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GRILL CONCEPTS INC  
Form 10-Q/A  
October 15, 2004

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q/A

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended March 28, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACTS OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File No. 0-23226

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

Delaware ----- (State or other jurisdiction of incorporation or organization)	13-3319172 ----- (IRS Employer Identification No.)
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11661 San Vicente Blvd., Suite 404, Los Angeles, California 90049  
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(Address of principal executive offices) (Zip Code)

(310) 820-5559  
-----

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required  
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during  
the past 12 months (or for such shorter period that the registrant was required  
to file such reports), and (2) has been subject to such filing requirements for  
the past 90 days. Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as  
defined in Rule 12b-2 of the Exchange Act). Yes  No

As of May 5, 2004, 5,588,019 shares of Common Stock of the issuer were  
outstanding.

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GRILL CONCEPTS, INC.  
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EXPLANATORY NOTE  
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This amended Form 10-Q/A for the quarter ended March 28, 2004 is being filed to restate our financial statements to properly account for certain of the Company's joint ventures, record costs and revenues associated with reimbursed costs under management agreements, make other miscellaneous corrections and reflect the retroactive adoption of FIN 46 (see Note 1 to the financial statements) and to reflect resulting corrections to the Management Discussion and Analysis in Part I, Item 2. Part I, Item 4. Controls and Procedures has also been amended to reflect the foregoing. Except as noted, this Amendment speaks as of the original filing date and has not been updated to reflect events occurring subsequent to the original filing date.

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## PART I - FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

#### GRILL CONCEPTS, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

(Unaudited)  
ASSETS

	March 28, 2004 (restated)	December 28, 2003 (restated)
	-----	-----
Current assets:		
Cash and cash equivalents	\$ 1,415,000	\$ 1,496,000
Inventories	586,000	585,000
Receivables, net of reserve (\$13,000 in 2004 and 2003)	488,000	658,000
Reimbursable costs receivable	542,000	580,000
Prepaid expenses and other current assets	895,000	612,000
	-----	-----
Total current assets	3,926,000	3,931,000
Furniture, equipment and improvements, net	11,857,000	11,061,000
Goodwill, net	205,000	205,000
Liquor licenses	350,000	350,000
Restricted cash	72,000	72,000
Note receivable	112,000	111,000
Other assets	247,000	275,000
	-----	-----
Total assets	\$ 16,769,000	\$ 16,005,000
	=====	=====

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

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#### GRILL CONCEPTS, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

(Unaudited)  
(Continued)

#### LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY

	March 28, 2004 (restated)	December 28, 2003 (restated)
	-----	-----
Current liabilities:		

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Accounts payable	\$ 1,347,000	\$ 1,046,000
Accrued expenses	2,313,000	2,400,000
Reimbursable costs payable	542,000	580,000
Current portion of long term debt	360,000	298,000
Current portion notes payable - related parties	321,000	345,000
	-----	-----
Total current liabilities	4,883,000	4,669,000
Long-term debt	104,000	285,000
Notes payable - related parties	935,000	969,000
Other long-term liabilities	3,536,000	2,734,000
	-----	-----
Total liabilities	9,458,000	8,657,000
Minority interest	1,898,000	2,058,000
Stockholders' equity:		
Series I, Convertible Preferred Stock, \$.001 par value; 1,000,000 shares authorized, none issued and outstanding in 2004 and 2003	-	-
Series II, 10% Convertible Preferred Stock, \$.001 par value; 1,000,000 shares authorized, 500 shares issued and outstanding in 2004 and 2003	-	-
Common stock, \$.00004 par value; 12,000,000 shares authorized in 2004 and 2003, 5,588,019 issued and outstanding in 2004 and 5,537,071 issued and outstanding 2003	-	-
Additional paid-in capital	13,627,000	13,601,000
Accumulated deficit	(8,214,000)	(8,311,000)
	-----	-----
Total stockholders' equity	5,413,000	5,290,000
	-----	-----
Total liabilities, minority interest and stockholders' equity	\$16,769,000	\$ 16,005,000
	=====	=====

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

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

	Three Months Ended	
	March 28, 2004	March 30, 2003
	----- (restated)	----- (restated)
Revenues:		
Sales	\$13,510,000	\$12,134,000
Cost reimbursements	3,190,000	2,067,000
Management and license fees	296,000	231,000

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Total revenues	16,996,000	14,432,000
Cost of sales (exclusive of depreciation, presented separately below)	3,772,000	3,283,000
Gross profit	13,224,000	11,149,000
Operating expenses:		
Restaurant operating expenses	8,125,000	7,308,000
Reimbursed costs	3,190,000	2,067,000
General and administrative	1,227,000	910,000
Depreciation and amortization	449,000	502,000
Pre-opening costs	147,000	187,000
Gain on sale of assets	-	(11,000)
Total operating expenses	13,138,000	10,963,000
Income from operations	86,000	186,000
Interest expense, net	(66,000)	(83,000)
Income before provision for income taxes and minority interest	20,000	103,000
Provision for income taxes	(23,000)	(55,000)
Minority interest in net loss of subsidiaries	100,000	196,000
Net income	97,000	244,000
Preferred dividends accrued	(13,000)	(13,000)
Net income applicable to common stock	\$ 84,000	\$ 231,000
Net income per share applicable to common stock:		
Basic net income	\$ 0.02	\$ 0.04
Diluted net income	\$ 0.01	\$ 0.04
Weighted average share outstanding:		
Basic	5,545,864	5,537,071
Diluted	6,192,910	5,537,071

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

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	Three Months Ended	
	March 28, 2004	March 30, 2003
Cash flows from operating activities:	(restated)	(restated)
Net income	\$ 97,000	\$ 244,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	449,000	502,000
Stock based compensation expense	187,000	5,000
Gain on sale of assets	-	(11,000)
Minority interest in loss of subsidiaries	(100,000)	(196,000)
Changes in operating assets and liabilities:		
Inventories	(1,000)	(25,000)
Receivables	170,000	(234,000)
Reimbursable costs receivable	38,000	(9,000)
Prepaid expenses and other current assets	(287,000)	(292,000)
Other assets	28,000	1,000
Accounts payable	301,000	49,000
Accrued expenses	(276,000)	(353,000)
Reimbursable costs payable	(38,000)	9,000
Other long-term liabilities	(83,000)	(44,000)
Net cash provided by (used in) operating activities	485,000	(354,000)
Cash flows from investing activities:		
Purchase of furniture, equipment and improvements	(1,241,000)	(184,000)
Restricted cash for Daily Grill at Continental Park, LLC	-	466,000
Proceeds from sale of assets	-	26,000
Net cash provided by (used in) investing activities	(1,241,000)	308,000
Cash flows from financing activities:		
Tenant improvement allowances	885,000	-
Proceeds from minority interests	35,000	-
Payments on related party debt	(58,000)	(61,000)
Payments on long term debt	(119,000)	(98,000)
Return of capital and profits to minority shareholder	(68,000)	(72,000)
Net cash provided by (used in) financing activities	675,000	(231,000)
Net decrease in cash and cash equivalents	(81,000)	(277,000)
Cash and cash equivalents, beginning of period	1,496,000	1,275,000
Cash and cash equivalents, end of period	\$ 1,415,000	\$ 998,000
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	\$ 51,000	\$ 59,000
Income taxes	\$ 36,000	\$ 16,000

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

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## GRILL CONCEPTS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

### 1. INTERIM FINANCIAL PRESENTATION

The interim consolidated financial statements are prepared pursuant to the requirements for reporting on Form 10-Q. These financial statements have not been audited by independent auditors. The December 28, 2003 balance sheet data was derived from audited financial statements but does not include all disclosures required by generally accepted accounting principles. The interim financial statements and notes thereto should be read in conjunction with the financial statements and notes included in the Company's Form 10-K for the year ended December 28, 2003, as amended on October 15, 2004. In the opinion of management, these interim financial statements reflect all adjustments of a normal recurring nature necessary for a fair statement of the results for the interim periods presented. The current period results of operations are not necessarily indicative of results, which ultimately will be reported for the full year ending December 26, 2004.

#### RESTATEMENT FOR CORRECTION OF ERRORS AND RETROACTIVE ADOPTION OF FIN 46

The accompanying consolidated financial statements as of December 28, 2003 and for the three-month period ended March 30, 2003 were restated on May 14, 2004 from those originally issued to reflect certain adjustments related to stock compensation and other miscellaneous adjustments, and the consolidated financial statements as of March 28, 2004 and December 28, 2003 and for the three-month periods ended March 28, 2004 and March 30, 2003 (as previously restated) were subsequently restated on October 15, 2004 to further reflect additional adjustments to revise the accounting for certain of the Company's ventures, record costs and revenues associated with reimbursed costs under management agreements and make other miscellaneous corrections. Additionally, the Company revised its financial statements as of and for the three months ended March 28, 2004 to correct for the initial adoption of FASB Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51," (FIN 46) which was first effective for this quarter.

In connection with the restatement resulting from these errors, the Company has elected to apply the retroactive adoption provisions of FIN 46 in these restated financial statements and adjust previously reported amounts as of December 28, 2003 and for the three months ended March 30, 2003 to give effect to the adoption of FIN 46 as if it had been applied for all periods presented. (Note - Except where there is no change to diluted earnings per share, the impact of each adjustment on diluted earnings per share has been identified below.)

#### RETROACTIVE ADOPTION OF FIN 46

Effective December 29, 2003 (the first day of fiscal year 2004), the Company adopted the provisions of FIN 46. The Company has elected to retroactively adopt the provisions of FIN 46. The impact of the retroactive adoption is to consolidate The San Jose Grill LLC, Chicago - the Grill on the Alley, LLC, the Daily Grill at Continental Park, LLC and the Universal CityWalk Daily Grill prior to fiscal year 2004. There is no impact on net income (loss) in any period as a result of the retroactive adoption. Errors in the prior accounting for these entities are discussed in the following sections. The restatement adjustment gives effect to the consolidation of

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these entities. See further discussion of the adoption of FIN 46 under the accounting policy note below.

### CORRECTIONS OF ERRORS

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#### Stock Compensation and Miscellaneous Adjustments

In May 2004, the terms of the Company's option grants were reevaluated - specifically, provisions which allow an employee to exercise the option by surrendering a portion of the vested shares in lieu of paying cash. Under the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," this cashless exercise feature requires the Company to account for its option plan using a variable accounting treatment. Under variable accounting, compensation expense must be remeasured each balance sheet date based on the difference between the current market price of the Company's stock and the option's exercise price. An accrual for compensation expense is 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. Previously, the Company had accounted for its options using a fixed accounting treatment whereby compensation expense, if any, was only evaluated at the date of the option grant. The impact of this adjustment was to increase operating expenses and net loss by \$5,000 in first quarter of 2003. Results for the first quarter of fiscal 2004 were originally reported correctly and did not require restatement.

In addition to this change, the Company also recorded additional general and administrative expense of \$28,000 (\$0.01 per share) in the fourth quarter of fiscal year 2003 to correctly state its liability for payroll and other costs. This adjustment increased accumulated deficit as of December 28, 2003. Lastly, the Company increased additional paid-in capital and accumulated deficit by \$55,000 as of each fiscal yearend in the period from 1998 through 2003 to properly reflect the fair value of fully vested stock options issued in connection with severance agreements arranged in fiscal year 1998 which had not been previously expensed.

#### Joint Venture Accounting and Miscellaneous Adjustments

Deconsolidation of The San Jose Grill LLC, Chicago - the Grill on the Alley, LLC and the Daily Grill at Continental Park, LLC Pursuant to SOP 78-9

In August 2004, the Company reevaluated its consolidation policies with respect to its investments in four restaurants held by limited liability companies (LLCs). Previously, all four of the LLCs were consolidated due to the Company's majority ownership in these entities. However, the terms of three agreements gave the minority interests certain voting rights which, when evaluated under the relevant terms of Statement of Position No. 78-9, "Accounting for Investments in Real Estate Ventures," precluded consolidation. Therefore, the Company restated previously reported results to show the investments in the San Jose Grill LLC, Chicago - The Grill on the Alley, LLC and the Daily Grill at Continental Park, LLC under the equity method, rather than as consolidated subsidiaries. The fourth LLC, The Grill on Hollywood, LLC, remained consolidated. There was no impact on net income as a result of this change. See further discussion below regarding other errors in the accounting for the Company's joint ventures



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and the consolidation of all the Company's partially-owned entities upon the adoption of FIN 46.

### Correction of Adoption of FIN 46

FIN 46 was first effective for the Company for the quarter ended March 28, 2004. At that time, the Company was consolidating all of its LLCs (incorrectly, in some cases, as indicated above), namely the San Jose Grill LLC, Chicago - The Grill on the Alley, LLC, The Grill on Hollywood, LLC and the Daily Grill at Continental Park, LLC, and was accounting for its investment in the Universal CityWalk Daily Grill partnership under the equity method. Upon the initial adoption of FIN 46, the Company made no changes to its accounting for the LLCs and partnership, as it believed them to already be appropriately consolidated.

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As part of the restatement process undertaken in September 2004, the Company reevaluated its adoption of FIN 46 which became even more relevant given the deconsolidation of many of the LLC's pursuant to SOP 78-9. The Company assessed all entities which are not wholly owned to determine if these entities would be considered variable interest entities and whether the Company would be considered the primary beneficiary. The Company determined that all of the following entities would be considered variable interest entities: The San Jose Grill LLC, Chicago - The Grill on the Alley LLC, The Grill on Hollywood LLC, The Daily Grill at Continental Park LLC, and the Universal CityWalk Daily Grill partnership. The Company also determined that it is the primary beneficiary for all these entities which has resulted in consolidation of these entities. The Company has elected to retroactively adopt the provisions of FIN 46 and present these variable interest entities as consolidated subsidiaries for the prior periods presented in these financial statements.

### Chicago - The Grill on the Alley, LLC Loss Allocation and Interest Charge

In August 2004, the Company reevaluated the accounting for its venture relating to the Chicago Grill on the Alley restaurant. The venture was established in 1999 and is administered under an operating agreement whereby the Company owns a 60% stated interest and the minority investor, the Michigan Avenue Group (MAG), owns the remaining interests. The venture was originally funded by an eight percent, \$1.7 million loan from MAG which was used to build the restaurant and fund initial operations. GCI made no financial contribution and was not credited with any capital for the trademarks and restaurant expertise it contributed to the venture. MAG had the right to convert all or part of the loan into capital of the venture and in 2000, upon completion of the initial built-out, it converted approximately \$1.2 million of the loan into capital. There was no change in the voting, ownership or profit sharing interests as a result of this conversion. The terms of the equity interest into which the loan was converted were such that MAG was entitled to an eight percent return on its capital balance (defined as the "Preferred Return") which was identical to the interest rate on the original note. Additionally, the venture was obligated to repay converted capital amounts under an identical payment/amortization schedule as the original note. GCI guaranteed the venture's repayment of both the loan and MAG converted capital amounts.

Historically, the Company had consolidated the entity due to its belief that it had a controlling voting interest (see separate comment above regarding deconsolidation of this entity) and recognized a minority interest at an amount equal to MAG's capital contribution reduced by 40 % of the venture's losses and any return of capital amounts and allocated

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losses. The restaurant has operated at a loss since inception and losses were allocated based on the stated 40% interest noted above.

In reviewing this accounting, it was determined that the venture's obligation to return MAG's capital should have been recognized as a liability of the joint venture rather than treated as equity. As the joint venture is a consolidated entity, pursuant to FIN 46 the Company's accounts should also recognize this liability rather than reflect it as minority interest. Furthermore, interest expense should have been recorded in the statement of operations related to the Preferred Return as opposed to treating the amounts as dividends. Lastly, the Company determined that losses should not have been allocated to the minority interest member given that MAG had no equity at risk. The impact of these adjustments was to decrease the minority interest in loss of subsidiary by \$41,000 (\$0.01 per share) and \$11,000 in the first quarters of fiscal year 2003 and 2004, respectively, and increase interest expense by \$19,000 and \$17,000 in the first quarters of fiscal year 2003 and 2004, respectively.

### Chicago Grill on the Alley Warrants

In the process of evaluating prior accounting for this joint venture, it was noted that warrants to purchase approximately 203,000 shares of GCI stock were given to MAG in connection with the issuance of the original note. In accordance with APB 14, "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants," the Company determined that the fair value of such warrants

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should have been recognized as a debt discount and recorded as a reduction to the loan balance, with accretion of the discount recognized as additional interest expense using the effective interest method. The effect of this adjustment was to increase additional paid-in capital by \$322,000 as of each fiscal year-end in the period from 1999 to 2003 and as of March 28, 2004. Amortization of this amount has increased interest expense by \$12,000 and \$9,000 in each of the first quarters of fiscal year 2003 and 2004, respectively.

### Other Joint Venture Loss Allocations

The Company also reviewed its accounting for its other joint ventures, specifically, those that had been generating losses. Based on the terms of these agreements, losses are typically allocated in proportion to the recorded amount of each member's capital account balances. The recorded capital balances differ from the actual ownership percentages and the method to distribute cash flows in the event of a liquidation of the venture. As noted above, while the Company usually has a majority ownership percentage, the minority partner usually contributes the majority of the capital. The venture agreements specify that the minority member is entitled to cash distributions before the Company so that its investment is returned prior to the Company's.

The Company determined that its previous loss allocations to the minority partners were incorrect because they do not reflect the underlying economics of the investments. The Company determined that a hypothetical liquidation at book value model should be utilized to allocate losses for each reporting period based on the prescribed order of cash distributions upon liquidation. The change in the amounts allocated to the individual members based on this process, as adjusted for actual contributions and distributions, determines the allocation of profits or losses each period. The impact of this adjustment was to reduce the minority interest in loss

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of subsidiaries by \$23,000 and increase the minority interest in loss of subsidiaries by \$23,000 in the first quarters of fiscal year 2003 and 2004, respectively.

### Reimbursed Costs

The Company operates a number of restaurants under management agreements whereby it is responsible for the operation of each restaurant. For its services, the Company typically receives a management fee based on a percentage of revenue, an incentive fee which is usually a profit sharing arrangement (collectively, "Fees") and a reimbursement of the Company's direct costs of operating the restaurant. Management agreements are in place for restaurants in which the Company has a non-controlling ownership percentage as well as a number of restaurants in which the Company has no ownership. For non-consolidated restaurants, the Company previously only reflected its Fees as revenue in the consolidated accounts. In August 2004, the Company reviewed these arrangements considering the primary obligor criteria as described in EITF 01-14, "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred." Under the terms of the management agreements, the Company is hired as an independent contractor and is responsible for settlement of all liabilities of the restaurant. Additionally, all employees are employees of the Company, not the individual restaurant. Although payroll and other operating expenses are paid out of an agency bank account belonging to the restaurant, based on the weight of the indicators identified in EITF 01-14 and EITF 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent," the Company determined it should recognize the reimbursement of restaurant expenses of the unconsolidated outlets as revenues in its financial statements and the related expenses.

These adjustments have been reflected in the accompanying statement of operations through the addition of two new line items, cost reimbursements and reimbursed costs. The impact of these adjustments was to increase revenues by \$2,067,000 and \$3,190,000 in the first quarter of fiscal years 2003 and 2004, respectively and to increase operating expenses by a similar amount for both periods.

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In evaluating certain transactions related to the San Francisco managed outlet, the Company also determined that advances made to the restaurant in prior periods should have been expensed in the period incurred instead of capitalized and deferred.

### Accounting for Lease Incentives

In 2003, the Company began recording reimbursements received for tenant improvement allowances as a liability. Consistent with the guidance set forth in SFAS No. 13, "Accounting for Leases," and FASB Technical Bulletin No. 88-1, "Issues Related to the Accounting for Leases," these lease incentives are amortized over the life of the lease as a credit to rent expense. Prior to 2003, however, the Company had recorded such reimbursements as a reduction to the value of the fixed asset. As part of this restatement process, the Company has corrected its prior accounting practice and recorded the unamortized value of previously unrecorded lease incentives as an increase to fixed assets and increase to other long-term liabilities. This adjustment totaled \$835,000 and \$800,000 as of December 28, 2003 and March 28, 2004, respectively. There was no impact on net income or earnings per share as a result of this adjustment, however, depreciation expense was increased and restaurant operating expenses were decreased by \$35,000 for the quarters ended March 30, 2003 and March 28,

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2004. Upon retroactive adoption of FIN 46, the adjustment increased fixed assets and other long-term liabilities by \$1,238,000 and \$1,194,000 as of December 28, 2003 and March 28, 2004, respectively, and increased depreciation expense and decreased restaurant operating expenses by \$44,000 for the first quarters of fiscal year 2003 and 2004.

### Other Equity Award Adjustments

The Company recorded additional interest expense of \$5,000 in both first quarters of fiscal year 2003 and 2004 to correct the amortization of the fair value of warrants issued to two principal shareholders in connection with their guarantee of the Company's credit facility. Such amortization should have been recognized over the three-year term of the guarantee but was incorrectly being amortized over the term of the warrants. Additional paid-in capital was increased by \$27,000 as of each fiscal yearend from 2000 to 2003 to adjust the fair value of these warrants. The Company also increased additional paid-in capital and accumulated deficit by \$45,000 as of each fiscal yearend in the period from 2000 through 2003 and as of March 28, 2004 to recognize the fair value of warrants to purchase 50,000 shares of the Company's stock, pursuant to EITF 96-18, "Accounting for Equity Instruments that Are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." Such warrants were issued to a professional advisor for services rendered in fiscal year 2000 and had not been previously recognized.

### SUMMARY

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The above revisions impacted the balance sheets as of March 28, 2004 and December 28, 2003 and the statements of operations and cash flows for the three-month periods ended March 28, 2004 and March 30, 2003. The revisions have had no impact to our income tax provisions. The impact of this restatement, which has been reflected throughout the consolidated financial statements and accompanying notes, is as follows (amounts in thousands):

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	March 28, 2004	
	As previously reported (1)	As restated for correction of errors
Cash & equivalents	\$ 1,405	\$ 1,415
Inventories	569	586
Receivables, net	561	488
Reimbursable costs receivable		542
Prepaid & Other	876	895
	-----	
Current assets	3,411	3,926
	-----	
Furniture, equipment and improvements, net	9,878	11,857
Goodwill, net	205	205
Liquor Licenses	330	350
Restricted Cash	72	72

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Advances to managed outlets	302	-
Note Receivable	112	112
Other Assets	420	247
	-----	-----
Total assets	\$ 14,730	\$ 16,769
	=====	=====
Current Liabilities		
Bank line of credit	\$ -	\$ -
Accounts payable	1,289	1,347
Accrued expenses	2,239	2,313
Reimbursable costs payable		542
Current portion of debt	326	360
Note payable related parties	242	321
	-----	-----
Current liabilities	4,096	4,883
	-----	-----
Long term debt	104	104
Note payable related parties	310	935
Other long-term liabilities	2,342	3,536
	-----	-----
Total liabilities	6,852	9,458
	-----	-----
Minority interest	1,337	1,898
Convertible stock		
Common stock		
Paid in capital	13,233	13,627
Accumulated deficit	(6,692)	(8,214)
	-----	-----
Total equity	6,541	5,413
	-----	-----
Total liabilities, minority interest and stockholders' equity	\$ 14,730	\$ 16,769
	=====	=====

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December 28, 2003

	As previously reported (1)	As restated for correction of errors	As restated for correction of errors and retroactive adoption of FIN 46
Current assets:			
Cash and cash equivalents	\$ 1,473	\$ 972	\$ 1,496
Inventories	570	355	585
Receivables	741	747	658
Reimbursable costs receivable	-	1,503	580
Prepaid and other current assets	608	535	612
	-----	-----	-----
Total current assets	3,392	4,112	3,931

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Furniture, equipment and improvements	9,020	5,690	11,061
Goodwill	205	205	205
Liquor licenses	330	264	350
Restricted cash	72	-	72
Advances to managed outlets	331	-	-
Note receivable	111	111	111
Other assets	426	1,320	275
	-----		
Total assets	\$ 13,887	\$ 11,702	\$ 16,005
	=====		
Current liabilities:			
Accounts payable	\$ 998	\$ 676	\$ 1,046
Accrued expenses	2,315	1,134	2,400
Reimbursable costs payable	-	1,503	580
Current portion of debt	254	82	298
Note payable related party	269	346	345
	-----		
Total current liabilities	3,836	3,741	4,669
	-----		
Long term debt	283	106	285
Note payable related party	323	230	969
Other long term liabilities	1,496	1,632	2,734
	-----		
Total liabilities	5,938	5,709	8,657
	-----		
Minority interest	1,521	703	2,058
Stockholders' equity			
Preferred stock	-	-	-
Common stock	-	-	-
Additional paid-in capital	13,207	13,601	13,601
Accumulated deficit	(6,779)	(8,311)	(8,311)
	-----		
Total liabilities, minority interest and stockholders' equity	6,428	5,290	5,290
	-----		
	\$ 13,887	\$ 11,702	\$ 16,005
	=====		

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	Three months ended March 28, 2004		Three months ended March 31, 2004	
	As previously reported (1)	As restated	As previously reported (1)	As restated (2)
Revenues				
Sales	\$ 12,958	\$ 13,510	\$ 11,667	\$ 11,667

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Cost reimbursements	-	3,190	-
Management Fees	296	296	255
<hr/>			
Total Revenues	13,254	16,996	11,922
Cost of sales	3,630	3,772	3,174
<hr/>			
Gross Profit	9,624	13,224	8,748
<hr/>			
Operating expenses			
Restaurant and operating expenses	7,776	8,125	6,997
Reimbursed costs	-	3,190	-
General and administrative	1,227	1,227	910
Depreciation and amortization	386	449	432
Pre-opening costs	147	147	187
Gain on sale of assets	-	-	(12)
<hr/>			
Total operating expenses	9,536	13,138	8,514
<hr/>			
Income (loss) from operations	88	86	234
Interest expense, net	(34)	(66)	(48)
<hr/>			
Income (loss) before provision from income taxes, minority interest and equity in loss of joint venture	54	20	186
Provision for income taxes	(23)	(23)	(55)
<hr/>			
Income (loss) before minority interest and equity in loss of joint venture	31	(3)	131
Minority interest in loss (earnings) of subsidiaries	60	100	216
Equity in loss of joint venture	(4)	-	(5)
<hr/>			
Net income (loss)	87	97	342
Preferred dividends accrued	(13)	(13)	(13)
<hr/>			
Net income available for common shareholders	\$ 74	\$ 84	\$ 329
<hr/>			
Net income per share applicable to common stock :			
Basic Net Income	0.01	0.02	0.06
Diluted Net Income	0.01	0.01	0.06
<hr/>			
Average-weighted shares outstanding			
Basic	5,546	5,546	5,537
Diluted	6,193	6,193	5,537

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	As previously reported (1)	As restated for correction of errors
Cash flows from operating activities		
Net Income	\$ 87	\$ 97
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	386	449
Stock based compensation	187	187
Minority interest in net income	(60)	(100)
Equity in loss of JV	4	-
Changes in operating assets and liabilities:		
Inventories	1	(1)
Receivables	180	170
Reimbursable costs receivable	-	38
Prepaid expenses and other current assets	(272)	(287)
Other assets	22	28
Accounts payable	291	301
Accrued expenses	(265)	(276)
Reimbursable costs payable	-	(38)
Other long-term liabilities	(1)	(83)
	-----	-----
Net cash provided by operating activities	560	485
	-----	-----
Cash flows from investing activities:		
Purchase of furnitutre, equipment and improvements	(1,240)	(1,241)
Additional investment in CityWalk	(20)	-
Advance repaid by managed outlet	29	-
	-----	-----
Net cash used in investing activities	(1,231)	(1,241)
	-----	-----
Cash flows from financing activities:		
Tenant improvement allowances	847	885
Proceeds from minority interests	15	35
Payments on related party debt	(40)	(58)
Payments on long term debt	(107)	(119)
Return of capital and profits to minority shareholder	(68)	(68)
Preferred return to Chicago	(44)	-
	-----	-----
Net cash provided by financing activities	603	675
	-----	-----
Net decrease in cash and cash equivalents	(68)	(81)
Cash and cash equivalents, beginning of period	1,473	1,496
	-----	-----
Cash and cash equivalents, end of period	\$ 1,405	\$ 1,415
	=====	=====



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	As previously reported (1)	As restated for correction of error
Cash flows from operating activities		
Net Income	\$ 342	\$ 24
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	432	31
Stock based compensation	5	
Gain on sale of assets	(12)	(1)
Minority interest in net income	(216)	(9)
Equity in loss of JV	5	14
Changes in operating assets and liabilities:		
Inventories	(22)	(
Receivables	(285)	(17
Reimbursable cost receivables		18
Prepaid expenses and other current assets	(269)	(23
Other assets	(4)	(
Accounts payable	(9)	(3
Accrued expenses	(316)	(23
Reimbursable cost payable	-	(18
Other liabilities		(2
Net cash used in operating activities	(349)	(12
Cash flows from investing activities:		
Purchase of furniture, equipment and improvements	(184)	(4
Restricted cash for DGCP, LLC	466	
Proceeds from sale of assets	26	2
Net cash provided by investing activities	308	(1
Cash flows from financing activities:		
Payments on related party debt	(36)	2
Payments on long term debt	(98)	(6
Return of capital and profits to minority shareholder	(72)	
Preferred return to Chicago	(44)	
Net cash used in financing activities	(250)	(4
Net increase(decrease) in cash	\$ (291)	\$ (17
Cash and cash equivalents, beginning of period	\$ 1,275	\$ 58
Cash and cash equivalents, end of period	\$ 984	\$ 40

(1) The Company previously restated its consolidated financial statements as of December 28, 2003 and the three months ending March 30, 2003 to reflect the accounting for employee stock options using variable accounting treatment and to make other miscellaneous corrections. The effect of this restatement was to increase operating expenses and decrease net income by \$5,000 in for the quarter ended March 30, 2003. There was no change to reported net income per share. These "As previously reported" amounts already reflect these adjustments and represent the amounts presented in the

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Company's Quarterly Report on Form 10-Q filed on May 27, 2004. In addition, certain prior year amounts have been reclassified to conform to current year presentation.

### 2. RESTRICTED CASH

Restricted cash consists of amounts held in escrow for the Daily Grill at Continental Park in El Segundo, California which was opened in January 2003 and all but \$72,000 was released by March 28, 2004.

### 3. WORKER'S COMPENSATION LOSS RESERVE

In the first quarter of 2004, the Company obtained a large deductible worker's compensation policy for 2004 that includes a deductible per occurrence of \$250,000 subject to an aggregate loss of \$1.7 million. The Company has established a loss reserve to cover the potential deductible amounts. The loss reserve is determined by estimating the ultimate cost to the Company utilizing information on current accidents, prior year experience and the carrier's loss development and loss trend factors.

### 4. LONG-TERM TENANT IMPROVEMENT ALLOWANCE

Construction of the Bethesda Daily Grill was paid for through a \$1.8 million tenant improvement allowance of which \$885,000 was received during the first quarter of 2004. This tenant improvement allowance has been recorded in long-term leasehold improvement allowance and is being amortized against rent expense over the 15 year lease term.

### 5. OPERATING LEASES AND CONTRACTUAL OBLIGATIONS

During the quarter ended March 28, 2004, we entered into a lease relating to a restaurant scheduled to open in Santa Monica, CA, in the first quarter of 2005. Accordingly, at March 28, 2004, we were obligated under seventeen leases covering the premises in which our Daily Grill and Grill Restaurants are 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 \$22.5 million over the life of those leases, with minimum annual rental payments of \$3.1 million in 2004, \$5.3 million between 2005 and 2006, \$4.3 million between 2007 and 2008, and \$9.8 million thereafter. With the exception of entering into the referenced lease, there were no material changes in our obligations under operating leases or other contracts during the quarter ended March 28, 2004 as compared to those described in the Company's Form 10-K for the year ended December 28, 2003, as amended.

### 6. RECENTLY ISSUED ACCOUNTING REQUIREMENTS

Effective December 29, 2003 (the first day of fiscal year 2004), the Company adopted the provisions of FIN 46. In light of the changes resulting from the current restatement process, the Company has elected to retroactively adopt the provisions of FIN 46 so that the financial presentation in this Amended Quarterly Report on Form 10-Q/A is more consistent with the presentation of the Company's ongoing financial position and results of operations.

Under FIN 46, an entity is considered to be a variable interest entity ("VIE") when it has equity investors which lack the characteristics of a controlling financial interest, or its capital is insufficient to permit it

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to finance its activities without additional subordinated financial support. Consolidation of a VIE by an investor is required when it is determined that the investor is the primary beneficiary and will absorb a majority of the VIE's expected losses or residual returns if they occur.

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Management has assessed all entities which are not wholly owned by the Company to determine if these entities would be considered VIEs and whether the Company would be considered the primary beneficiary. It was determined that all of the following entities would be considered VIEs: Chicago - The Grill on the Alley, San Jose Grill, South Bay Daily Grill, Hollywood Grill and Universal Daily Grill. Of these entities, the Company has been determined to be the primary beneficiary for Chicago - The Grill on the Alley, San Jose Grill, South Bay Daily Grill and Universal Daily Grill.

Chicago - The Grill on the Alley LLC, an Illinois limited liability company ("Chicago Grill"), was formed in February 1999 and commenced operations on June 12, 2000. The Chicago Grill was formed for the purpose of owning and operating "The Grill on the Alley" restaurant located in the Westin Hotel in Chicago, Illinois. All of the business of the Company is conducted under the name "The Grill on the Alley," patterned after The Grill on the Alley in Beverly Hills, California.

The members of the Chicago Grill are the Company, which holds a member's percentage interest of 60%, and The Michigan Avenue Group, a general partnership which holds the remaining member's percentage interest of 40%. The Chicago Grill is managed exclusively by the Company who has full, complete and exclusive authority, power, and discretion to manage and control the business, property and affairs of the Chicago Grill. In return, the Chicago Grill pays the Company a management fee of 5% of gross restaurant revenues. Total assets and revenues of the Chicago Grill as of and for the three months ended March 28, 2004 were approximately \$2.6 million and \$1.0 million, respectively.

San Jose Grill LLC, a California limited liability company ("San Jose Grill"), was formed in July 1997 and commenced operations on May 13, 1998. San Jose Grill was formed for the purpose of owning and operating "The Grill on the Alley" restaurant located in the Fairmont Hotel in San Jose, California. All of the business of the Company is conducted under the name "The Grill on the Alley," also patterned after The Grill on the Alley in Beverly Hills, California, owned by the Company.

The members of the San Jose Grill are the Company, which holds a member's percentage interest of 50.05%, and Light Tower Restaurant Associates LLC, a California limited liability company, which holds the remaining member's percentage interest of 49.95% and is an affiliate of the San Jose Fairmont Hotel. The San Jose Grill is managed exclusively by the Company who has full, complete and exclusive authority, power, and discretion to manage and control the business, property and affairs of the San Jose Grill. In return, the San Jose Grill pays the Company a management fee of 5% of gross restaurant sales. Total assets and revenues of the San Jose Grill as of and for the three months ended March 28, 2004 were approximately \$1.6 million and \$1.2 million, respectively.

Daily Grill at Continental Park, LLC, a California limited liability company (the "Daily Grill at Continental Park"), was formed on May 28, 2002 and commenced operations on January 16, 2003. The South Bay Daily Grill was formed for the purpose of owning and operating the Daily Grill at Continental Park restaurant located in the Plaza in El Segundo, California. All of the business of the entity is conducted under the name Daily Grill

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at Continental Park, LLC and is patterned after Daily Grill restaurants, owned by the Company.

The members of Daily Grill at Continental Park are Grill Concepts Management Inc., which holds an ownership's percentage interest of 50.1%, and Continental Plaza Restaurant Corporation ("CPR"), a California corporation which holds the remaining ownership percentage interest of 49.9%. The operations are managed exclusively by the Company who has full, complete and exclusive authority, power, and discretion to manage and control the business, property and affairs of the entity. In return, the Daily Grill at Continental Park pays the Company a management fee of 5% of the adjusted gross restaurant's revenues. Total assets and restaurant sales of the Daily Grill at Continental Park as of and for the three months ended March 28, 2004 were approximately \$1.3 million and \$0.8 million, respectively.

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The Grill on Hollywood LLC, a California limited liability company (the "Grill on Hollywood"), was formed on July 26, 2001 and commenced operations on November 9, 2001. The entity was formed for the purpose of owning and operating "The Grill on Hollywood" restaurant located in the Hollywood and Highland entertainment and shopping complex in Hollywood, California. All of the business of the entity is conducted under the name "The Grill on Hollywood," patterned after The Grill on the Alley in Beverly Hills, California, owned by the Company.

The members of the Grill on Hollywood are the Company which holds a member's percentage interest of 51%, and TH Grill, Inc., a Delaware corporation, which holds the remaining member's percentage interest of 49% and is an affiliate of the TrizecHahn Hollywood, LLC. The entity is managed exclusively by the Company. In return, the Grill on Hollywood pays the Company a management fee of 5% of gross restaurant revenues. Total assets and restaurant sales of the Grill on Hollywood as of and for the three months ended March 28, 2004 were approximately \$1 million and \$0.7 million, respectively.

Universal Grill Joint Venture, a California general partnership (the "Universal Grill"), was formed in December 1998 and commenced operations on June 28, 1999. Universal Grill was formed for the purpose of owning and operating "Daily Grill Short Order" restaurant located in the retail and entertainment district of Universal CityWalk Hollywood in Universal City, California. All of the business of the entity is conducted under the name "Daily Grill Short Order," patterned after Daily Grill in Brentwood, California, owned by the Company.

The partners of the Universal Grill are Universal Grill Concepts, Inc., a wholly owned subsidiary of the Company, which holds a partner's percentage interest of 50%, and Universal Studios Development Venture Six, a California corporation which holds the remaining partnership percentage interest of 50%. The Universal Grill is managed exclusively by the Company who has full, complete and exclusive authority, power, and discretion to manage and control the business, property and affairs of the entity. In return, the Universal Grill pays the Company a management fee of 5.5% of the adjusted gross restaurant's revenues. Total assets and restaurant sales of the Universal Grill as of and for the three months ended March 28, 2004 were approximately \$1.0 million and \$0.5 million, respectively.

In April 2004, the EITF reached final consensus on EITF 03-06, "Participating Securities and the Two-Class Method under FASB Statement No. 128," which requires companies that have participating securities to calculate earnings per share using the two-class method. This method

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requires the allocation of undistributed earnings to the common shares and participating securities based on the proportion of undistributed earnings that each would have been entitled to had all the period s earnings been distributed. EITF 03-06 is effective for fiscal periods beginning after June 30, 2004 and earnings per share reported in prior periods presented must be retroactively adjusted in order to comply with EITF 03-06. The Company believes there will be no impact on the Company's financial statements as the preferred shares are not participating securities.

7. DISTRIBUTION OF CAPITAL AND PREFERRED RETURNS

The Company's San Jose Grill, Chicago - Grill on the Alley, Grill on Hollywood and South Bay (Continental Park) Daily Grill restaurants are each owned by limited liability companies (the "LLCs") in which the Company serves as manager and owns 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 following tables set forth a summary for each of the LLCs of (1) the distributions of capital to the Members and/or the Company during the quarter ended March 28, 2004, (2) the unreturned balance

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of the capital contributions of the Members and/or the Company at March 28, 2004, and (3) the accrued but unpaid preferred returns due to the Members and/or the Company at March 28, 2004:

SAN JOSE GRILL LLC

Distributions of capital, preferred return and profit during the three months ended March 28, 2004:		
Members	\$68,000	=====
Company	\$68,000	=====
Unreturned Initial Capital Contributions at March 28, 2004:		
Members	\$ 0	=====
Company	\$ 0	=====
Accrued but unpaid Preferred Returns at March 28, 2004:		
Members	\$ 0	=====
Company	\$ 0	=====

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CHICAGO - GRILL ON THE ALLEY

Distributions of capital and note repayments during the three months ended March 28, 2004:	Members (a)	\$ 63,000
		=====
	Company	\$ 0
		=====
Unreturned Initial Capital Contributions at March 28, 2004:	Members	\$1,072,000
		=====
	Company	\$ 0
		=====
Accrued but unpaid Preferred Returns at March 28, 2004:	Members	\$ 0
		=====
	Company	\$ 0
		=====

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THE GRILL ON HOLLYWOOD LLC

Distributions of capital during three months ended March 28, 2004:	Members	\$ 0
		=====
	Company	\$ 0
		=====
Unreturned Initial Capital Contributions at March 28, 2004:	Members	\$1,200,000
		=====
	Company	\$ 250,000
		=====
Accrued but unpaid Preferred Returns at March 28, 2004:	Members	\$ 0
		=====
	Company	\$ 73,000
		=====

SOUTH BAY DAILY GRILL (CONTINENTAL PARK LLC)

Distributions of capital during three months ended March 28, 2004:	Members	\$ 0
		=====
	Company	\$ 0
		=====
Unreturned Initial Capital Contributions at March 28, 2004:	Members	\$1,000,000

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=====  
Company \$ 350,000  
=====

Accrued but unpaid Preferred  
Returns at March 28, 2004:

Members \$ 128,000  
=====  
Company \$ 45,000  
=====

(a) Distribution of capital as of March 28, 2004 includes \$29,000 of payments of capital and loan and \$34,000 of payments on interest and preferred return.

### 8. STOCK-BASED COMPENSATION

In December 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," which amends SFAS No. 123. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results of operations. As the Company has not elected to change to the fair value based method of accounting for stock based employee compensation, the adoption of SFAS No. 148 did not have a material impact on the Company's financial position or results of operations. All disclosure requirements of SFAS No. 148 have been adopted and are reflected in these financial statements.

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The Company accounts for stock-based employee compensation arrangements in accordance with provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, and complies with the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Under APB 25, compensation expense is based on the difference, if any, on the date of grant between the fair value of the Company's stock and the amount an employee must pay to acquire the stock. Because grants under the plan require variable accounting treatment, due to the cashless exercise feature of those options, compensation expense is remeasured at each balance sheet date based on the difference between the current market price of the Company's stock and the option exercise price. An accrual for compensation expense is 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. The Company accounts for stock and options to non-employees at fair value in accordance with the provisions of SFAS No. 123 and the Emerging Issues Task Force Consensus on Issue No. 96-18.

On June 1, 1995, the Company's 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 the Company's employees and others. The exercise price of the shares under option shall be equal to or exceed 100%

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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 allow 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.

The Company has adopted the disclosure-only provisions of SFAS No. 148 and 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." Pro forma compensation expense for the Company's stock option plans determined based on the fair value at the grant date for awards is as follows:

	2004	2003
	----- (restated)	----- (restated)
Net income, as reported	\$ 97,000	\$ 244,000
Add: stock compensation expense recorded	187,000	5,000
Deduct: stock compensation expense under fair value method	(30,000)	(38,000)
Net income, pro forma	\$ 254,000	\$ 211,000
Net income per share applicable to common stock, as reported:		
Basic	\$ 0.02	\$ 0.04
Diluted	\$ 0.01	\$ 0.04
Net income per share applicable to common stock, pro forma:		
Basic	\$ 0.04	\$ 0.04
Diluted	\$ 0.04	\$ 0.04

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### 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 quarters ended March 28, 2004 and March 30, 2003 follow:

	2004	2003	
	-----	-----	
Earnings	Shares	Earnings	Shares
-----			



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	(restated)		(restated)	
Net income	\$ 97,000		\$ 244,000	
Less: preferred stock dividend	(13,000)		(13,000)	
	-----		-----	
Earnings available for common stockholders	84,000	5,545,864	231,000	5,537,071
Dilutive securities:				
Stock options	-	142,215	-	-
Warrants	-	504,831	-	-
	-----	-----	-----	-----
Dilutive earnings available to common stockholders	\$ 84,000	6,192,910	\$ 231,000	5,537,071
	=====			

Stock options for 230,750 and 664,525 shares for 2004 and 2003, respectively, were excluded from the calculation of diluted earnings per share because they were anti-dilutive. Warrants for 203,645 and 1,922,786 shares for 2004 and 2003, respectively, were excluded from the calculation of diluted earnings per share because they were anti-dilutive. 500 shares of preferred stock were excluded from the calculation of diluted earnings per share because they were anti-dilutive for both 2004 and 2003.

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Company's financial statements and notes thereto included elsewhere in this Form 10-Q. Except for the historical information contained herein, the discussion in this Form 10-Q contains certain forward looking statements that involve risks and uncertainties, such as statements of the Company's plans, objectives, expectations and intentions. The cautionary statements made in this Form 10-Q should be read as being applicable to all related forward looking statements wherever they appear in this Form 10-Q. The Company's actual results could differ materially from those discussed here. For a discussion of certain factors that could cause actual results to be materially different, refer to the Company's Annual Report on Form 10-K for the year ended December 28, 2003, as amended on October 15, 2004

#### RESTATEMENT FOR CORRECTION OF ERRORS AND RETROACTIVE ADOPTION OF FIN 46

The accompanying consolidated financial statements as of December 28, 2003 and for the three-month period ended March 30, 2003 were restated on May 14, 2004 from those originally issued to reflect certain adjustments related to stock compensation and other miscellaneous adjustments, and the consolidated financial statements as of March 28, 2004 and December 28, 2003 and for the three-month periods ended March 28, 2004 and March 30, 2003 (as previously restated) were subsequently restated on October 15,

2004 to further reflect additional adjustments to revise the accounting for certain of the Company's ventures, record costs and revenues associated with reimbursed costs under management agreements and make other miscellaneous corrections. Additionally, the Company revised its financial statements as of and for the three months ended March 28, 2004 to correct for the initial adoption of FASB Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51," (FIN 46) which was first effective for this quarter.

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In connection with the restatement resulting from these errors, the Company has elected to apply the retroactive adoption provisions of FIN 46 in these restated financial statements and adjust previously reported amounts as of December 28, 2003 and for the three months ended March 30, 2003 to give effect to the adoption of FIN 46 as if it had been applied for all periods presented. (Note - Except where there is no change to diluted earnings per share, the impact of each adjustment on diluted earnings per share has been identified below.)

### RETROACTIVE ADOPTION OF FIN 46

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Effective December 29, 2003 (the first day of fiscal year 2004), the Company adopted the provisions of FIN 46. The Company has elected to retroactively adopt the provisions of FIN 46. The impact of the retroactive adoption is to consolidate The San Jose Grill LLC, Chicago - the Grill on the Alley, LLC, the Daily Grill at Continental Park, LLC and the Universal CityWalk Daily Grill prior to fiscal year 2004. There is no impact on net income (loss) in any period as a result of the retroactive adoption. Errors in the prior accounting for these entities are discussed in the following sections. The restatement adjustment gives effect to the consolidation of these entities. See further discussion of the adoption of FIN 46 under the accounting policy note below.

### CORRECTIONS OF ERRORS

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#### Stock Compensation and Miscellaneous Adjustments

In May 2004, the terms of the Company's option grants were reevaluated - specifically, provisions which allow an employee to exercise the option by surrendering a portion of the vested shares in lieu of paying cash. Under the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," this cashless exercise feature requires the Company to account for its option plan using a variable accounting treatment. Under variable accounting, compensation expense must be remeasured each balance sheet date based on the difference between the current market price of the Company's stock and the option's exercise price. An accrual for compensation expense is 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. Previously, the Company had accounted for its options using a fixed accounting treatment whereby compensation expense, if any, was only evaluated at the date of the option grant. The impact of this adjustment was to increase operating expenses and net loss by \$5,000 in first quarter of 2003. Results for the first quarter of fiscal 2004 were originally reported correctly and did not require restatement.

In addition to this change, the Company also recorded additional general and administrative expense of \$28,000 (\$0.01 per share) in the fourth quarter of fiscal year 2003 to correctly state its liability for payroll and other costs. This adjustment increased accumulated deficit as of December 28, 2003. Lastly, the Company increased additional paid-in capital and accumulated deficit by \$55,000 as of each fiscal yearend in the period from 1998 through 2003 to properly reflect the fair value of fully vested stock options issued in connection with severance agreements arranged in fiscal year 1998 which had not been previously expensed.

Joint Venture Accounting and Miscellaneous Adjustments

Deconsolidation of The San Jose Grill LLC, Chicago - the Grill on the Alley, LLC and the Daily Grill at Continental Park, LLC Pursuant to SOP 78-9

In August 2004, the Company reevaluated its consolidation policies with respect to its investments in four restaurants held by limited liability companies (LLCs). Previously, all four of the LLCs were consolidated due to the Company's majority ownership in these entities. However, the terms of three agreements gave the minority interests certain voting rights which, when evaluated under the relevant terms of Statement of Position No. 78-9, "Accounting for Investments in Real Estate Ventures," precluded consolidation. Therefore, the Company restated previously reported results to show the investments in the San Jose Grill LLC, Chicago - The Grill on the Alley, LLC and the Daily Grill at Continental Park, LLC under the equity method, rather than as consolidated subsidiaries. The fourth LLC, The Grill on Hollywood, LLC, remained consolidated. There was no impact on net income as a result of this change. See further discussion below regarding other errors in the accounting for the Company's joint ventures and the consolidation of all the Company's partially-owned entities upon the adoption of FIN 46.

Correction of Adoption of FIN 46

FIN 46 was first effective for the Company for the quarter ended March 28, 2004. At that time, the Company was consolidating all of its LLCs (incorrectly, in some cases, as indicated above), namely the San Jose Grill LLC, Chicago - The Grill on the Alley, LLC, The Grill on Hollywood, LLC and the Daily Grill at Continental Park, LLC, and was accounting for its investment in the Universal CityWalk Daily Grill partnership under the equity method. Upon the initial adoption of FIN 46, the Company made no changes to its accounting for the LLCs and partnership, as it believed them to already be appropriately consolidated.

As part of the restatement process undertaken in September 2004, the Company reevaluated its adoption of FIN 46 which became even more relevant given the deconsolidation of many of the LLC's pursuant to SOP 78-9. The Company assessed all entities which are not wholly owned to determine if these entities would be considered variable interest entities and whether the Company would be considered the primary beneficiary. The Company determined that all of the following entities would be considered variable interest entities: The San Jose Grill LLC, Chicago - The Grill on the Alley LLC, The Grill on Hollywood LLC, The Daily Grill at Continental Park LLC, and the Universal CityWalk Daily Grill partnership. The Company also determined that it is the primary beneficiary for all these entities which has resulted in consolidation of these entities. The Company has elected to retroactively adopt the provisions of FIN 46 and present these variable interest entities as consolidated subsidiaries for the prior periods presented in these financial statements.

Chicago - The Grill on the Alley, LLC Loss Allocation and Interest Charge

In August 2004, the Company reevaluated the accounting for its venture relating to the Chicago Grill on the Alley restaurant. The venture was established in 1999 and is administered under an operating agreement whereby the Company owns a 60% stated interest and the minority investor, the Michigan Avenue Group (MAG), owns the remaining interests. The venture was originally funded by an eight percent, \$1.7 million loan from MAG which was used to build the restaurant and fund initial operations. GCI made no

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financial contribution and was not credited with any capital for the trademarks and restaurant expertise it contributed to the venture. MAG had the right to convert all or part of the loan into capital of the venture and in 2000, upon completion of the initial built-out, it converted approximately \$1.2 million of the loan into capital. There was no change in the voting, ownership or profit sharing interests as a result of this conversion. The terms of the equity interest into which the loan was converted were such that MAG was entitled to an eight percent return on its capital balance (defined as the "Preferred Return") which was identical to

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the interest rate on the original note. Additionally, the venture was obligated to repay converted capital amounts under an identical payment/amortization schedule as the original note. GCI guaranteed the venture's repayment of both the loan and MAG converted capital amounts.

Historically, the Company had consolidated the entity due to its belief that it had a controlling voting interest (see separate comment above regarding deconsolidation of this entity) and recognized a minority interest at an amount equal to MAG's capital contribution reduced by 40 % of the venture's losses and any return of capital amounts and allocated losses. The restaurant has operated at a loss since inception and losses were allocated based on the stated 40% interest noted above.

In reviewing this accounting, it was determined that the venture's obligation to return MAG's capital should have been recognized as a liability of the joint venture rather than treated as equity. As the joint venture is a consolidated entity, pursuant to FIN 46 the Company's accounts should also recognize this liability rather than reflect it as minority interest. Furthermore, interest expense should have been recorded in the statement of operations related to the Preferred Return as opposed to treating the amounts as dividends. Lastly, the Company determined that losses should not have been allocated to the minority interest member given that MAG had no equity at risk. The impact of these adjustments was to decrease the minority interest in loss of subsidiary by \$41,000 (\$0.01 per share) and \$11,000 in the first quarters of fiscal year 2003 and 2004, respectively, and increase interest expense by \$19,000 and \$17,000 in the first quarters of fiscal year 2003 and 2004, respectively.

### Chicago Grill on the Alley Warrants

In the process of evaluating prior accounting for this joint venture, it was noted that warrants to purchase approximately 203,000 shares of GCI stock were given to MAG in connection with the issuance of the original note. In accordance with APB 14, "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants," the Company determined that the fair value of such warrants should have been recognized as a debt discount and recorded as a reduction to the loan balance, with accretion of the discount recognized as additional interest expense using the effective interest method. The effect of this adjustment was to increase additional paid-in capital by \$322,000 as of each fiscal year-end in the period from 1999 to 2003 and as of March 28, 2004. Amortization of this amount has increased interest expense by \$12,000 and \$9,000 in each of the first quarters of fiscal year 2003 and 2004, respectively.

### Other Joint Venture Loss Allocations

The Company also reviewed its accounting for its other joint ventures, specifically, those that had been generating losses. Based on the terms of these agreements, losses are typically allocated in proportion to the

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recorded amount of each member's capital account balances. The recorded capital balances differ from the actual ownership percentages and the method to distribute cash flows in the event of a liquidation of the venture. As noted above, while the Company usually has a majority ownership percentage, the minority partner usually contributes the majority of the capital. The venture agreements specify that the minority member is entitled to cash distributions before the Company so that its investment is returned prior to the Company's.

The Company determined that its previous loss allocations to the minority partners were incorrect because they do not reflect the underlying economics of the investments. The Company determined that a hypothetical liquidation at book value model should be utilized to allocate losses for each reporting period based on the prescribed order of cash distributions upon liquidation. The change in the amounts allocated to the individual members based on this process, as adjusted for actual contributions and distributions, determines the allocation of profits or losses each period. The impact of this adjustment was to reduce the minority interest in loss of subsidiaries by \$23,000 and increase the minority interest in loss of subsidiaries by \$23,000 in the first quarters of fiscal year 2003 and 2004, respectively.

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### Reimbursed Costs

The Company operates a number of restaurants under management agreements whereby it is responsible for the operation of each restaurant. For its services, the Company typically receives a management fee based on a percentage of revenue, an incentive fee which is usually a profit sharing arrangement (collectively, "Fees") and a reimbursement of the Company's direct costs of operating the restaurant. Management agreements are in place for restaurants in which the Company has a non-controlling ownership percentage as well as a number of restaurants in which the Company has no ownership. For non-consolidated restaurants, the Company previously only reflected its Fees as revenue in the consolidated accounts. In August 2004, the Company reviewed these arrangements considering the primary obligor criteria as described in EITF 01-14, "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred." Under the terms of the management agreements, the Company is hired as an independent contractor and is responsible for settlement of all liabilities of the restaurant. Additionally, all employees are employees of the Company, not the individual restaurant. Although payroll and other operating expenses are paid out of an agency bank account belonging to the restaurant, based on the weight of the indicators identified in EITF 01-14 and EITF 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent," the Company determined it should recognize the reimbursement of restaurant expenses of the unconsolidated outlets as revenues in its financial statements and the related expenses.

These adjustments have been reflected in the accompanying statement of operations through the addition of two new line items, cost reimbursements and reimbursed costs. The impact of these adjustments was to increase revenues by \$2,067,000 and \$3,190,000 in the first quarter of fiscal years 2003 and 2004, respectively and to increase operating expenses by a similar amount for both periods.

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In evaluating certain transactions related to the San Francisco managed

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outlet, the Company also determined that advances made to the restaurant in prior periods should have been expensed in the period incurred instead of capitalized and deferred.

### Accounting for Lease Incentives

In 2003, the Company began recording reimbursements received for tenant improvement allowances as a liability. Consistent with the guidance set forth in SFAS No. 13, "Accounting for Leases," and FASB Technical Bulletin No. 88-1, "Issues Related to the Accounting for Leases," these lease incentives are amortized over the life of the lease as a credit to rent expense. Prior to 2003, however, the Company had recorded such reimbursements as a reduction to the value of the fixed asset. As part of this restatement process, the Company has corrected its prior accounting practice and recorded the unamortized value of previously unrecorded lease incentives as an increase to fixed assets and increase to other long-term liabilities. This adjustment totaled \$835,000 and \$800,000 as of December 28, 2003 and March 28, 2004, respectively. There was no impact on net income or earnings per share as a result of this adjustment, however, depreciation expense was increased and restaurant operating expenses were decreased by \$35,000 for the quarters ended March 30, 2003 and March 28, 2004. Upon retroactive adoption of FIN 46, the adjustment increased fixed assets and other long-term liabilities by \$1,238,000 and \$1,194,000 as of December 28, 2003 and March 28, 2004, respectively, and increased depreciation expense and decreased restaurant operating expenses by \$44,000 for the first quarters of fiscal year 2003 and 2004.

### Other Equity Award Adjustments

The Company recorded additional interest expense of \$5,000 in both first quarters of fiscal year 2003 and 2004 to correct the amortization of the fair value of warrants issued to two principal shareholders in connection with their guarantee of the Company's credit facility. Such amortization should have been recognized over the three-year term of the guarantee but was incorrectly being amortized over the term of the warrants. Additional paid-in capital was increased by \$27,000 as of each fiscal yearend from 2000 to 2003 to adjust the fair value of these warrants. The Company also increased additional paid-in capital and accumulated deficit by \$45,000 as of each fiscal yearend in the period from 2000 through 2003 and as of March 28, 2004 to recognize the fair value of warrants to purchase 50,000 shares of the Company's stock, pursuant to EITF 96-18, "Accounting for Equity Instruments that Are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." Such warrants were issued to a professional advisor for services rendered in fiscal year 2000 and had not been previously recognized.

### SUMMARY

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The above revisions impacted the balance sheets as of March 28, 2004 and December 28, 2003 and the statements of operations and cash flows for the three-month periods ended March 28, 2004 and March 30, 2003. The revisions have had no impact to our income tax provisions. The impact of this restatement, which has been reflected throughout the consolidated financial statements and accompanying notes, is as follows (amounts in thousands):

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March 28, 2004		
	As previously reported	As restated for correction of errors
Cash & equivalents	\$ 1,405	\$ 1,415
Inventories	569	586
Receivables, net	561	488
Reimbursable costs receivable		542
Prepaid & other current assets	876	895
Current assets	3,411	3,926
Furniture, equipment and improvements	9,878	11,857
Goodwill, net	205	205
Liquor licenses	330	350
Restricted cash	72	72
Advances to managed outlets	302	-
Note receivable	112	112
Other assets	420	247
Total assets	\$ 14,730	\$ 16,769
Current Liabilities		
Bank line of credit	\$ -	\$ -
Accounts Payable	1,289	1,347
Accrued Expenses	2,239	2,313
Reimbursable costs payable		542
Current portion of debt	326	360
Note payable related parties	242	321
Current liabilities	4,096	4,883
Long-term debt	104	104
Note payable related parties	310	935
Other long-term liabilities	2,342	3,536
Total liabilities	6,852	9,458
Minority interest	1,337	1,898
Convertible stock		
Common stock		
Paid in capital	13,233	13,627
Accumulated deficit	(6,692)	(8,214)
Total equity	6,541	5,413

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Total liabilities & equity	\$	14,730	\$	16,769
		=====		

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December 28, 2003

	As previously reported (1)	As restated for correction of errors	As restated for correction of errors and retroactive adoption of FIN 46
-----			
Current assets:			
Cash and cash equivalents	\$ 1,473	\$ 972	\$ 1,496
Inventories	570	355	585
Receivables	741	747	658
Reimbursable costs receivable	-	1,503	580
Prepaid and other current assets	608	535	612
	-----		
Total current assets	3,392	4,112	3,931
Furniture, equipment and improvements	9,020	5,690	11,061
Goodwill	205	205	205
Liquor licenses	330	264	350
Restricted cash	72	-	72
Advances to managed outlets	331	-	-
Note receivable	111	111	111
Other assets	426	1,320	275
	-----		
Total assets	\$ 13,887	\$ 11,702	\$ 16,005
	=====		
Current liabilities:			
Accounts payable	\$ 998	\$ 676	\$ 1,046
Accrued expenses	2,315	1,134	2,400
Reimbursable costs payable	-	1,503	580
Current portion of debt	254	82	298
Note payable related party	269	346	345
	-----		
Total current liabilities	3,836	3,741	4,669
	-----		
Long term debt	283	106	285
Note payable related party	323	230	969
Other long term liabilities	1,496	1,632	2,734
	-----		
Total liabilities	5,938	5,709	8,657
	-----		
Minority interest	1,521	703	2,058
Stockholders' equity			
Preferred stock	-	-	-
Common stock	-	-	-
Additional paid-in capital	13,207	13,601	13,601
Accumulated deficit	(6,779)	(8,311)	(8,311)



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Total stockholders' equity	6,428	5,290	5,290
Total liabilities, minority interest and stockholders' equity	\$ 13,887	\$ 11,702	\$ 16,005

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	Three months ended March 28, 2004		Three months ended March 28, 2003	
	As previously reported (1)	As restated for correction of errors	As previously reported (1)	As restated for correction of errors
Revenues				
Sales	\$ 12,958	\$ 13,510	\$ 11,667	\$ 11,667
Cost reimbursements	-	3,190	-	-
Management Fees	296	296	255	255
Total Revenues	13,254	16,996	11,922	11,922
Cost of sales	3,630	3,772	3,174	3,174
Gross Profit	9,624	13,224	8,748	8,748
Operating expenses				
Restaurant and operating expenses	7,776	8,125	6,997	6,997
Reimbursed costs	-	3,190	-	-
General and administrative	1,227	1,227	910	910
Depreciation and amortization	386	449	432	432
Pre-opening costs	147	147	187	187
Gain on sale of assets	-	-	(12)	(12)
Total operating expenses	9,536	13,138	8,514	8,514
Income (loss) from operations	88	86	234	234
Interest expense, net	(34)	(66)	(48)	(48)
Income (loss) before provision from income taxes, minority interest and equity in loss of joint venture	54	20	186	186
Provision for income taxes	(23)	(23)	(55)	(55)
Income (loss) before minority interest and equity in loss of joint venture	31	(3)	131	131
Minority interest in loss (earnings) of subsidiaries	60	100	216	216
Equity in loss of joint venture	(4)	-	(5)	(5)

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Net income (loss)	87	97	342
Preferred dividends accrued	(13)	(13)	(13)
-----			
Net income available for common shareholders	\$ 74	\$ 84	\$ 329
=====			
Net income per share applicable to common stock :			
Basic Net Income	0.01	0.02	0.06
Diluted Net Income	0.01	0.01	0.06
Average-weighted shares outstanding			
Basic	5,546	5,546	5,537
Diluted	6,193	6,193	5,537

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	March 28, 2004	
	As previously reported (1)	As restated correction of
-----		
Cash flows from operating activities		
Net income	\$ 87	\$
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	386	
Minority interest in net income	(60)	
Equity in loss of JV	4	
Stock based compensation	187	
Changes in operating assets and liabilities		
Inventories	1	
Receivables	180	
Reimbursable costs receivable	-	
Prepaid expenses and other current assets	(272)	
Other assets	22	
Accounts payable	291	
Accrued expenses	(265)	
Reimbursable costs payable	-	
Other long term liabilities	(1)	
	-----	
Net cash provided by operating activities	560	
-----		
Cash flows from investing activities:		
Purchases of PP&E	(1,240)	
Additional investment in CityWalk	(20)	
Proceeds from sale of assets	29	
	-----	
Net cash used in investing activities	(1,231)	
-----		
Cash flows from financing activities:		
Tenant improvement allowances	847	
Payments on related party debt	(40)	

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Payments on notes payable	(107)	
Proceeds from minority interest investment	15	
Preferred return to Chicago	(44)	
Return of capital to minority interests	(68)	
	-----	
Net cash provided by financing activities	603	
	-----	
Net increase(decrease) in cash	(68)	
Cash and cash equivalents, beginning of period	1,473	
	-----	
Cash and cash equivalents, end of period	\$ 1,405	\$
	=====	

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			March 30, 2003
			-----
	As previously reported (1)		As restated correction of
Cash flows from operating activities			
Net income	\$ 342	\$	
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	432		
Minority interest in net income	(216)		
Equity in loss of JV	5		
Gain on sale of assets	(12)		
Stock based compensation	5		
Changes in operating assets and liabilities			
Inventories	(22)		
Receivables	(285)		
Reimbursable costs receivable			
Prepaid expenses and other current assets	(269)		
Other assets	(4)		
Accounts payable	(9)		
Accrued expenses	(316)		
Reimbursable costs payable	-		
Other liabilities	-		
	-----		
Net cash used in operating activities	(349)		
	-----		
Cash flows from investing activities:			
Purchases of furniture, equipment and improvements	(184)		
Proceeds from sale of assets	26		
Restricted cash for DGCP, LLC	466		
	-----		
Net cash provided by investing activities	308		
	-----		

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Cash flows from financing activities:	
Payments on related party debt	(36)
Payments on notes payable	(98)
Preferred return to Chicago	(44)
Return of capital to minority interests	(72)
	-----
Net cash used in financing activities	(250)
	-----
Net decrease in cash	(291)
Cash and cash equivalents, beginning of period	1,275
	-----
Cash and cash equivalents, end of period	\$ 984 \$
	=====

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(1) The Company previously restated its consolidated financial statements as of December 28, 2003 and the three months ending March 30, 2003 to reflect the accounting for employee stock options using variable accounting treatment and to make other miscellaneous corrections. The effect of this restatement was to increase operating expenses and decrease net income by \$5,000 in for the quarter ended March 30, 2003. There was no change to reported net income per share. These "As previously reported" amounts already reflect these adjustments and represent the amounts presented in the Company's Quarterly Report on Form 10-Q filed on May 27, 2004.

In addition, certain prior year amounts have been reclassified to conform to current year presentation.

### RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, information derived from the Company's consolidated statements of operations expressed as a percentage of total sales revenues, except where otherwise noted. We typically analyze our operating expenses as a percentage of sales revenues, not total revenues.

	Three Months Ended	
	March 28, 2004 ----- (restated) ----- %	March 30, 2003 ----- (restated) ----- %
Revenues:		
Sales revenues	79.5	84.1
Cost reimbursements	18.8	14.3
Management and license fees	1.7	1.6
	-----	-----
Total revenues	100.0	100.0

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Cost of sales (exclusive of depreciation, presented separately below)	22.2	22.7
	-----	-----
Gross profit	77.8	77.3
	-----	-----
Restaurant operating expenses	47.8	50.6
Reimbursed costs	18.8	14.3
Gain on sale of assets	-	(0.1)
General and administrative	7.2	6.3
Depreciation and amortization	2.7	3.5
Pre-opening costs	0.9	1.4
	-----	-----
Total operating expenses	77.4	76.0
	-----	-----
Operating income	0.4	1.3
Interest expense, net	(0.3)	(0.6)
	-----	-----
Income before taxes, equity in loss of joint venture and minority interest	0.1	0.7
Provision for income taxes	(0.1)	(0.4)
Minority interest	0.6	1.4
Equity in loss of joint venture	0.0	0.0
	-----	-----
Net income	0.6	1.7
	=====	=====

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The following table sets forth certain unaudited financial information and other restaurant data relating to Company owned restaurants and Company managed and/or licensed restaurants.

	First Quarter Openings		Total open at End of Quarter	
	FY 2004	FY 2003	FY 2004	FY 2003
Daily Grill Restaurants:				
Company owned	1	1	11	10
Managed and/or licensed	-	-	7	6
Grill on the Alley restaurants:				
Company owned	-	-	4	4
Other restaurants				
Managed and/or licensed	-	-	1	1
	-----	-----	-----	-----
Total	1	1	23	21
	=====	=====	=====	=====

Three Months Ended

-----  
March 28, 2004      March 30, 2003  
-----

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Weighted average weekly sales per company

owned restaurant:

Daily Grill	\$	69,700	\$	67,800
Grill on the Alley		80,115		75,500

Change in comparable restaurants (1)

Daily Grill	8.7%	3.4%
Grill on the Alley	6.1%	(1.3)%

Total Company revenues:

Daily Grill	\$	9,344,000	\$	8,206,000
Grill on the Alley		4,166,000		3,928,000
Reimbursed Costs		3,190,000		2,067,000
Management and license fees		296,000		231,000

Total consolidated revenues		16,996,000		14,432,000
-----------------------------	--	------------	--	------------

Managed restaurants sales		4,020,000		2,835,000
Licensed restaurants sales		2,142,000		2,295,000
Less Reimbursed Costs		(3,190,000)		(2,067,000)
Less management and license fees		(296,000)		(231,000)

Total system sales	\$	19,672,000	\$	17,264,000
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(1) When computing comparable restaurant sales, restaurants open for at least 12 months are compared from period to period.

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MATERIAL CHANGES IN RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 28, 2004 AS COMPARED TO THE THREE MONTHS ENDED MARCH 30, 2003

Revenues. Revenues for the 2004 quarter increased 17.8% to \$17.0 million from \$14.4 million in the 2003 period. Sales revenues increased 11.3% to \$13.5 million in 2004 from \$12.1 million in 2003. Reimbursed costs increased 54.3% to \$3.2 million in 2004 from \$2.1 million in 2003. Management and license fee revenues increased to \$296,000 in 2004 from \$231,000 in 2003. System-wide sales, including sales of non-consolidated restaurants operated under license, management or partnership agreements, totaled \$19.7 million in 2004, an increase of 13.9% from \$17.3 million in 2003. System-wide sales, computed by adding to total revenues the revenues of unconsolidated restaurants and subtracting license and management fees reported from those restaurants, is a non-GAAP measure considered by management to be a key indicator of brand strength. See reconciliation of system-wide sales to revenues above.

Sales for Daily Grill restaurants increased by 13.9% from \$8.2 million in the 2003 quarter to \$9.3 million in the 2004 period. The increase in sales revenues for the Daily Grill restaurants from 2003 to 2004 was primarily attributable to an increase in same store sales of 8.7% (\$0.6 million) for restaurants open for 12 months in both 2003 and 2004 and opening of the Bethesda Daily Grill (\$0.6 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 increased 2.8% from \$67,800 in 2003 to \$69,700 in 2004. Comparable restaurant sales and weighted average weekly sales at the Daily Grill restaurants in 2004 reflected both increased guest counts and improved average checks during the period.

Sales for Grill restaurants increased by 6.1% from \$3.9 million in the 2003

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quarter to \$4.2 million in 2004. The increase in sales revenues for the Grill restaurants from 2003 to 2004 was attributable to the improved check averages and increased guest counts. Weighted average weekly sales at the Grill restaurants increased 6.1% from \$75,500 in 2003 to \$80,115 in 2004.

Reimbursed costs which represent employee and other operating expenses of managed restaurants for which we are reimbursed by the restaurants increased in 2004 primarily due to the opening of the Portland Daily Grill.

Management and license fee revenues during the 2004 quarter were attributable to hotel restaurant management services which accounted for \$238,000 of management fees and licensing fees from the LAX Daily Grill, Skokie, Illinois Daily Grill and the San Jose City Bar and Grill which totaled \$58,000. The increase in management fees during 2004 was attributable to management of the Portland Daily Grill beginning in September 2003 and improved sales at other managed locations.

Cost of Sales and Gross Profit. While sales revenues increased by 11.3% (\$1.4 million) in the 2004 quarter as compared to 2003, cost of sales increased by 14.9% (\$489,000) and increased as a percentage of sales from 27.1% in 2003 to 27.9% in 2004. The increase in cost of sales as a percentage of sales revenues was attributable to higher costs for a variety of food and grocery products, including dairy, poultry and seafood during the current period. The dollar increase in cost of sales reflects the opening of the Bethesda Daily Grill, increased same store sales and the increase in various food and grocery prices.

Gross profit from restaurant sales increased 10.0% from \$8.9 million (72.9% of restaurant sales) in 2003 to \$9.7 million (72.1% of restaurant sales) in 2004.

Operating Expenses and Operating Results. Total operating expenses, including restaurant operating expenses, reimbursed costs, general and administrative expense, depreciation and amortization, and pre-

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opening costs, increased 19.8% to \$13.1 million in the 2004 quarter (representing 77.4% of total revenues) from \$11.0 million in 2003 (representing 76.0% of total revenues).

Restaurant operating expenses increased 11.2% to \$8.1 million in the 2004 quarter from \$7.3 million in 2003. As a percentage of restaurant sales, restaurant operating expenses represented 60.1% in 2004 compared to 60.2% in 2003. The dollar increase in restaurant operating expenses was primarily attributable to the sales increase, including the opening of the Bethesda Daily Grill (\$458,000), and increases in various restaurant costs, including wages and related costs (\$107,000), promotion and advertising (\$113,000), occupancy costs (\$96,000), and compensation expense for stock options (\$43,000) among others. The decrease in operating expenses as a percentage of revenues resulted from improved operating efficiencies partially offset by compensation expense for stock options attributable to an increase in the Company's stock price during the quarter.

Reimbursed costs increased 54.3% from \$2.1 million in 2003 to \$3.2 million in 2004. 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 Portland Daily Grill.

General and administrative expenses rose 34.8% to \$1.2 million in the 2004 quarter compared to \$0.9 million in 2003. General and administrative expenses represented 9.1% of restaurant sales in 2004 as compared to 7.5% of revenues in 2003. The increase in general and administrative expense was attributable to

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increases in a broad number of categories, including compensation expense for stock options (\$139,000), wages and related costs (\$82,000), travel expenses (\$20,000), telephone (\$13,000), taxes and license expenses (\$10,000) and professional services (\$56,000), including costs associated with implementing various systems and procedures mandated by the Sarbanes-Oxley Act.

Depreciation and amortization expense decreased 10.6% for the 2004 quarter representing 3.3% of restaurant sales in 2004 and 4.1% of restaurant sales in 2003 primarily due to higher revenues with relatively fixed depreciation amounts and the completion of amortization of a non-compete agreement in 2003.

Pre-opening costs totaled \$147,000 in the 2004 period as compared with \$187,000 in 2003. These pre-opening costs were attributable to the opening in January 2003 of the South Bay Daily Grill and the opening of the Bethesda Daily Grill in January 2004.

Interest Expense. Interest expense, net, totaled \$66,000 during the 2004 quarter as compared to \$83,000 in 2003. The decrease in interest expense was primarily attributable to the reduction in long-term debt.

Minority Interest. We reported a minority interest in the loss of our majority owned subsidiaries of \$100,000 during the 2004 quarter as compared to \$196,000 during the 2003 quarter. The decrease in minority interest in loss was primarily attributable to improved operating results from the South Bay Daily Grill which reflected pre-opening costs for the 2003 quarter.

We reported net income of \$97,000 in the 2004 quarter as compared to a net income of \$244,000 for 2003.

### MATERIAL CHANGES IN FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES.

At March 28, 2004 the Company had negative working capital of \$1.0 million and a cash balance of \$1.4 million compared to negative working capital of \$0.7 million and a cash balance of \$1.5 million at December 28, 2003.

Net cash provided by operations during the quarter ended March 28, 2004 totaled \$485,000 compared to \$354,000 used in operations during the quarter ended March 30, 2003. The positive change in working

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capital resulted from a reduction in receivables and an increase in payables, offset by a reduction in depreciation and amortization and lower net income.

Net cash used in investing activities during the quarter ended March 28, 2004 totaled \$1,241,000 as compared to \$308,000 provided by investing activities during the quarter ended March 30, 2003. Cash used in investing activities during the current period related primarily to purchases of property, plant and equipment for the Bethesda Daily Grill (\$1,155,000).

Net cash provided by financing activities during the quarter ended March 28, 2004 totaled \$675,000 as compared to \$231,000 used in financing activities during the quarter ended March 30, 2003. Cash provided by financing activities during the current period related to tenant improvement allowances (\$885,000), and investments by minority members in LLCs (\$35,000), partially off-set by reductions in debt (\$177,000), and distribution of profits to the minority member of San Jose Grill, LLC (\$68,000).

Financing Facilities. At March 28, 2004, the Company had a bank credit facility with nothing owing, a loan from a member of Chicago - The Grill on the Alley, LLC of \$1.1 million, equipment loans of \$0.3 million, loans from



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stockholders/officers of \$0.2 million, and loans/advances from a landlord, the SBA and others of \$0.1 million. Construction of the Bethesda Daily Grill was paid for through a \$1.8 million tenant improvement allowance of which \$885,000 was received during the first quarter of 2004. This tenant improvement allowance has been recorded in long-term lease incentives and is being amortized against rent expense over the 15 year lease term.

In March 2004, we entered into a preliminary agreement with respect to the establishment of a new bank credit facility to replace our facility that expires in October 2004. Under the terms of the new bank credit facility, we will be 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 and equipment financing in the amount of \$500,000. The facility will have a one-year term, be secured by assets and is subject to certain standard borrowing covenants. The definitive loan documents were finalized in June 2004.

Operating Leases and Contractual Obligations. During the quarter ended March 28, 2004, we entered into a lease relating to a restaurant scheduled to open in the first quarter of 2005. Accordingly, at March 28, 2004, we were obligated under seventeen leases covering the premises in which our Daily Grill and Grill Restaurants are 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 \$22.5 million over the life of those leases, with minimum annual rental payments of \$3.1 million in 2004, \$5.3 million between 2005 and 2006, \$4.3 million between 2007 and 2008, and \$9.8 million thereafter. With the exception of entering into the referenced lease, there were no material changes in our obligations under operating leases or other contracts during the quarter ended March 28, 2004 as compared to those described in the Company's Form 10-K for the year ended December 28, 2003, as amended.

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 the Company's Form 10-K for the year ended December 28, 2003, as amended. Developments with respect to those agreements and arrangements during the quarter ended March 28, 2004 include:

Pursuant to the obligation of the Owner of the Portland Daily Grill to provide working capital advances of not less than \$50,000 and not more than \$150,000, after which the Company is required to make working capital advances, the Owner had advanced \$100,000 as of March 28, 2004.

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The Company's San Jose Grill, Chicago - Grill on the Alley, Grill on Hollywood and South Bay Daily Grill restaurants are each owned by limited liability companies (the "LLCs") in which the Company serves as manager and owns 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").

Detailed information regarding the initial capital contributions to the LLCs, Preferred Returns for each LLC, management fees payable to the Company and

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principal distribution provisions are included in the Company's Form 10-K for the year ended December 28, 2003, as amended. The following tables set forth a summary for each of the LLCs of (1) the distributions of capital to the Members and/or the Company during the quarter ended March 28, 2004, (2) the unreturned balance of the capital contributions of the Members and/or the Company at March 28, 2004, and the accrued but unpaid preferred returns due to the Members and/or the Company at March 28, 2004:

SAN JOSE GRILL LLC

Distributions of capital, preferred return and profit during the three months ended March 28, 2004:

Members	\$68,000
	=====
Company	\$68,000
	=====

Unreturned Initial Capital Contributions at March 28, 2004:

Members	\$ 0
	=====
Company	\$ 0
	=====

Accrued but unpaid Preferred Returns at March 28, 2004:

Members	\$ 0
	=====
Company	\$ 0
	=====

CHICAGO - GRILL ON THE ALLEY

Distributions of capital and note repayments during the three months ended March 28, 2004:

Members (a)	\$ 63,000
	=====
Company	\$ 0
	=====

Unreturned Initial Capital Contributions at March 28, 2004:

Members	\$1,072,000
	=====
Company	\$ 0
	=====

Accrued but unpaid Preferred Returns at March 28, 2004:

Members	\$ 0
	=====
Company	\$ 0
	-----

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THE GRILL ON HOLLYWOOD LLC

Distributions of capital during three months ended March 28, 2004:	Members	\$	0
		=====	
	Company	\$	0
		=====	
Unreturned Initial Capital Contributions at March 28, 2004:	Members	\$1,200,000	
		=====	
	Company	\$ 250,000	
		=====	
Accrued but unpaid Preferred Returns at March 28, 2004:	Members	\$	0
		=====	
	Company	\$ 73,000	
		=====	

SOUTH BAY DAILY GRILL (CONTINENTAL PARK LLC)

Distributions of capital during three months ended March 28, 2004:	Members	\$	0
		=====	
	Company	\$	0
		=====	
Unreturned Initial Capital Contributions at March 28, 2004:	Members	\$1,000,000	
		=====	
	Company	\$ 350,000	
		=====	
Accrued but unpaid Preferred Returns at March 28, 2004:	Members	\$ 128,000	
		=====	
	Company	\$ 45,000	
		=====	

a) Distribution of capital as of March 28, 2004 includes \$29,000 of payment of capital and loan and \$34,000 of payment of interest and preferred return.

CRITICAL ACCOUNTING POLICIES

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The Company believes certain critical accounting policies affect its more significant judgments and estimates used in the preparation of its financial statements. A description of the Company's critical accounting policies is set forth in the Company's Form 10-K for the year ended December 28, 2003, as amended. As of, and for the quarter ended, March 28, 2004, there have been no material changes or updates to the Company's

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critical accounting policies other than the establishment of a workers compensation loss reserve.

### Worker's Compensation Loss Reserves

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In the first quarter of 2004, the Company obtained a worker's compensation policy for 2004. The Company has established a loss reserve to cover the potential deductible amounts. The loss reserve is determined by estimating the ultimate cost to the Company utilizing information on current accidents, prior year experience and the carrier's loss development and loss trend factors. The Company has reduced costs during the first quarter by \$27,000 resulting from savings of \$64,000 due to lower premium costs net of the establishment of a loss reserve of \$37,000 related to the deductible.

Based on the Company's review at March 28, 2004, the current loss reserve is adequate.

### RECENTLY ADOPTED ACCOUNTING REQUIREMENTS

Effective December 29, 2003 (the first day of fiscal year 2004), the Company adopted the provisions of FASB Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51." In light of the changes resulting from the current restatement process, the Company has elected to retroactively adopt the provisions of FIN 46 so that the financial presentation in this Amended Quarterly Report on Form 10-Q/A is more consistent with the presentation of the Company's ongoing financial position and results of operations.

Under FIN 46, an entity is considered to be a variable interest entity ("VIE") when it has equity investors which lack the characteristics of a controlling financial interest, or its capital is insufficient to permit it to finance its activities without additional subordinated financial support. Consolidation of a VIE by an investor is required when it is determined that the investor is the primary beneficiary and will absorb a majority of the VIE's expected losses or residual returns if they occur.

Management has assessed all entities which are not wholly owned by the Company to determine if these entities would be considered VIEs and whether the Company would be considered the primary beneficiary. Upon adoption of FIN 46, it was determined that all of the following entities would be considered VIEs: The San Jose Grill LLC, Chicago - The Grill on the Alley, LLC, The Grill on Hollywood, LLC, The Daily Grill at Continental Park LLC and the Universal CityWalk Daily Grill partnership. The Company has determined it is the primary beneficiary for all these entities.

In April 2004, the EITF reached final consensus on EITF 03-06, "Participating Securities and the Two-Class Method under FASB Statement No. 128," which requires companies that have participating securities to calculate earnings per share using the two-class method. This method requires the allocation of undistributed earnings to the common shares and participating securities based on the proportion of undistributed earnings that each would have been entitled to had all the period's earnings been distributed. EITF 03-06 is effective for fiscal periods beginning after June 30, 2004 and earnings per share reported in prior periods presented must be retroactively adjusted in order to comply with EITF 03-06. The Company has adopted EITF 03-06 for the quarter ended June 30, 2004. The Company believes there will be no impact on the Company's financial statements as the preferred shares are not participating securities.

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### CERTAIN FACTORS AFFECTING FUTURE OPERATING RESULTS

In addition to the opening of new restaurants during 2004 and the various factors described in the Company's Annual Report on Form 10-K for the year ended December 28, 2003, as amended, the following developments may impact future operating results and financial condition.

In March 2004, the Company signed a lease to open an owned Daily Grill in an office park in Santa Monica, California. The landlord will provide a turn-key location built to our specifications. The restaurant is scheduled to open in the first quarter of 2005.

There can be no assurance that the Company will be successful in opening new restaurants in accordance with its 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 the Company's hotel restaurant management services

Variable accounting, as required, for employee stock options may result in substantial fluctuations in the Company's compensation expense and accrued compensation based on movements in stock price.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk from changes in interest rates on funded debt. This exposure relates to its non-revolving credit facility (the "Credit Facility"). There were no borrowings outstanding under the Credit Facility at March 28, 2004. Borrowings under the Credit Facility bear interest at the lender's reference rate plus 0.25%. A hypothetical 1% interest rate change would not have a material impact on the Company's results of operations.

### ITEM 4. EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains 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 the Company's 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 the Company's management, including its 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.

At the time the original Quarterly Report on Form 10-Q was prepared and filed on May 27, 2004, an evaluation as of the end of the period covered by this report had been carried out under the supervision and with the participation of our management, including our chief executive officer and chief 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

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"Exchange Act"). This evaluation was performed in light of a restatement caused by an error in accounting for the Company's stock options which had been accounted for using fixed accounting but which should have been accounted for using variable accounting. Based on their evaluation, our chief executive officer and chief financial officer had originally concluded that our disclosure controls and procedures were effective to ensure that we record, process, summarize, and report information required to be disclosed by us in our reports filed under the Securities Exchange Act within the time periods specified by the Securities and Exchange Commission's rules and forms even though a restatement had occurred.

Subsequent to filing our original report, and in connection with the review of our financial statements for the second quarter of 2004, the Company was informed by its independent accountants that (i) the Company's accounting for its joint ventures including loss allocations, guarantees of returns, consolidation decisions and the initial adoption of FIN 46 was incorrect, (ii) reimbursed costs related to management agreements should be presented on a grossed-up basis as both revenue and expense, and (iii) the accounting for certain equity awards needed to be adjusted. These instances were considered to be material weaknesses in the selection and application of accounting principles and policies. After re-evaluation of our accounting practices for joint ventures, reimbursed costs and equity awards, our management determined to restate our consolidated financial statements as of December 28, 2003 and March 28, 2004 and for the three months ended March 30, 2003 and March 28, 2004.

In conjunction with the decision to restate our financial statements, management re-evaluated our disclosure controls and procedures over the selection and application of accounting principles, in particular, accounting for stock options, joint ventures, reimbursed costs and equity awards, and concluded that these controls were not effective as of March 28, 2004. During the second and third quarters of 2004, we took steps to identify, rectify and prevent the recurrence of the circumstances that resulted in our determination to restate prior period financial statements, including reviewing the terms of our stock option grant agreements in relation to the option plan agreement, reviewing the terms of all our joint venture and related agreements, reviewing the accounting for reimbursed costs under our management agreements and reviewing the accounting for all our equity awards. As part of this undertaking, we have consulted with our independent registered public accounting firm, increased emphasis on continuing education for our accounting personnel and increased emphasis on reviewing applicable accounting literature, all relating to the selection and application of accounting principles pertaining to these areas. In addition, in July 2004, we hired a new chief financial officer. We believe these enhancements to our system of internal controls and our disclosure controls and procedures will be adequate to provide reasonable assurance that the control objectives will be met.

### PART II - OTHER INFORMATION

#### ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

In March 2004, the Company issued 43,290 shares of common stock to Michael Weinstock, the Company's Chairman and Executive Vice President, pursuant to the exercise of 75,000 warrants held by Mr. Weinstock. The exercise price of the warrant, \$1.4062 per share, was paid by means of a cashless exercise. The warrants were originally issued to Mr. Weinstock pursuant to an agreement by Mr. Weinstock to guarantee certain bank indebtedness of the Company.

The issuance of the shares of our common stock described above was pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended and related state private offering exemptions. The purchaser was an Accredited Investor as defined in the Securities Act who took the shares

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for investment purposes without a view to distribution and had access to information concerning the Company and its business prospects, as required by the Securities Act.

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In addition, there was no general solicitation or advertising in connection with the issuance of the shares. All certificates for our shares contain a restrictive legend. Finally, our stock transfer agent has been instructed not to transfer any of such shares, unless such shares are registered for resale or there is an exemption with respect to their transfer.

No commissions were paid in connection with the issuance described above.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- 10.1 Employment Agreement, effective January 1, 2004, with Robert Spivak
- 10.2 Consulting Agreement with Robert Spivak
- 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.

\* Filed herewith; all other exhibits previously filed.

(b) Reports on Form 8-K

None

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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.

Dated: October 13, 2004

By: \_\_\_\_\_  
Robert Spivak  
President and Chief Executive Officer

By: \_\_\_\_\_  
Philip Gay  
Chief Financial Officer

