GRILL CONCEPTS INC
Form 10-Q
November 10, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 26, 2004

OR

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

For the transition period from _______ to _______.

Commission File No. 0-23226

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

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

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

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

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

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

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

As of November 1, 2004, 5,650,146 shares of Common Stock of the issuer were outstanding.

GRILL CONCEPTS, INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GRILL CONCEPTS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Unaudited)
ASSETS

	September 26, 2004	December 28, 2003 (restated)
Current assets:		
Cash and cash equivalents	$ 1,096,000	$ 1,496,000
Inventories	570,000	585,000
Receivables, net of reserve ($21,000 in 2004 and $13,000 in 2003)	560,000	658,000
Reimbursable cost receivable	529,000	580,000
Prepaid expenses	644,000	612,000
Total current assets	3,399,000	3,931,000
Furniture, equipment, & improvements, net	11,488,000	11,061,000
Goodwill, net	205,000	205,000
Restricted cash	132,000	72,000
Note receivable	100,000	111,000
Liquor licenses	355,000	350,000
Other assets	213,000	275,000
Total assets	$ 15,892,000	$ 16,005,000

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

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

LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY

	September 26, 2004	December 28, 2003 (restated)
Current liabilities:		
Accounts payable	$ 1,643,000	$ 1,046,000
Accrued expenses	1,919,000	2,400,000
Reimbursable costs payable	529,000	580,000
Current portion of long term debt	230,000	298,000
Current portion notes payable - related parties	290,000	345,000
Total current liabilities	4,611,000	4,669,000
Long-term debt	155,000	285,000
Notes payable - related parties	865,000	969,000
Other long-term liabilities	3,665,000	2,734,000
Total liabilities	9,296,000	8,657,000
Minority interest	1,511,000	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, 5,650,146 shares issued and outstanding in 2004, 5,537,071 shares issued and outstanding in 2003	-	-
Additional paid-in capital	13,649,000	13,601,000
Accumulated deficit	(8,564,000)	(8,311,000)
Total stockholders' equity	5,085,000	5,290,000
Total liabilities, minority interest and stockholders' equity	$ 15,892,000	$ 16,005,000

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

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

	Three Months Ended		Nine Months Ended	
	September 26, 2004	September 28, 2003 (restated)	September 26, 2004	September 28, 2003 (restated)
Revenues:				
Sales	$ 12,169,000	$ 11,192,000	$ 38,325,000	$ 35,376,000
Cost reimbursements	2,615,000	2,330,000	8,708,000	6,614,000
Management and license fees	308,000	243,000	910,000	709,000
Total revenues	15,092,000	13,765,000	47,943,000	42,699,000
Cost of sales (exclusive of depreciation, presented separately)	3,367,000	3,135,000	10,746,000	9,772,000
Gross profit	11,725,000	10,630,000	37,197,000	32,927,000
Operating expenses:				
Restaurant operating expenses	7,752,000	7,325,000	23,931,000	22,076,000
Reimbursed costs	2,615,000	2,330,000	8,708,000	6,614,000
Gain on sale of assets	(2,000)	-	(3,000)	(11,000)
General and administrative	1,124,000	933,000	3,434,000	2,836,000
Depreciation and amortization	454,000	483,000	1,357,000	1,413,000
Pre-opening costs	-	-	148,000	187,000
Total operating expenses	11,943,000	11,071,000	37,575,000	33,115,000
Loss from operations	(218,000)	(441,000)	(378,000)	(188,000)
Interest expense, net	(59,000)	(83,000)	(191,000)	(245,000)
Loss before provision for income taxes and minority interest	(277,000)	(524,000)	(569,000)	(433,000)
Benefit (provision) for income taxes	(6,000)	13,000	(34,000)	(68,000)
Minority interest in loss of subsidiaries	84,000	161,000	350,000	445,000
Net loss	(199,000)	(350,000)	(253,000)	(56,000)
Preferred dividends accrued	(13,000)	(13,000)	(38,000)	(38,000)
Net loss applicable to common stock	$ (212,000)	$ (363,000)	$ (291,000)	$ (94,000)
Net loss per share applicable to common stock:				
Basic net loss	$ (0.04)	$ (0.07)	$ (0.05)	$ (0.02)
Diluted net loss	$ (0.04)	$ (0.07)	$ (0.05)	$ (0.02)

Weighted average shares outstanding:				
Basic	5,647,707	5,537,071	5,594,672	5,537,071
Diluted	5,647,707	5,537,071	5,594,672	5,537,071

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

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

	Nine Months Ended September 26, 2004	Nine Months Ended September 28, 2003 (restated)
Cash flows from operating activities:		
Net loss	$ (253,000)	$ (56,000)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,357,000	1,413,000
Stock based compensation expense	(84,000)	133,000
Allowance for doubtful accounts	8,000	-
Gain on sale of assets	(3,000)	(11,000)
Minority interest in loss of subsidiaries	(350,000)	(445,000)
Changes in operating assets and liabilities:		
Inventories	15,000	(43,000)
Receivables	90,000	(117,000)
Reimbursable cost receivable	51,000	(14,000)
Prepaid expenses	(32,000)	(415,000)
Other assets	50,000	15,000
Accounts payable	597,000	325,000
Accrued liabilities	(438,000)	(311,000)
Reimbursable cost payable	(51,000)	14,000
Other long-term liabilities	(118,000)	(119,000)
Net cash provided by operating activities	839,000	369,000
Cash flows from investing activities:		
Proceeds from disposal of assets	5,000	26,000
Restricted cash for Daily Grill at Continental Park, LLC	-	544,000
Restricted cash for worker s compensation insurance	(60,000)	-
Purchase of liquor license	(5,000)	-
Advance repaid by managed outlet	-	64,000
Purchase of furniture, equipment and improvements	(1,774,000)	(553,000)
Net cash provided by (used in) investing activities	(1,834,000)	81,000
Cash flows from financing activities:		
Tenant improvement allowances	1,049,000	-
Proceeds from minority interests	35,000	30,000
Note receivable collections	15,000	10,000
Return of capital and profits to minority shareholder	(147,000)	(222,000)
Payments to related parties	(159,000)	(161,000)
Payments on long-term debt	(198,000)	(329,000)
Net cash provided by (used in) financing activities	595,000	(672,000)
Net decrease in cash and cash equivalents	(400,000)	(222,000)
Cash and cash equivalents, beginning of period	1,496,000	1,290,000
Cash and cash equivalents, end of period	$ 1,096,000	$ 1,068,000

Supplemental cash flow information:				
Cash paid during the period for:				
Interest	$	107,000	$	136,000
Income taxes		119,000		119,000

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

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 our independent registered public accounting firm. 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 and nine-month periods ended September 28, 2003 were restated on May 14, 2004 from those originally issued to reflect certain adjustments related to stock compensation and other miscellaneous adjustments, and were subsequently restated on October 15, 2004 to further reflect additional adjustments to revise the accounting for certain of the Company s joint ventures, record costs and revenues associated with reimbursed costs under management agreements and make other miscellaneous corrections. Additionally, the Company has corrected its 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 the quarter ended March 28, 2004. (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. See further discussion of the adoption of FIN 46 below.

Corrections of Errors

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 decrease operating expenses and net loss by $7,000 for the three months and increase operating expenses and net loss by $133,000 ($0.02 per share) for the nine months ended September 28, 2003. Results for all periods during 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 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 ($0.01 per share) 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 retroactive 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 LLCs 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 stated 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 build-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 note. Additionally, the venture was obligated to repay converted original capital amounts under an identical payment/amortization schedule as the 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. 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 the fact that MAG had no equity. The impact of these adjustments was to increase the minority interest in loss of subsidiary by $12,000 for the three months ended September 26, 2004 and decrease the minority interest in loss of subsidiary by $63,000 in nine month period ended September 26, 2004, and $21,000 and $85,000 ($0.02 per share) in the three and nine month periods ended September 28, 2003, respectively; and increase interest expense by $15,000 and $49,000 ($0.01 per share) in the three and nine month periods ended September 26, 2004, respectively, and $18,000 and $56,000 ($0.01 per share) in the three and nine month periods ended September 28, 2003, 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 September 26, 2004. Amortization of this amount has increased interest expense by $9,000 and $27,000 in the three and nine month periods ended September 26, 2004, respectively, and $9,000 and $28,000 in the three and nine month periods ended September 28, 2003, 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 members 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 did not reflect the underlying economics at book value of the investments. The Company determined that a hypothetical liquidation model should be utilized to allocate losses for each reporting period based on the prescribed order of cash distribution 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 increase the minority interest in loss of subsidiaries by $17,000 and $66,000 ($0.01 per share) in the three and nine month periods ended September 26, 2004, respectively; and increase the minority interest in loss of subsidiaries by $28,000 for the three months and by $23,000 for the nine months ended September 28, 2003.

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 reimbursement of restaurant expenses of the unconsolidated outlets as revenues in its financial statements and the related expenses.

The impact of these adjustments was to increase revenues by $2,615,000 and $8,708,000 in the three and nine month periods ended September 26, 2004, respectively and to increase operating expenses by a similar amount for both periods. The impact on the three and nine months periods ended September 28, 2003 was to increase revenues by $2,330,000 and $6,614,000, respectively and to increase operating expenses by a similar amount for both.

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. The impact of this adjustment was to increase expenses by $287,000 in 2002 and $44,000 in 2003 and to recognize revenue of $29,000 ($0.01 per share) for the nine months ended September 26, 2004 rather than a reduction of the capitalized amount.

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 $730,000 as of December 28, 2003 and September 26, 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 three months ended September 28, 2003 and September 26, 2004 and by $105,000 for the nine months ended September 28, 2003 and September 26, 2004. Upon retroactive adoption of FIN 46, the adjustment increased fixed assets and other long-term liabilities by $1,238,000 and $1,106,000 as of December 28, 2003 and September 26, 2004, respectively, and increased depreciation expense and decreased restaurant operating expenses by $44,000 for the third quarters of fiscal year 2003 and 2004 and by $132,000 for the nine months ended September 28, 2003 and September 26, 2004.

Other Equity Award Adjustments

The Company recorded additional interest expense of $5,000 in each of the first three 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 September 26, 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

The above revisions impacted the balance sheets as of December 28, 2003 and the statements of operations and cash flows for the three and nine-month periods ended September 28, 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 except for per share amounts):

	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
	$ 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 stockholders' equity	6,428	5,290	5,290
	$ 13,887	$ 11,702	$ 16,005

(1) The Company previously restated its consolidated financial statements as of December 28, 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 accrued liabilities by $197, increase additional paid-in capital by $55 and increase accumulated deficit by $252 as of December 28, 2003. These   As previously reported amounts already reflect these adjustments and represent the amounts presented in the Company   s Amended Annual Report on Form 10-K/A filed on May 27, 2004.

	Nine Months Ended September 28, 2003		
	As previously reported	As restated for correction of errors	As restated for correction of errors and retroactive adoption of FIN 46
Revenues			
Sales	$ 33,695	$ 25,107	$ 35,376
Cost reimbursements	-	17,016	6,614
Management Fees	795	1,244	709
Total Revenues	34,490	43,367	42,699
Cost of sales	9,364	6,826	9,772
Gross Profit	25,126	36,541	32,927
Operating exenses			
Restaurant and operating expenses	20,972	15,578	22,076
Reimbursed costs		17,016	6,614
General and administartive	2,750	2,836	2,836
Depreciation and amortization	1,200	899	1,413
Pre-opening costs	187	-	187
Gain on sale of assets	(12)	(11)	(11)
Total operating expenses	25,097	36,318	33,115
Income (loss) from operations	29	223	(188)
Interest expense, net	(141)	(185)	(245)
Income (loss) before provision from income taxes, minority interest and equity in loss of joint venture	(112)	38	(433)
Provision for income taxes	(68)	(57)	(68)
Loss before minorty interest and equity in loss of joint venture	(180)	(19)	(501)
Minority interest in loss of subsidiaries	425	142	445
Equity in loss of joint venture	(10)	(179)	-
Net income (loss)	235	(56)	(56)
Preferred dividends accrued	(38)	(38)	(38)
Net income (loss) available for common shareholders	$ 197	$ (94)	$ (94)
Net income (loss) per share applicable to common stock :			
Basic Net Income	$ 0.04	$ (0.02)	$ (0.02)
Diluted Net Income	$ 0.04	$ (0.02)	$ (0.02)
Average-weighted shares outstanding			
Basic	5,537	5,537	5,537
Diluted	5,614	5,537	5,537

	Three Months Ended September 28 ,2003		
	As previously reported	As restated for errors	As restated for errors and retroactive adoption of FIN 46
Revenues			
Sales	$ 10,509	$ 7,845	$ 11,192
Cost reimbursements	-	4,784	2,330
Management Fees	278	611	243
Total Revenues	10,787	13,240	13,765
Cost of sales	2,968	2,170	3,135
Gross Profit	7,819	11,070	10,630
Operating exenses			
Restaurant and operating expenses	6,930	5,329	7,325
Reimbursed costs		4,784	2,330
General and administartive	934	934	933
Depreciation and amortization	411	313	483
Total operating expenses	8,275	11,360	11,071
Loss from operations	(456)	(290)	(441)
Interest expense, net	(49)	(121)	(83)
Loss before provision for income taxes, minority interest and equity in loss of joint venture	(505)	(411)	(524)
Provision for income taxes	13	17	13
Loss before minorty interest and equity in loss of joint venture	(492)	(394)	(511)
Minority interest in loss of subsidiaries	161	42	161
Equity in loss of joint venture	1	2	-
Net loss	(330)	(350)	(350)
Preferred dividends accrued	(12)	(13)	(13)
Net loss available for common shareholders	$ (342)	$ (363)	$ (363)
Net loss per share applicable to common stock :			
Basic Net Loss	$ (0.06)	$ (0.07)	$ (0.07)
Diluted Net Loss	$ (0.06)	$ (0.07)	$ (0.07)
Average-weighted shares outstanding			
Basic			