 2004
		(restated)
Cash flows from operating activities:		
Net income (loss)	$ 619,000	$ (192,000)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,603,000	1,448,000
Stock based compensation	-	(84,000)
Provision for doubtful accounts	60,000	8,000
Amortized deferred rent and lease incentives	(484,000)	(127,000)

Gain on sale of assets	(5,000)	(3,000)
Minority interest in loss of subsidiaries	(364,000)	(493,000)
Changes in operating assets and liabilities:		
Inventories	(22,000)	15,000
Receivables	5,000	90,000
Reimbursable costs receivable	146,000	51,000
Prepaid expenses and other current assets	103,000	(32,000)
Tenant improvement allowances	1,962,000	1,049,000
Other assets	(65,000)	50,000
Accounts payable	(804,000)	597,000
Accrued expenses	619,000	(438,000)
Reimburseable costs payable	(146,000)	(51,000)
Net cash provided by operating activities	3,227,000	1,888,000
Cash flows from investing activities:		
Proceeds from disposal of assets	5,000	5,000
Restricted cash	(160,000)	(60,000)
Purchase of liquor license	(71,000)	(5,000)
Purchase of furniture, equipment and improvements	(3,716,000)	(1,774,000)
Net cash used in investing activities	(3,942,000)	(1,834,000)
Cash flows from financing activities:		
Capital Contributions from minority interest members in LLCs	1,274,000	35,000
Return of capital and profits to minority shareholder	(186,000)	(147,000)
Collections on note receivable	15,000	15,000
Proceeds from equipment financing	118,000	-
Proceeds from exercise of stock options and warrants	33,000	-
Payments on notes payable - related parties	(104,000)	(159,000)
Payments on long-term debt	(183,000)	(198,000)
Net cash provided by (used in) financing activities	967,000	(454,000)
Net increase (decrease) in cash and cash equivalents	252,000	(400,000)
Cash and cash equivalents, beginning of period	1,407,000	1,496.000
Cash and cash equivalents, end of period	$ 1,659,000	$ 1,096,000
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	$ 141,000	$ 107,000
Income taxes	263,000	119,000

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

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 our Form 10-K for the year ended December 26, 2004. In the opinion of management, these interim financial statements reflect all adjustments of a normal recurring 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

We began a review of our 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, we revised our accounting for leases in 2004 and restated our historical financial statements as of September 26, 2004 to correct for these errors in our lease accounting.

Historically, we 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, we 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 we 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 $6,000 and $3,000 for the nine months ended September 26, 2004.

In closing the 2004 books and records, we reviewed the estimated useful lives that we were using to amortize our leasehold improvements. In the case of six restaurants, it was found that the incorrect lives had been used. We have 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 $91,000 for the three and nine months ended September 26, 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 10K for the year ended December 26, 2004, we allocate 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 $143,000, respectively for the three and nine months ended September 26, 2004.

During fourth quarter of 2004, we eliminated amounts that had previously been recorded as restaurant sales revenue arising from complimentary meals and promotional activities. Our 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, we have eliminated all amounts for complimentary meals and promotional activities. As a result of these adjustments, revenues were decreased by $448,000 in the third quarter 2004, restaurant operating expenses decreased by $406,000 and general and administrative expenses decreased by $42,000. The adjustments for the full nine month period ended September 26, 2004 was a decrease in revenues of $1,410,000, a decrease in restaurant operating expenses of $1,281,000 and a decrease in general and administrative expenses of $129,000. 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 September 26, 2004 are summarized as follows.

7

The following table reflects the effects of the restatement on the Consolidated Statement of Operations:

	SEPTEMBER 26, 2004			
	THREE MONTHS		NINE MONTHS	
	AS PREVIOUSLY REPORTED	RESTATED	AS PREVIOUSLY REPORTED	RESTATED
Sales	12,169,000	11,721,000	38,325,000	36,915,000
Total Revenue	15,092,000	14,644,000	47,943,000	46,533,000
Restaurant operating expenses	7,752,000	7,344,000	23,928,000	22,641,000
General & administrative	1,124,000	1,081,000	3,434,000	3,302,000
Depreciation & amortization	454,000	484,000	1,357,000	1,448,000
Total operating expenses	15,310,000(1)	14,889,000	48,321,000	46,993,000
Loss from operations	(218,000)	(245,000)	(378,000)	(460,000)
Loss before taxes	(277,000)	(304,000)	(569,000)	(651,000)
Loss before minority interest	(283,000)	(310,000)	(603,000)	(685,000)
Minority interest	84,000	132,000	350,000	493,000
Net loss	(199,000)	(178,000)	(253,000)	(192,000)
Net loss applicable to common stock	(212,000)	(191,000)	(291,000)	(230,000)
Net loss per share applicable to common stock:				
Basic	($0.04)	($0.03)	($0.05)	($0.04)
Diluted	($0.04)	($0.03)	($0.05)	($0.04)

(1) Includes cost of sales amounts that were not included in the "Total operating expenses" subtotal in prior financial statements.

The following table reflects the effects of the restatement on the Consolidated Statement of Cash Flows:

	SEPTEMBER 26, 2004	
	AS PREVIOUSLY REPORTED	RESTATED
Cash flows from operating activities		
Net loss	(253,000)	(192,000)
Depreciation and amortization	1,357,000	1,448,000
Minority interest in net loss of subsidiaries	(350,000)	(493,000)

Tenant improvement allowances	-	1,049,000
Other long term liabilities	(118,000)	(127,000)
Net cash provided by operating activities	839,000	1,888,000
Tenant improvement allowances	1,049,000	-
Net cash provided by (used in) financing activities	595,000	(454,000)

RECLASSIFICATIONS

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

8

2. PRO-FORMA STOCK-BASED COMPENSATION

We account 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 comply 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 our stock and the amount an employee must pay to acquire the stock. Because, prior to June 30, 2004, grants under the plan required variable accounting treatment due to the cashless exercise feature of those options (described below), compensation expense was, through that date, remeasured at each balance sheet date based on the difference between the current market price of our stock and the option exercise price. An accrual for compensation expense was determined based on the proportionate vested amount of each option as prescribed by Financial Interpretation No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans." Each period, adjustments to the accrual are recognized in the income statement. We account 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.

On June 1, 1995, our Board of Directors adopted the Grill Concepts, Inc. 1995 Stock Option Plan (the "1995 Plan") and on June 12, 1998 the 1998 Stock Option Plan (the "1998 Plan") was adopted. These Plans provide for options to be issued to our employees and others. The exercise price of the shares under option shall be equal to or exceed 100% of the fair market value of the shares at the date of grant. The options generally vest over a five-year period. The terms of the option grants originally allowed the employee to exercise the option by surrendering a portion of the vested shares in lieu of paying cash, subject to the terms of the plan including the rights of the Compensation Committee to amend grants in any manner that the committee in its sole discretion deems to not adversely impact the option holders.

On June 23, 2004, our Compensation Committee, as administrators of our stock option plan, resolved that the cashless exercise feature in our stock option plan will not be permitted, and a notification was subsequently given to all employees on July 30, 2004. Effective with this date, we reverted back to accounting for our options under the fixed accounting treatment.

We have adopted the disclosure-only provisions of SFAS No. 123, and will continue to use the intrinsic value-based method of accounting prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees." During the nine-month period ended September 25, 2005 there were 117,250 options granted, 11,200 options exercised and 64,050 options cancelled. Pro forma compensation expense for our stock option plans determined based on the fair value at the grant date for awards is as follows:

	Three Months 2005	2004 (restated)	Nine Months 2005	2004 (restated)
Net income (loss), as reported	$ (188,000)	$ (178,000)	$ 619,000	$(192,000)
Add: stock compensation expense recorded, net of taxes	-	(155,000)	-	(84,000)
Deduct: stock compensation expense under fair value method, net of taxes	(125,000)	(71,000)	(201,000)	(144,000)
Net income (loss), pro forma	$ (313,000)	$ (404,000)	$ 418,000	$(420,000)
Net income (loss) per share, as reported:				
Basic	$ (0.04)	$ (0.03)	$ 0.10	$ (0.04)
Diluted	$ (0.04)	$ (0.03)	$ 0.09	$ (0.04)
Net income (loss) per share, pro forma:				
Basic	$ (0.06)	$ (0.07)	$ 0.07	$ (0.08)
Diluted	$ (0.06)	$ (0.07)	$ 0.06	$ (0.08)

3. RESTRICTED CASH

In January 2004 a $700,000 certificate of deposit was established at Union Bank to act as collateral for the Standby Letter of Credit opened to support our Workers Compensation policy. In January 2005 an additional $160,000 was added to the certificate of deposit. Other restricted cash consists of $72,000 held in escrow for the Daily Grill at Continental Park in El Segundo, California and $110,000 that was placed with our insurance claims processor in 2004 for worker's compensation claims.

4. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Most lease agreements contain one or more of the following; tenant improvement allowances, rent holidays, rent escalation clauses and/or contingent rent provisions.

Rent is recognized on a straight-line basis, including the restaurant build-out period. This period is normally prior to the commencement of rent payments and is commonly called the rent holiday period. The build-out period generally begins when we have access to the space and begin to make improvements in preparation for intended use. We expense rent on a straight-line basis during the build-out period. Tenant improvement allowances are also recognized on a straight-line basis beginning at the same time as the commencement of the straight-line rent expense.

Prepaid expenses and other current assets at September 25, 2005 and December 26, 2004 were comprised of:

	2005	2004

Lease incentive receivables	$ -	$1,851,000
Prepaid expenses, other	418,000	521,000
Total prepaid assets and other current assets	$418,000	$2,372,000

10

5. LONG TERM DEBT

During the second quarter of 2005, we borrowed $118,000 under the equipment financing portion of our credit facility. This financing has a term of 5 years and an interest rate of approximately 8.1%.

We are negotiating an extension of the equipment financing portion of the credit facility. The credit facility also contains a $500,000 line of credit that is available in its entirety. The line of credit portion of the credit facility has been extended and has a termination date of August 2006.

6. OTHER LONG-TERM LIABILITIES

In connection with certain of our leases, the landlord has provided us with tenant improvement allowances. These lease incentives have been recorded as long-term liabilities and are being amortized over the life of the lease. Additionally, we recognize a liability for deferred rent where lease payments are lower than rental expense recognized on a straight-line basis.

Other Long-Term Liabilities at September 25, 2005 and December 26, 2004 were comprised of:

	2005	2004
Lease Incentives	$5,380,000	$5,653,000
Deferred Rent	2,301,000	2,401,000
Total Other Long-Term Liabilities	$7,681,000	$8,054,000

7. RECENT ACCOUNTING PRONOUNCEMENTS

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004), Share-Based Payment, which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation. Statement 123(R) supersedes APB No. 25, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statement of operations based on their fair values. Pro forma disclosure is no longer an alternative.

As permitted by Statement 123, we currently account for share-based payments to employees using APB No. 25's intrinsic value method and, as such, generally recognize no compensation cost for employee stock options. Accordingly, the adoption of Statement 123(R)'s fair value method may have a significant impact on our result of operations, although it will have no impact on our overall

financial position. The impact of adoption of Statement 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted Statement 123(R) in prior periods, the impact of that standard would have approximated the impact of Statement 123 as described in the disclosure of pro forma net income and earnings per share in note 2 above.

We expect to adopt Statement 123(R) in the first quarter of 2006.

8. DISTRIBUTION OF CAPITAL AND PREFERRED RETURNS

The San Jose Grill, Chicago - Grill on the Alley, Grill on Hollywood, South Bay Daily Grill and Downtown Daily Grill restaurants are each owned by limited liability companies (the "LLCs") in which we serve as manager and own a controlling interest. Each of the LLCs has minority interest owners some of whom have participating rights in the joint venture such as the ability to approve operating and capital budgets and the borrowing of money. In connection with the financing of each of the LLCs, the minority members may have certain rights to priority distributions of capital until they have received a return of their initial investments ("Return of Member Capital") as well as rights to receive defined preferred returns on their invested capital ("Preferred Return").

The Universal CityWalk Daily Grill is owned by a partnership ("the CityWalk Partnership") for which we serve as manager. Our partner has certain rights to priority distribution of capital from the CityWalk Partnership until they have received their initial investment ("Return of Member Capital").

The following tables set forth a summary for each of the LLCs and the CityWalk Partnership of (1) the distributions of capital to the Members and/or the Company during the nine months ended September 25, 2005, (2) the unreturned balance of the capital contributions of the Members and/or the Company at September 25, 2005, and (3) the accrued but unpaid preferred returns due to the Members and/or the Company at September 25, 2005:

SAN JOSE GRILL LLC

Distributions of capital, preferred return and profit during the nine months ended September 25, 2005:	Members	$ 186,000
	Company	$ 187,000
Unreturned Initial Capital Contributions at September 25, 2005:	Members	$ -
	Company	$ -
Accrued but unpaid Preferred Returns at September 25, 2005:	Members	$ -

	Company	$ -

CHICAGO - GRILL ON THE ALLEY LLC

Distributions of capital and note repayments during the nine months ended September 25, 2005:	Members (a)	$ 189,000
	Company	$ -
Unreturned Initial Capital Contributions at September 25, 2005:	Members	$ 948,000
	Company	$ -
Accrued but unpaid Preferred Returns at September 25, 2005:	Members	$ -
	Company	$ -

THE GRILL ON HOLLYWOOD LLC

Distributions of capital during the nine months ended September 25, 2005:	Members	$ -
	Company	$ -
Unreturned Initial Capital Contributions at September 25, 2005:	Members	$ 1,200,000
	Company	$ 250,000
Accrued but unpaid Preferred Returns at September 25, 2005:	Members (b)	$ -
	Company	$ -

SOUTH BAY DAILY GRILL (CONTINENTAL PARK LLC)

Distributions of capital during the nine months ended September 25, 2005:	Members	$ -
	Company	$ -
Unreturned Initial and Additional Capital Contributions at September 25, 2005:	Members	$ 1,100,000
	Company	$ 450,000

Accrued but unpaid Preferred Returns at September 25, 2005:	Members (b)	$ -
	Company	$ -

UNIVERSAL CITYWALK DAILY GRILL

Distributions of capital during the nine months ended September 25, 2005:	Members	$ -
	Company	$ -
Unreturned Initial and Additional Capital Contributions at September 25, 2005:	Members	$ 1,346,000
	Company	$ 246,000
Accrued but unpaid Preferred Returns at September 25, 2005:	Members (b)	$ -
	Company	$ -

DOWNTOWN DAILY GRILL (612 FLOWER DAILY GRILL, LLC)

Distributions of capital during the nine months ended September 25, 2005:	Members	$ -
	Company	$ -
Unreturned Initial Capital Contributions at September 25, 2005:	Members	$ 1,145,000
	Company	$ 248,000
Accrued but unpaid Preferred Returns at September 25, 2005:	Members	$ 43,000
	Company	$ 11,000

(a) Distribution of capital and note repayments as of September 25, 2005 includes $128,000 of capital and note repayments and $61,000 of interest and preferred return.

(b) Due to the under performance of the restaurants the preferred return is not being accrued. The Company is not liable to pay the preferred return distributions, such that they represent a non-recourse obligation of the subsidiary entity. If preferred returns were accrued for The Grill on Hollywood the member would have an accrued preferred return of $708,000 and the Company would have an accrued preferred return of $148,000. If preferred returns were accrued for the South Bay Daily Grill the member would have an accrued preferred return of $318,000 and the Company would have an accrued preferred return of $123,000. If preferred returns were accrued for the CityWalk Partnership the Member would have an accrued preferred return of $500,000.

9. 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 nine and three-month periods ended September 25, 2005 and September 26, 2004 follow:

Nine months	2005 Earnings	2005 Shares	2004 Earnings (restated)	2004 Shares
Net income (loss)	$619,000		$ (192,000)	
Less: preferred stock dividend	(38,000)		(38,000)	
Earnings (deficit) available for common stockholders	581,000	5,679,752	(230,000)	5,594,672
Dilutive securities:				
Stock options	-	126,111	-	-
Warrants	-	411,422	-	-
Dilutive earnings (deficit) available to common stockholders	$581,000	6,217,285	$(230,000)	5,594,672

For the nine months ended September 25, 2005, 324,625 options, 203,645 warrants and 500 shares of convertible preferred stock were excluded from the calculation because they were anti-dilutive. For the nine months ended September 26, 2004, 632,425 options, 1,722,787 warrants and 500 shares of convertible preferred stock were excluded from the calculation because they were anti-dilutive.

Three months	2005 Earnings	2005 Shares	2004 Earnings (restated)	2004 Shares
Net loss	$(188,000)		$ (178,000)	
Less: preferred stock dividend	(13,000)		(13,000)	
Deficit available for common				

stockholders	(201,000)	5,726,003	(191,000)	5,647,707
Dilutive securities:				
Stock options	-	-	-	-
Warrants	-	-	-	-
Dilutive deficit available to common stockholders	$(201,000)	5,726,003	$(191,000)	5,647,707

For the three months ended September 25, 2005, 726,675 options, 1,359,896 warrants and 500 shares of convertible preferred stock were excluded from the calculation because they were anti-dilutive. For the three months ended September 26, 2004, 632,425 options, 1,722,787 warrants and 500 shares of convertible preferred stock were excluded from the calculation because they were anti-dilutive.

10. LITIGATION CONTINGENCIES

In June 2004, one of our former hourly restaurant employees filed a class action lawsuit against us in the Superior Court of California of Orange County. We requested and were granted a motion to move the suit from Orange County to Los Angeles County. The lawsuit was then filed in the Superior Court of California of Los Angeles in December 2004. The plaintiff has alleged violations of California labor laws with respect to providing meal and rest breaks. The lawsuit sought unspecified amounts of penalties and other monetary payments on behalf of the plaintiffs and other purported class members. We believe that all of our employees were provided with the opportunity to take all required meal and rest breaks. The Court is waiting until the State Supreme Court hears the cases currently before the Court of Appeals related to the meal and rest breaks before scheduling any further action in our case. Concurrently, discovery is continuing in these matters and we intend to vigorously defend our position in all of these matters although the outcome cannot be ascertained at this time.

In November 2004, a sexual harassment case was filed against us in the Superior Court of California of Los Angeles. We filed a motion to dismiss and the case was dismissed with the plaintiff having the right to re-file. The plaintiff re-filed the case. We are pursuing a settlement while discovery continues. We have accrued legal costs up to our insurance deductible of $50,000 in this matter.

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 our 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 our 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. Our 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 our Annual Report on Form 10-K for the year ended December 26, 2004.

2004 RESTATEMENT OF FINANCIAL STATEMENTS

We began a review of our 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, we revised our accounting for leases in 2004 and restated our historical financial statements as of and for each fiscal year end 2003, 2002, 2001 and 2000 to correct for these errors in its lease accounting. The accompanying consolidated financial statements for the nine months ended September 26, 2004 have been restated from those originally issued to reflect the change in lease accounting.

Historically, we 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, we 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 we 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 $6,000 and $3,000 for the nine months ended September 26, 2004.

In closing the 2004 books and records, we reviewed the estimated useful lives that we were using to amortize our leasehold improvements. In the case of six restaurants, it was found that the incorrect lives had been used. We have revised the depreciation 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 $91,000 for the three and nine months ended September 26, 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 the consolidated financial statements to Form 10K for the year ended December 26, 2004, we allocate 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 $143,000 for the three and nine months ended September 26, 2004.

During fourth quarter of 2004, we eliminated amounts that had previously been recorded as restaurant sales revenue arising from complimentary meals and promotional activities. Our previous method of recording these activities as restaurant sales revenue 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, we have eliminated all amounts for complimentary meals and promotional activities. As a result of these

adjustments, revenue and expenses were decreased by $448,000 for the third quarter 2004, restaurant operating expenses decreased by $406,000 and general and administrative expenses decreased by $42,000. The adjustments for the full nine month period ended September 26, 2004 was a decrease in revenues of $1,410,000, a decrease in restaurant operating expenses of $1,281,000 and a decrease in general and administrative expenses of $129,000. 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 September 26, 2004 are summarized as follows.

The following table reflects the effects of the restatement on the Consolidated Statement of Operations:

	SEPTEMBER 26, 2004			
	THREE MONTHS		NINE MONTHS	
	AS PREVIOUSLY REPORTED	RESTATED	AS PREVIOUSLY REPORTED	RESTATED
Sales	12,169,000	11,721,000	38,325,000	36,915,000
Total Revenue	15,092,000	14,644,000	47,943,000	46,533,000
Restaurant operating expenses	7,752,000	7,344,000	23,928,000	22,641,000
General & administrative	1,124,000	1,081,000	3,434,000	3,302,000
Depreciation & amortization	454,000	484,000	1,357,000	1,448,000
Total operating expenses	15,310,000(1)	14,889,000	48,321,000	46,993,000
Loss from operations	(218,000)	(245,000)	(378,000)	(460,000)
Loss before taxes	(277,000)	(304,000)	(569,000)	(651,000)
Loss before minority interest	(283,000)	(310,000)	(603,000)	(685,000)
Minority interest	84,000	132,000	350,000	493,000
Net loss	(199,000)	(178,000)	(253,000)	(192,000)
Net loss applicable to common stock	(212,000)	(191,000)	(291,000)	(230,000)
Net loss per share applicable to common stock:				
Basic	($0.04)	($0.03)	($0.05)	($0.04)
Diluted	($0.04)	($0.03)	($0.05)	($0.04)

(1) Includes cost of sales amounts that were not included in the "Total operating expenses" subtotal in prior financial statements.

19

The following table reflects the effects of the restatement on the Consolidated Statement of Cash Flows:

	SEPTEMBER 26, 2004	
	AS PREVIOUSLY REPORTED	RESTATED
Cash flows from operating activities		
Net loss	(253,000)	(192,000)
Depreciation and amortization	1,357,000	1,448,000
Minority interest in net loss of subsidiaries	(350,000)	(493,000)
Tenant improvement allowances	-	1,049,000
Other long term liabilities	(118,000)	(127,000)
Net cash provided by operating activities	839,000	1,888,000
Tenant improvement allowances	1,049,000	-
Net cash provided by (used in) financing activities	595,000	(454,000)

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, information derived from our consolidated statements of operations expressed as a percentage of total operating revenues.

	Three Months Ended		Nine Mont
	September 25, 2005	September 26, 2004 (restated)	September 25, 2005
Revenues:	%	%	%
Company restaurant sales	86.3	80.0	77.9
Reimbursed managed outlet operating expenses	11.1	17.9	20.0
Management and license fees	2.6	2.1	2.1
Total operating revenues	100.0	100.0	100.0
Cost of sales	24.3	23.0	22.0
Restaurant operating expense	53.6	50.2	46.6
Reimbursed managed outlet operating expenses	11.1	17.9	20.0
General and administrative expense	7.4	7.4	6.6
Depreciation and amortization	4.3	3.3	3.1
Pre-opening expenses	0.1	-	0.4
Total operating expenses	100.8	101.7	98.7
Operating income (loss)	(0.8)	(1.7)	1.3
Interest expense, net	(0.2)	(0.4)	(0.3)
Income (loss) before provision for income taxes, minority interest and equity in loss of joint venture	(1.0)	(2.1)	1.0
Provision for income taxes	(0.5)	(0.0)	(0.5)
Minority interest in net loss of subsidiaries	0.3	0.9	0.7
Net income (loss)	(1.2)	(1.2)	1.2

20

The following table sets forth, for the periods indicated, information derived from our consolidated financial statements of operations expressed as a percentage of total restaurant sales.

	Three Months Ended		Nine Mont
	September 25, 2005	September 26, 2004	September 25, 2005

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		(restated)	
Revenues:	%	%	%
Company restaurant sales	100.0	100.0	100.0
Cost of sales	28.1	28.7	28.2
Restaurant operating expenses	62.1	62.6	59.9

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.

	Third Quarter Openings		Year-to-date Openings		Total End of
	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005
Daily Grill restaurants:					
Company owned	(1)	-	1	1	1
Managed and/or licensed	-	-	-	-	
Grill on the Alley restaurants:					
Company owned	-	-	-	-	
Other restaurants					
Managed and/or licensed	-	(1)	-	(1)	
Total	(1)	(1)	1	-	2

21

	Three Months Ended		Nine Months Ended	
	September 25, 2005	September26, 2004	September 25, 2005	September 26, 2004
Weighted average weekly sales per company owned restaurant:				
Daily Grill	$ 55,344	$ 55,569	$ 58,735	$ 59,768
Grill on the Alley	81,969	72,571	81,207	73,389
Change in comparable restaurant (1):				
Daily Grill	1.1%	3.7%	0.0%	5.1%
Grill on the Alley	13.0%	1.3%	10.7%	0.4%
Total sales:				
Daily Grill	$ 9,036,000	$ 7,947,000	$27,434,000	$25,466,000
Grill on the Alley	4,262,000	3,774,000	12,668,000	11,449,000
Total consolidated sales	$13,298,000	$11,721,000	$40,102,000	$36,915,000

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

We also earn management and license fee revenue based on a percentage of gross sales at restaurants under management and licensing arrangements. Our management and license fee revenue typically is earned at a rate of five to eight percent of reported sales at these restaurants. The sales of managed and licensed restaurants are not included in our statements of operations. However, we consider the disclosure of these sales to be a key indicator of brand strength and important to understanding how changes in sales at the managed and licensed restaurants impact our revenue.

Sales at non-Company owned Grill Concepts-branded restaurants, categorized as, managed and licensed restaurants were as follows:

	Three Months Ended		Nine Months Ended	
	September 25, 2005	September26, 2004	September 25, 2005	September 26, 2004
Managed Daily Grills	$ 4,926,000	$ 4,115,000	$ 14,039,000	$ 11,880,000
Licensed Daily Grills	2,173,000	1,861,000	5,943,000	6,130,000
	$ 7,099,000	$ 5,976,000	$ 19,982,000	$ 18,010,000
Management and license fees Percent of gross sales	5.7%	5.2%	5.6%	5.1%

22

MATERIAL CHANGES IN RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 25, 2005 AS COMPARED TO THE THREE AND NINE MONTHS ENDED SEPTEMBER 26, 2004

Revenues. For the 2005 third quarter total revenues increased 5.2% to $15.4 million from $14.6 million for the 2004 third quarter and increased 10.7% to $51.5 million for the 2005 year-to-date period from $46.5 million for the 2004 year-to-date period. For the quarter, total revenues consisted of sales revenues of $13.3 million, up 13.5% from $11.7 million in the 2004 quarter, management and license fee of $402,000, up 30.5% from $308,000 in the 2004 quarter, and reimbursed managed outlet expenses of $1.7 million, down 34.6% from $2.6 million in the 2004 quarter. For the year-to-date period, total revenues consisted of sales revenues of $40.1 million, up 8.6% from $36.9 million in the 2004 year-to-date period, management and license fees of $1,127,000, up 23.9% from, $910,000 in the 2004 year-to-date period, and reimbursed managed outlet expenses of $10.3 million, up 17.9% from $8.7 million in the 2004 year-to-date period.

Sales for Daily Grill restaurants increased by 13.7% from $7.9 million in the 2004 quarter to $9.0 million in the 2005 period. The increase in sales revenues for the Daily Grill restaurants from 2004 to 2005 was primarily attributable to opening of the Santa Monica Daily Grill ($0.6 million) and the Downtown Daily Grill ($0.9 million) and an increase in same store sales of 1.1% ($0.1 million) for restaurants open for the entire 13 weeks in both 2004 and 2005 partially offset by a $0.5 million decrease due to the closure of the La Cienega Daily Grill.

Sales for Daily Grill restaurants increased by 7.7% from $25.5 million for the nine months in 2004 to $27.4 million in 2005. The increase in sales revenues for the Daily Grill restaurants from 2004 to 2005 was primarily due to the opening of the Santa Monica Daily Grill ($1.3 million) and the Downtown Daily Grill ($1.1 million) partially offset by the closure of the La Cienega Daily Grill ($0.5 million). Management considers performance of same store or comparable store sales to be an important measure of growth when evaluating performance. Weighted average weekly sales at the Daily Grill restaurants decreased 1.7% from $59,768 in 2004 to $58,735 in 2005. Comparable restaurant sales at the Daily Grill restaurants in 2005 reflected improved sales at a number of restaurants offset by a decline in guests at two restaurants adversely impacted by external factors and renovation issues. Our intent is to address the renovation issues in early 2006. Same store sales were flat year over year and the decrease in average weekly sales was principally attributable to the La Cienega Daily Grill where average weekly sales decreased 8.8% for the nine months of 2005 compared to 2004 due to a decrease in guest counts leading up to, and resulting from, closure of the restaurant following expiration of the restaurant's lease.

Sales for Grill restaurants increased by 13.0% from $3.8 million in the 2004 quarter to $4.3 million in 2005. Approximately two-thirds of the increase in sales revenues for the Grill restaurants from 2004 to 2005 was attributable to increased guest counts and one-third to improved check averages.

Sales for Grill restaurants increased 10.7% from $11.4 million to $12.7 million for the nine month period. The increase in sales revenues for the Grill restaurants from 2004 to 2005 was attributable to improved guest counts (60%) and check averages (40%). Weighted average weekly sales at the Grill restaurants increased 10.7% from $73,389 in 2004 to $81,207 in 2005.

23

Management and license fee revenues were attributable to hotel restaurant management services which accounted for $348,000 of management fees during the 2005 quarter as compared to $250,000 during the 2004 quarter and licensing fees of $54,000 during the 2005 quarter compared to $58,000 during the 2004 quarter. The increase in management and license fees during 2005 was attributable to management of the Long Beach Daily Grill beginning in November 2004 and improved sales at the Burbank and San Francisco Daily Grills.

For the year-to-date period, management and license fee revenues were attributable to hotel restaurant management services which accounted for $954,000 of management fees during the 2005 period as compared to $738,000 during the 2004 period and licensing fees of $173,000 during the 2005 period as compared to $172,000 during the 2004 period. The increase in management and license fees during 2005 was attributable to management of the Long Beach Daily Grill beginning in November 2004 and improved sales at the San Francisco, Georgetown, Burbank, Houston and LAX Daily Grills.

Reimbursed managed outlet expenses represent amounts incurred by the Company on behalf of managed outlets for which the Company receives reimbursement from the owner. The increase in revenues attributable to reimbursed managed outlet expenses for the year-to-date period was attributable to the opening of the Long Beach Daily Grill in November 2004 and increased cost of goods at the San Francisco Daily Grill and increased restaurant operating expenses at the San Francisco, Georgetown and Burbank Daily Grills due to improved sales.

Operating Expenses and Operating Results. Total operating expenses, including cost of sales, restaurant operating expenses, reimbursable costs, general and administrative expense, depreciation and amortization, and pre-opening costs, increased 4.3% to $15.5 million in the 2005 quarter (representing 100.8% of revenues) from $14.9 million in 2004 (representing 101.7% of revenues). For the nine months, total operating expenses increased 8.2% to $50.8 million (representing 98.7% of revenues) from $47.0 million in 2004 (representing 101.0% of revenues).

Cost of Sales. While sales revenues increased by 13.5% ($1,577,000) in the 2005 quarter and 8.6% ($3,187,000) for the nine months as compared to 2004, total cost of sales increased by 11.2%, or $376,000, for the quarter and 5.1% or $549,000, for the nine months ended September 25, 2005 as compared to the same periods in 2004. The dollar increase in cost of sales is primarily due to the opening of the Santa Monica and Downtown Daily Grills ($410,000 for the quarter and $684,000 for the nine months). Cost of sales as a percentage of restaurant sales was 28.1% for the quarter and 28.2% for the nine months ended September 25, 2005 as compared to 28.7% for the third quarter and 29.1% for the year-to-date period in 2004. The decrease in cost of sales as a percentage of total sales was attributable to menu changes during the third quarter and nine months of 2005.

Restaurant operating expenses. Restaurant operating expenses increased by $917,000, or 12.5%, for the quarter and $1,365,000, or 6.0%, for the nine months as compared to the same periods in 2004. The dollar increase in restaurant operating expenses for the quarter was primarily attributable to restaurants opening in 2005 - the Santa Monica Daily Grill ($359,000) and the Downtown Daily Grill ($548,000). The dollar increase in operating expenses for the nine months was primarily attributable to the opening of the Santa Monica Daily Grill ($779,000) and the Downtown Daily Grill ($725,000). Restaurant operating expenses, as a percentage of restaurant sales, decreased in the third quarter from 62.6% in 2004 to 62.1% in 2005. For the nine months, the percentages were 61.3% in 2004 and 59.9% in 2005.

24

Reimbursed Costs. Reimbursed costs decreased 34.6% from $2.6 million to $1.7 million for the quarter and increased by 17.9% from $8.7 million to $10.3 million in 2005 for the nine months. These expenses represent the operating costs for which we are the primary obligor of the restaurants we do not consolidate. The increase is primarily due to the opening of the Long Beach Daily Grill in November 2004 and increased cost of sales at the San Francisco Daily Grill and increased restaurant operating expenses at the San Francisco, Georgetown and Burbank Daily Grills due to improved sales.

General and Administrative. General and administrative expense increased 6.1% for the quarter and 3.5% for the nine months as compared to the same periods in 2004. As a percentage of revenues, general and administrative expense totaled 7.4% for the quarter and 6.6% for the nine months as compared to 7.4% for the quarter and 7.1% for the nine months in 2004. The increase in total general and administrative expense of $66,000 for the 2005 quarter was primarily attributable to accruing a management bonus, increases in professional services and provision for bad debts related to Portland management fees offset by a decrease in office expenses. The increase in total general and administrative expense of $115,000 for the 2005 nine month period is attributable to accruing a management team bonus, increases in wages and related benefits and provision for bad debts related to Portland management fees offset by reduced travel costs and office expenses.

Depreciation and Amortization. Depreciation and amortization expense increased by 36.4% for the quarter and 10.7% for the nine months compared to 2004, representing 4.0% of restaurant sales for the nine months of 2005 and 3.9% of sales in 2004. The increase in depreciation and amortization expense for the nine months was primarily due to the abandonment of assets at the La Cienega restaurant which closed July 31, 2005 and the opening of the Santa Monica and Downtown Daily Grills in 2005.

Pre-opening Costs. Pre-opening costs totaled $11,000 in the 2005 quarter as compared to zero in the 2004 quarter and $255,000 in the 2005 nine month period as compared with $148,000 in 2004. These pre-opening costs were attributable to the opening in January 2004 of the Bethesda Daily Grill and the opening of the Santa Monica and Downtown Daily Grills in 2005.

Interest Expense. Total interest expense, net, decreased by $16,000, or 27.1%, during the quarter and $68,000, or 35.6%, during the nine months compared to the same periods in 2004. The decrease in interest expense was primarily attributable to substantially reduced warrant amortization in 2005.

Minority Interest. We reported a minority interest in the loss of our majority owned subsidiaries of $40,000 during the 2005 third quarter as compared to $132,000 during the 2004 quarter. For the nine months, we reported a minority interest in the loss of majority owned subsidiaries of $364,000 during 2005 and $493,000 during 2004. The decrease in minority interest in loss for the quarter and nine months was primarily attributable to having more of the losses of the Hollywood Grill allocated to us offset by improved operations at the South Bay Daily Grill.

25

Provision for Income Taxes. The income tax provision for 2005 is due to alternative minimum tax and state taxes with only minor NOLs and large business credits to offset the federal tax. In 2004 there were larger federal NOLs resulting in a tax provision which consisted of state income taxes only.

Net Income. We reported net loss of $188,000 for the third quarter and net income of $619,000 for the nine months of 2005 as compared to a net loss of $178,000 for the third quarter and a net loss of $192,000 for the nine months in 2004.

MATERIAL CHANGES IN FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES.

At September 25, 2005 we had negative working capital of $1.3 million and a cash balance of $1.7 million compared to positive working capital of $0.2 million and a cash balance of $1.4 million at December 26, 2004.

Net cash provided by operations during the nine months ended September 25, 2005 totaled $3,227,000 compared to $1,888,000 during the nine months ended September 26, 2004. The increase in cash provided by operations primarily resulted from increased profitability of $811,000, increased tenant improvement allowances received of $913,000 and by changes in operating assets and liabilities.

Net cash used in investing activities during the nine months ended September 25, 2005 totaled $3,942,000 compared to $1,834,000 during the nine months ended September 26, 2004. Cash used in investing activities related primarily to the purchases of furniture, fixtures and equipment for the Santa Monica Daily Grill ($1,275,000) and the Downtown Daily Grill ($2,060,000).

Net cash provided by financing activities during the nine months ended September 25, 2005 totaled $967,000 compared to $454,000 used in financing activities during the nine months ended September 26, 2004. Cash provided by financing activities during the current year related to capital contributions from LLC minority members ($1,274,000), equipment financing ($118,000), and exercise of stock option ($33,000) offset by reductions in debt ($287,000) and distribution of profits to the minority investor in San Jose Grill, LLC ($186,000).

Financing Facilities. At September 25, 2005, the Company had $150,000 owing under equipment lease financing transactions, a loan from a member of Chicago - The Grill on the Alley, LLC of $0.9 million, loans from stockholders/officers of $0.2 million, and loans/advances from a landlord, the SBA and others of $0.1 million. Construction of the Santa Monica Daily Grill was paid for through a $2.2 million tenant improvement allowance of which $1,517,000 was received during the first nine months of 2005. Construction of the Downtown Daily Grill was funded through a $600,000 tenant improvement allowance, minority member capital contribution of $1,250,000 and the Company's capital contribution of $251,000. As of September 25, 2005, $600,000 of the tenant improvement allowance on the Downtown Daily Grill has been received. These tenant improvement allowances have been recorded in other long-term liabilities and are being amortized against rent expense over the lease terms.

In June 2004, we finalized an agreement with respect to the establishment of a new bank credit facility. Under the terms of the new bank credit facility, we have been provided with financing in the form of a revolving line of credit in the amount of $500,000, an irrevocable standby letter of credit in the amount of $700,000, increased to $860,000 in January 2005 and equipment financing in the amount of $500,000. As of September 25, 2005 we have utilized $162,000 of the equipment financing. The facility has a one-year term, is secured by assets and is subject to certain standard borrowing covenants. The bank has renewed the credit facility extending the term to August 4, 2006.

26

Operating Leases and Contractual Obligations. In September 2005, we entered into a lease relating to a restaurant scheduled to open in the summer of 2006. Including that lease, at September 25, 2005, we were obligated under eighteen leases covering the premises in which our Daily Grill and Grill Restaurants are located, or will be located, as well as leases on our executive offices. Such restaurant leases and the executive office lease contain minimum rent provisions which provide for the payment of minimum aggregate rental payments of approximately $25.1 million over the life of those leases, with minimum annual rental payments of $3.3 million in 2005, $6.1 million between 2006 and 2007, $4.8 million between 2008 and 2009, and $10.9 million thereafter. There were no material changes in our obligations under operating leases during the quarter ended September 25, 2005 as compared to those described in the Company's Form 10-K for the year ended December 26, 2004.

On August 8, 2005 the Compensation Committee of our Board approved entry into change of control agreements with four executives. Pursuant to the agreements each of the executives would be entitled to payments in an amount equal to 1.5 times their annual salary in the event of termination of their employment following a change in control of the Company. The agreements were approved by the full Board at their September 21, 2005 meeting.

Commitments Relating to Managed Restaurants and LLCs. Under certain of our operating and management agreements we have an obligation to potentially make additional cash advances and/or contributions and may not realize any substantial returns for some time. The agreements and arrangements under which we may be required to make cash advances or contributions, guarantee obligations or defer receipt of cash are described in our Form 10-K for the year ended December 26, 2004. There were no material developments with respect to those agreements and arrangements during the quarter ended September 25, 2005.

Detailed information regarding the initial capital contributions to the LLCs and the CityWalk Partnership, Preferred Returns for each, management fees payable to the Company and principal distribution provisions are included in the Company's Form 10-K for the year ended December 26, 2004. The following tables set forth a summary for each of the LLCs and the CityWalk Partnership of (1) the distributions of capital to the Members and/or the Company during the nine months ended September 25, 2005, (2) the unreturned balance of the capital contributions of the Members and/or the Company at September 25, 2005, and the accrued but unpaid preferred returns due to the Members and/or the Company at September 25, 2005:

SAN JOSE GRILL LLC

Distributions of capital, preferred return and profit during the nine months ended September 25, 2005:	Members	$ 186,000
	Company	$ 187,000
Unreturned Initial Capital Contributions at September 25, 2005:	Members	$ -
	Company	$ -
Accrued but unpaid Preferred Returns at September 25, 2005:	Members	$ -
	Company	$ -

CHICAGO - GRILL ON THE ALLEY LLC

Distributions of capital and note repayments during the nine months ended September 25, 2005:	Members (a)	$ 189,000
	Company	$ -
Unreturned Initial Capital Contributions at September 25, 2005:	Members	$ 948,000
	Company	$ -
Accrued but unpaid Preferred Returns at September 25, 2005:	Members	$ -
	Company	$ -

THE GRILL ON HOLLYWOOD LLC

Distributions of capital during the nine months ended September 25, 2005:	Members	$ -
	Company	$ -

Unreturned Initial Capital

Contributions at September 25, 2005:	Members	$ 1,200,000
	Company	$ 250,000
Accrued but unpaid Preferred Returns at September 25, 2005:	Members (b)	$ -
	Company	$ -

SOUTH BAY DAILY GRILL (CONTINENTAL PARK LLC)

Distributions of capital during the nine months ended September 25, 2005:	Members	$ -
	Company	$ -
Unreturned Initial and Additional Capital Contributions at September 25, 2005:	Members	$ 1,100,000
	Company	$ 450,000
Accrued but unpaid Preferred Returns at September 25, 2005:	Members (b)	$ -
	Company	$ -

29

UNIVERSAL CITYWALK DAILY GRILL

Distributions of capital during the nine months ended September 25, 2005:	Members	$ -
	Company	$ -
Unreturned Initial and Additional Capital Contributions at September 25, 2005:	Members	$ 1,346,000
	Company	$ 246,000
Accrued but unpaid Preferred Returns at September 25, 2005:	Members (b)	$ -
	Company	$ -

DOWNTOWN DAILY GRILL (612 FLOWER DAILY GRILL, LLC)

Distributions of capital during the nine months ended September 25, 2005:	Members	$ -

	Company	$ -
Unreturned Initial Capital Contributions at September 25, 2005:	Members	$ 1,145,000
	Company	$ 248,000
Accrued but unpaid Preferred Returns at September 25, 2005:	Members	$ 43,000
	Company	$ 11,000

a) Distribution of capital and note repayments as of September 25, 2005 includes $128,000 of capital and note repayments and $61,000 of interest and preferred return.

b) Due to the under performance of the restaurants the preferred return is not being accrued. The Company is not liable to pay the preferred return distributions, such that they represent a non-recourse obligation of the subsidiary entity. If preferred returns were accrued for The Grill on Hollywood the Member would have an accrued preferred return of $708,000 and the Company would have an accrued preferred return of $148,000. If preferred returns were accrued for the South Bay Daily Grill the Member would have an accrued preferred return of $318,000 and the Company would have a preferred return of $123,000. If preferred returns were accrued for the CityWalk Partnership the Member would have an accrued preferred return of $500,000.

30

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. We believe certain critical accounting policies affect our more significant judgments and estimates used in the preparation of our financial statements. A description of our critical accounting policies is set forth in our Form 10-K for the year ended December 26, 2004. As of, and for the quarter ended, September 25, 2005, there have been no material changes or updates to our critical accounting policies.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004), Share-Based Payment, which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation. Statement 123(R) supersedes APB No. 25, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

As permitted by Statement 123, we currently account for share-based payments to employees using APB No. 25's intrinsic value method and, as such, generally recognize no compensation cost for employee stock options. Accordingly, the adoption of Statement 123(R)'s fair value method may have a significant impact on our result of operations, although it will have no impact on our overall financial position. The impact of adoption of Statement 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted Statement 123(R) in prior periods, the impact of that standard would have approximated the impact of Statement 123 as described in the disclosure of pro forma net income and earnings per share in note 2 to the financial statements.

We expect to adopt Statement 123(R) in the first quarter of 2006.

CERTAIN FACTORS AFFECTING FUTURE OPERATING RESULTS

In addition to the opening of the new restaurants during 2005, the various factors described in our Annual Report on Form 10-K for the year ended December 26, 2004, the following developments may impact future operating results and financial results.

In September 2005, we signed a lease to open a wholly owned Grill on the Alley restaurant in the Galleria shopping center in Dallas, Texas. We anticipate beginning the build-out in January of 2006 with completion by the summer of 2006. Construction of the restaurant will be financed primarily through a tenant improvement allowance of $1,965,700.

31

There can be no assurance that we will be successful in opening new restaurants in accordance with our anticipated opening schedule; that sufficient capital resources will be available to fund scheduled restaurant openings and start-up costs; that new restaurants can be operated profitably; that hotel restaurant management services will produce satisfactory cash flow and operating results to support such operations; or that additional hotels will elect to retain our hotel restaurant management services.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from changes in interest rates on funded debt. This exposure relates to our non-revolving credit facility (the "Credit Facility"). There was $150,000 of borrowings outstanding under the equipment financing portion of the Credit Facility at September 25, 2005. There were no borrowings under the line of credit portion of the Credit Facility, which terminates in August 2006 and bears interest at prime rate. A hypothetical 1% interest rate change would not have a material impact on the Company's results of operations.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)) that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding the required disclosure.

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

An evaluation as of the end of the period covered by this report was carried out under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and Rule 15d -15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on their evaluation, our certifying officers concluded that these disclosure controls and procedures are effective in providing reasonable assurance that the information required to be disclosed by us in our periodic reports filed with the Securities and Exchange Commission ("SEC") is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and SEC reports.

There have been no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

32

PART II - OTHER INFORMATION

ITEM 5. OTHER INFORMATION

On September 21, 2005, the Company entered into Change of Control Agreements with four executives, Michael Weinstock, Philip Gay, John Sola and Louie Feinstein. Pursuant to the agreements each of the executives would be entitled to payments in an amount equal to 1.5 times their annual salary in the event of termination of their employment following a change in control of the Company.

ITEM 6. EXHIBITS

Exhibit No.	Description
10.1	Change of Control Severence Agreement Form
31.1	Section 302 Certification of CEO
31.2	Section 302 Certification of CFO
32.1	Certification of CEO Pursuant to 18.U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of CFO Pursuant to 18.U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

33

SIGNATURES

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

GRILL CONCEPTS, INC.

Signature	Title	Date

/s/ Robert Spivak ----------------- Robert Spivak	President and Chief Executive Officer	November 8, 2005
/s/ Philip Gay ----------------- Philip Gay	Executive Vice President and Chief Financial Officer	November 8, 2005

34