GRILL CONCEPTS INC
Form 10-Q
November 14, 2001

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 30, 2001

OR

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

For the transition period from _____ to _____.

Commission File No. 0-23226

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

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

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

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

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

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

As of November 8, 2001, 5,537,071 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 CONDENSED BALANCE SHEETS

ASSETS

	September 30, 2001 (unaudited)	December 31, 2000
Current assets:		
Cash and cash equivalents	$ 2,221,833	$ 623,097
Inventories	575,107	541,579
Receivables	459,998	654,594
Prepaid expenses	626,985	270,672
Total current assets	3,883,923	2,089,942

Furniture, equipment, & improvements, net	9,193,278	9,300,548
Goodwill, net	206,928	213,053
Liquor licenses	423,049	587,614
Other assets	365,017	342,921
Total assets	$ 14,072,195	$ 12,534,078

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

GRILL CONCEPTS, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(Continued)
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY

	September 30, 2001 (unaudited)	December 31, 2000
Current liabilities:		
Bank line of credit	$ -	$ 100,000
Accounts payable	1,353,302	1,420,591
Accrued expenses	1,897,946	2,358,699
Current portion of long term debt	640,525	737,881
Note payable - related party	289,735	191,716
Total current liabilities	4,181,508	4,808,887
Long-term debt	1,594,245	2,408,151
Notes payable - related parties	627,060	458,132
Total liabilities	6,402,813	7,675,170
Minority interest	2,002,258	1,363,494
Stockholders' equity:		
Series A, 10% Convertible Preferred Stock, $.001 par value; 1,000,000 shares authorized, none issued and outstanding in 2001 and 2000	--	
Series B, 8% Convertible Preferred Stock, $.001 par value; 1,000,000 shares authorized, none issued and outstanding in 2001 and 2000	-	-
Series I, Convertible Preferred Stock, $.001 par value; 1,000,000 shares authorized, none issued and outstanding in 2001 and 2000	-	-
Series II, 10% Convertible Preferred Stock, $.001 par value;		

1,000,000 shares, authorized, 500 shares issued and outstanding in 2001 and 2000	1	1
Common stock, $.00004 par value; 12,000,000 shares authorized in 2001 and 7,500,000 shares authorized in 2000, 5,537,071 shares issued and outstanding in 2001 4,203,738 shares issued and outstanding in 2000	221	168
Additional paid-in capital	12,933,405	11,071,055
Accumulated deficit	(7,266,503)	(7,575,810)
Total stockholders' equity	5,667,124	3,495,414
Total liabilities, minority interest and stockholders' equity	$14,072,195	$12,534,078

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

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

	Three Months Ended		Nine Month
	September 30, 2001	September 24, 2000	September 30, 2001
Revenues:			
Sales	$ 9,954,799	$10,761,965	$33,276,149
Management and license fees	185,482	170,754	599,081
Total revenues	10,140,281	10,932,719	33,875,230
Cost of sales	2,826,505	3,261,674	9,335,733
Gross profit	7,313,776	7,671,045	24,539,497
Costs and expenses:			
Restaurant operating expenses	6,202,824	6,456,468	20,489,476
General and administrative	845,729	912,490	2,742,943
Depreciation and amortization	319,009	344,606	975,295
Preopening costs	-	-	-
Total operating expenses	7,367,562	7,713,564	24,207,714
Income (loss) from operations	(53,786)	(42,519)	331,783
Interest expense, net	(164,668)	(152,638)	(358,003)
Gain on disposal of assets	225,042	-	225,042
Income (loss) before provision for income taxes, equity in loss of joint venture and minority interest	6,588	(195,157)	198,822

Provision for income taxes	(2,502)	(7,500)	(4,372)
Equity in income (loss) of joint venture	357	-	(4,033)
Minority interest	49,740	82,472	118,890
Net (loss) income	54,183	(120,185)	309,307
Preferred dividends accrued or paid	(12,500)	(12,500)	(37,500)
Net (loss) income available to common stockholders	$41,683	$ (132,685)	$271,807
Basic net (loss) income share	$ 0.01	$ (0.03)	$ 0.06
Diluted (loss) income per share	$ 0.01	$ (0.03)	$ 0.05
Weighted average shares outstanding			
Basic	5,170,771	4,171,823	4,526,082
Diluted	5,751,160	4,705,156	5,130,310

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

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

	Nine Months Ended	
	September 30, 2001	September 2000
Cash flows from operating activities:		
Net income	$309,307	$ 32,652
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	975,295	927,974
Minority interest in net loss of subsidiaries	(118,890)	(250,838
Equity in loss of joint venture	4,033	9,469
Gain on sale of assets	(225,042)	-
Changes in operating assets and liabilities		
Inventories	(33,528)	(106,498
Receivables	194,596	276,252
Prepaid expenses	(364,026)	117,109
Other assets	(103,390)	(76,529
Accounts payable	(67,289)	(238,605
Accrued liabilities	(460,753)	134,860
Net cash provided by operating activities	110,313	825,846

Cash flows from investing activities:		
Additions to furniture, equipment and improvements	(1,088,488)	(2,196,076
Net proceeds from sale of assets	655,035	-
Net cash used in investing activities	(433,453)	(2,196,076
Cash flows from financing activities:		
Proceeds from equipment financing	-	1,003,535
Proceeds from minority members' investment in LLCs	1,040,500	1,173,941
Proceeds from issuance of note payable	-	400,000
(Payments)/proceeds under line of credit	(100,000)	100,000
Proceeds from bank term loan	-	1,200,000
Net proceeds from issuance of common stock	1,862,403	-
Preferred return to minority stockholders	(74,924)	-
Return of capital to minority stockholders	(161,789)	-
Payments on related party debt	(104,922)	(387,910
Payments on long-term debt	(539,392)	(2,259,482
Net cash provided by financing activities	1,921,876	1,230,084
Net (decrease) increase in cash and cash equivalents	1,598,736	(140,146
Cash and cash equivalents, beginning of period	623,097	352,453
Cash and cash equivalents, end of period	$2,221,833	$ 212,307
Supplemental cash flow information: Cash paid during the period for:		
Interest	$ 317,123	$ 370,231
Income taxes	16,569	-

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

GRILL CONCEPTS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED 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 accountants. The December 31, 2000 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 dated December 31, 2000. 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 30, 2001.

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

2. MINORITY INTEREST - THE GRILL ON HOLLYWOOD

In connection with the building of a new restaurant, in July 2001, a limited liability company was formed for the operation of the "The Grill on Hollywood" restaurant in Hollywood, California, of which the Company owns 51%. Construction of the restaurant has been funded primarily by a capital contribution of $1,200,000 from the minority interest member of the limited liability company of which $1,040,500 had been contributed as of September 30, 2001. The Company is responsible for approximately $250,000 of costs that will be incurred during the fourth quarter. The consolidated financial statements include the accounts of the limited liability company with minority interest reflected.

3. FUTURE ACCOUNTING REQUIREMENTS

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". This Statement requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives will be recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. The new rules were effective the first quarter of 2001. The new standard did not have a material impact on the Company's financial statements.

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 141 ("SFAS 141"), "Business Combinations." SFAS141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling-of-interest method will be prohibited. The Company does not believe that the adoption of SFAS 141 will have a significant impact on its financial statements.

In July 2001, the FASB also issued Statement of Financial Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets." SFAS 142 which changes the accounting for goodwill and indefinite-lived intangible assets from an amortization method to an impairment-only approach, will be effective for fiscal years beginning after December 15, 2001. The company has not determined the impact that adoption of this Standard will have on its financial statements.

4. PER SHARE DATA

Basic earnings per share data is based upon the weighted average number of common shares outstanding. Diluted earnings per share data is based upon the weighted average number of common shares outstanding plus the number of common shares potentially issuable for dilutive securities such as stock options and warrants.

5. DISTRIBUTION OF CAPITAL AND PREFERRED RETURNS

The Operating Agreement for San Jose Grill LLC, stipulates that distributions of distributable cash shall be made first, 10% to the Manager and 90% to the Members in the ratio of their percentage interests until the Members have received the amount of their initial capital contribution. Second, to the payment of the preferred return of ten percent per annum on the unpaid balance of the Member's adjusted capital contribution until the entire accrued but unpaid preferred return has been paid. Third, to the

Members in the ratio of their percentage interests until the additional capital contributions have been repaid. Thereafter, to the Manager and Members in the ratio of their percentage interests. In January 2001 a distribution of distributable cash in the amount of $89,910 was made to the minority member that reduced the member's interest.

The Operating Agreement and the Senior Promissory Note for Chicago - The Grill on the Alley, LLC stipulates that the non-manager member of Chicago - The Grill on the Alley, LLC is entitled to a cumulative preferred return of eight percent annually of their converted capital contribution. Preferred return payments of $22,976 and $74,924, for the three and nine months, respectively were paid to the non-manager member. These payments are treated as a reduction of equity. Return of capital payments were also made to the non-manager member of $21,065 and $71,879, for the three and nine months, respectively.

6. RELATED PARTIES

A note holder of the Company was elected to the Board of Directors at the Company's annual meeting and became an investor of the Company at the same time. The note payable was reclassified from Long Term Debt to Notes Payable - related parties. The reclassification moved $95,850 from Current portion of long term debt to current Notes payable - related parties and $201,903 from Long term debt to non-current Notes payable - related parties.

7. STOCKHOLDER'S EQUITY

On July 27, 2001, the Company completed a transaction with Starwood Hotels and Resorts Worldwide, Inc. pursuant to which (1) the Company and Starwood entered into a Development Agreement under which the Company and Starwood agreed to jointly develop the Company's restaurant properties in Starwood hotels; and (2) the Company sold 666,667 shares of restricted common stock and 666,667 stock purchase warrants at $2.00 to Starwood for $1,000,000. Concurrently, the Company sold an additional 666,666 shares of restricted common stock and 666,666 stock purchase warrants at $2.25 to other strategic investors for $1,000,000. Proceeds reflected in the financial statements are net of transaction costs.

In conjunction with the Starwood transaction, on July 17, 2001, the Company sold the assets of its franchised Pizzeria Uno restaurant located in South Plainfield, New Jersey for $700,000 less legal and other sale related costs of $44,965.

8. INCOME TAXES

The provisions for income taxes are minimal because the Company has available federal and state operating loss carryforwards that may be utilized to offset federal and state taxable earnings.

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 31, 2000.

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 operating revenues, except where otherwise noted. Percentages may not add due to rounding.

	Three Months Ended		Nine Months Ended	
	September 30, 2001	September 24, 2000	September 30, 2001	September 24, 2000
Revenues:				
Company restaurant sales	98.2 %	98.4 %	98.2 %	98.5%
Management and license fees	1.8	1.6	1.8	1.5
Total operating revenues	100.0 %	100.0 %	100.0 %	100.0%
Cost of sales	27.9	29.8	27.6	28.7
Gross profit	72.1	70.2	72.4	71.3
Restaurant operating expense	61.2	59.1	60.5	58.5
General and administrative expense	8.3	8.3	8.1	8.1
Depreciation and amortization	3.1	3.2	2.9	2.9
Pre-opening costs	-	-	-	1.4
Total operating expenses	72.6	70.6	71.5	70.9
Operating (loss) income	(0.5)	(0.4)	1.0	0.4
Interest expense, net	(1.6)	(1.4)	(1.1)	(1.0)
Gain on disposal of assets	2.2	0.0	0.7	0.0
(Loss) income before provision for income taxes, minority interest and equity in loss of joint venture	0.1	(1.8)	0.6	(0.6)
Provision for income taxes	0.0	0.0	0.0	0.0
Minority interest	0.5	0.8	0.3	0.7
Equity in loss of joint venture	0.0	0.0	0.0	0.0
Net (loss) income	0.6%	(1.0)%	0.9%	0.1%

The following table sets forth certain unaudited financial information and other

restaurant data relating to Company owned restaurants and Company managed and/or licensed restaurants.

	Third Quarter Openings		Year-to-date Openings		Total open at End of Quarter	
	FY 2001	FY 2000	FY 2001	FY 2000	FY 2001	FY 2000
Daily Grill restaurants:						
Company owned	-	-	-	-	10	10
Managed and/or licensed	-	1	-	1	4	4
Grill on the Alley restaurants:						
Company owned	-	-	-	1	3	3
Pizza restaurants	(1)	(1)	(1)	(1)	1	2
Other restaurants						
Managed and/or licensed	-	-	-	-	1	1
Total	(1)	-	(1)	1	19	20

	Three Months Ended		Nine Month
	September 30, 2001	September 24, 2000	September 30, 2001
Weighted average weekly sales per company owned restaurant:			
Daily Grill	$ 55,821	$ 54,765	$ 60,901
Grill on the Alley	74,956	86,860	82,013
Pizza restaurants	33,323	29,892	34,560
Change in comparable restaurant sales (1):			
Daily Grill	1.9 %	5.9 %	4.6 %
Grill on the Alley	(4.7)%	17.0 %	0.5 %
Pizza restaurants	(6.6)%	(4.5)%	(5.5)%
Total revenues:			
Daily Grill	$ 6,531,017	$ 6,407,463	$21,376,316
Grill on the Alley	2,923,292	3,387,527	9,595,578
Pizza restaurants	500,490	966,975	2,304,255
Management and license fees	185,482	170,754	599,081
Total consolidated revenues	10,140,281	10,932,719	33,875,230
Managed restaurants	2,615,142	2,791,440	8,143,021
Licensed restaurants	1,920,866	1,509,039	6,000,591
Less: management and license fees	(185,482)	(170,754)	(599,081)
Total system sales	$14,490,807	$ 15,062,444	$47,419,761

(1) When computing comparable restaurant sales, restaurants open for at least

12 months are compared from period to period.

Material Changes in Results of Operations for the Three and Nine Months Ended September 30, 2001 as compared to the Three and Nine Months Ended September 24, 2000

The Company's revenues for the third quarter of fiscal 2001 decreased to $10.1 million, 7.2% under the $10.9 million generated for the same quarter of fiscal 2000. Total revenues included $10.0 million of sales revenues and $185,000 of management and licensing fees for the 2001 quarter compared to $10.8 million of sales revenues and $171,000 of management and licensing fees for the 2000 quarter. This $0.8 million, or 7.5%, decrease in sales revenues for the quarter was primarily attributable to a decrease in sales for Chicago - The Grill on the Alley compared to the same period in fiscal 2000 ($373,000) and the closure of Pizzeria Uno in South Plainfield, New Jersey ($410,000). Chicago has been experiencing weakened sales which where exaggerated by the drop in tourism and conventions resulting from the tragedy of September 11th. Last year's sales were strong after the June opening, which generated significant amounts of publicity.

Revenues for the nine months ended September 30, 2001 rose 5.5% to $33.9 million from the $32.1 million generated for the same period of fiscal 2000. Total revenues included $ 33.3 million of sales revenues and $599,000 of management and licensing fees for the first nine months of 2001, compared to $31.6 million of sales revenues and $467,000 of management and licensing fees for the first nine months of 2000. The increase in sales revenues for the nine months ($1.6 million, or 5.2%) was primarily attributable to an increase in same store sales ($954,000), plus a full 39 weeks of sales at the Chicago - The Grill on the Alley compared to only 15 weeks in 2000 ($1,802,000), which was partially offset by the closure of the Pizzeria Uno restaurants in Media ($630,000) and South Plainfield ($428,000).

Same store sales (for restaurants open at least 12 months) were flat for the quarter and increased 3.2% for the nine months. For the quarter, increases in average check price were offset by a decrease in the number of guests. For the nine months, the increase was due to average check price increases at the Daily Grill restaurants ($1,085,000) and the Grill on the Alley restaurants ($477,000). This increase was partially offset by a decrease in the number of guests at both the Daily Grill and Grill on the Alley restaurants ($590,000). Slightly more than half of the increase in average check price was attributable to menu price increases implemented in the fourth quarter of 2000. The increase in management and licensing fees for both the quarter ($15,000 or 8.6 %) and the nine months ($132,000 or 28.3%) was primarily attributable to increased sales at the Daily Gill restaurant at Georgetown Inn and the opening of the Daily Grill in the Skokie DoubleTree in September 2000.

In addition to the restaurants owned by the Company, of which sales are consolidated and included in the results of operations for the Company, the Company also manages and licenses six other restaurants. Total revenues for all restaurants owned, managed and licensed by the Company were $14.5 million and $15.1 million for the quarters, and $47.4 million and $44.2 million for the nine months ended September 2001 and 2000, respectively. This represents a decrease of $572,000, or 3.8 %, for the quarter and an increase of $3.3 million, or 7.4 %, for the nine months.

Cost of sales decreased by $435,000, or 13.3%, for the quarter and increased by $126,000, or 1.4%, for the nine months ended September 30, 2001 as compared to

the same periods in 2000. The quarter decrease was primarily due to a decrease at Chicago - The Grill on the Alley ($205,000) and the closure of Pizzeria Uno ($127,000). The increase for the nine month period is primarily due to Chicago - The Grill on the Alley ($502,000) offset by closure of Pizzeria Uno ($315,000). Cost of sales decreased as a percentage of revenues. Cost of sales was 27.9% for the quarter and 27.6 % for the nine months as compared to 29.8 % for the third quarter of 2000 and 28.7% for the year-to-date period in 2000. The decrease in cost of sales as a percentage of revenues during the 2001 nine months was primarily the result of menu refinements and related sales mix as well as cost reductions resulting from improved purchasing.

Restaurant operating expenses decreased by $254,000, or 3.9%, for the quarter and increased as a percentage of revenues from 59.1% in 2000 to 61.2% in 2001. Restaurant operating expenses increased by $1,712,000, or 9.1%, for the nine months as compared to the same periods in 2000 and increased as a percentage of revenues from 58.5% in 2000 to 60.5% in 2001. The changes were primarily due to Chicago - The Grill on the Alley that had decreased operating expenses of $259,000 for the quarter and increased operating expenses of $1,119,000 for the nine months. The change in restaurant operating expenses as a percentage of total revenues was primarily attributable to payroll and related expenses which were down $60,000, or 1.7%, for the quarter and up $1,318,000, or 12.4%, for the nine months and variable costs which were down $57,000, or 4.7%, for the three months and up $221,000, or 5.9%, for the nine months. Payroll and related benefits decreased for the quarter at the Pizzeria Uno restaurants ($310,000) and were partially offset by an increase at the Daily Grill restaurants ($247,000). For the nine months payroll and related benefits increased at the Daily Grill restaurants ($730,000) and Chicago - The Grill on the Alley ($733,000). Variable expenses for Chicago - The Grill on the Alley were down $80,000 for the quarter and up $197,000 for the nine months. The increase in expenses at Chicago - The Grill on the Alley are due to the restaurant's having 13 and 39 weeks of operations in the quarter and nine months of 2001 compared to 13 and 15 weeks for the quarter and nine months of 2000.

General and administrative expense decreased 7.4 % for the quarter and increased 6.0 % for the nine months as compared to the same periods in 2000. As a percentage of total revenues, general and administrative expense totaled 8.3 % for the quarters and 8.1% for the nine months in 2001 and 2000. The increase in total general and administrative expense of $154,000, or 6.0%, for the nine months during 2001 was primarily attributable to increased headcount at the corporate office and related benefits.

Depreciation and amortization expense decreased by 7.4 % for the quarter and increased by 5.1 % for the nine months compared to 2000, however, as a percentage of revenues, it remained flat as it was offset by the increase in revenues. The decrease in depreciation and amortization expense for the quarter was primarily due to the closure of Pizzeria Unos while the increase for the nine months was primarily due to the Chicago - The Grill on the Alley assets being in service 39 weeks compared to 15 weeks in 2000.

All pre-opening costs incurred during the 2000 quarter and nine months relate to the opening of Chicago-The Grill on the Alley and were fully funded through landlord contributions, partnerships or a combination thereof and were expensed as incurred.

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Interest expense, net, increased by $12,000, or 7.9%, during the quarter and $25,000, or 7.4%, during the nine months compared to the same periods in 2000. The increase in interest expense related to preferred returns payable to San Jose Grill investors, which increased by $23,000 for the 2001 year-to-date period. Interest expense remained relatively flat as a percentage of revenues

for both the quarter and nine months compared to prior year.

The Company recorded only minimal income taxes for the nine months due to the available federal and state net operating loss carryforwards that can be utilized to offset federal and state taxable earnings.

The Company reported a gain on disposal of assets in the amount of $225,042, arising from the sale of the assets of the Pizzeria Uno in South Plainfield, New Jersey. The Company sold the assets for $700,000 in July 2001 less legal and other sale related costs of $44,965.

Results for the quarter and nine months reflect minority interest in the net losses of subsidiaries of $50,000 and $119,000 respectively, compared with $82,000 and $251,000 in the same periods in 2000. This decrease in the amount of net losses allocated to minority interests resulted primarily from expensing $458,000 of pre-opening costs, attributable to Chicago - The Grill on the Alley during the second quarter of 2000.

The Company incurred a charge of $4,000 for its equity in loss of joint venture during the nine months of 2001 compared to $9,000 in 2000, which reflects the Company's 50% interest in the Daily Grill Short Order at Universal Studios City Walk.

The Company reported dividends on preferred stock of $12,500 in each of the quarters and $37,500 in each of the nine months ended September 30, 2001 and September 24, 2000.

Material Changes in Financial Condition, Liquidity and Capital Resources.

At September 30, 2001 the Company had negative working capital of $0.3 million and a cash balance of $2.2 million compared to negative working capital of $2.7 million and a cash balance of $0.6 million at December 31, 2000. The improvement in working capital was primarily attributable to the receipt of $1.9 million from the issuance of stock and $0.7 million from the sale of Uno South Plainfield less legal and other sale related expenses of $44,965.

The Company's need for capital resources has resulted from, and for the foreseeable future is expected to relate primarily to, the construction of restaurants. Historically, the Company has funded its day-to-day operations through its operating cash flow, while funding growth through a combination of bank borrowing, loans from stockholders/officers, the sale of Debentures, the sale of Preferred Stock, the issuance of warrants, loans and tenant allowances from certain of its landlords and, beginning in 1998, through joint venture arrangements. At September 30 2001, the Company had existing bank borrowing of $0.9 million, an SBA loan of $ 0.1 million, loans from stockholders/officers of $ 0.9 million, equipment loans of $ 1.2 million and loans/advances from a landlord and others of $ 0.1 million.

On November 9, 2001 the Company opened The Grill on Hollywood restaurant in the new Hollywood and Highland upscale entertainment and shopping complex. The Company is responsible for approximately $250,000 of costs at Hollywood to be incurred in the fourth quarter of 2001. The Company is scheduled to begin management of a San Francisco hotel-based Daily Grill restaurant in the first quarter of 2002. The Company will be responsible for approximately $250,000 of pre-opening costs in San Francisco. Management anticipates that new non-hotel based restaurants will cost between $1 million and $2 million per restaurant to build and open depending upon the location and available tenant allowances. Hotel based restaurants may involve remodeling existing facilities. Substantial capital contributions from the hotel operators and other factors will cause the

cost to the Company of opening such restaurants to be substantially less than the Company's cost to build and open non-hotel based restaurants.

Management believes that the Company has adequate resources on hand and operating cash flow to sustain operations for at least the following 12 months. In order to fund the opening of additional restaurants, on July 27, 2001 the Company raised $2.0 million of additional capital through the issuance of equity securities to Starwood Hotels and Resorts Worldwide, Inc. and other strategic investors. In conjunction with the Company's transaction with Starwood, in July 2001, the Company entered into a development arrangement with Starwood Hotels and Resorts Worldwide, Inc. to develop the Company's restaurants in Sheraton and Westin hotel properties.

In July 2001, the Company sold the assets of its South Plainfield, New Jersey franchised pizza restaurant for $700,000 less legal and other sale related fees of $44,965.

Future Accounting Requirements

In June 1998, the Financial Accounting Standards Board ("FASB') issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives will be recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. The new rules were effective the first quarter of 2001. The new standard did not have a material impact on the Company's financial statements.

In July 2001, the FASB issued Statement of Financial Accounting Standard No. 141 ("SFAS 141"), "Business Combinations." SFAS141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling-of-interest method will be prohibited. The Company does not believe that the adoption of SFAS 141 will have a significant impact on its financial statements.

In July 2001, the FASB also issued Statement of Financial Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets." SFAS 142, which changes the accounting for goodwill and indefinite-lived intangible assets from an amortization method to an impairment-only approach, will be effective for fiscal years beginning after December 15, 2001. The company has not determined the impact that adoption of this Standard will have on its financial statements.

Certain Factors Affecting Future Operating Results

In addition to the opening of the new restaurant during 2001, as described above, and the various factors described in the Company's Annual Report on Form 10-K for the year ended December 31, 2000, the following developments may impact future operating results.

The Company is actively looking for a buyer for the remaining franchised Pizzeria Uno restaurant in Cherry Hill, New Jersey.

Opening of The Grill on Hollywood, in November 2001, is expected to have a negative short-term impact on cash flow due to the required expenditures for pre-opening costs. The San Francisco restaurant is expected to open in the first quarter of 2002. The Company will incur approximately $250,000 of pre-opening costs during the first quarter of 2002. Management fees from the San Francisco restaurant will begin following the opening of the restaurant. Discussions are

ongoing with Starwood Hotels and Resorts regarding any development locations.

The current economic downturn has had a negative impact, and may continue to have a negative impact, on the Company's revenues. . 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; that additional hotels will elect to retain the Company's hotel restaurant management services; that the remaining Pizza Restaurant can be sold on terms satisfactory to the Company; or that proceeds, if any, from the sale of the Pizza Restaurants can be deployed in a manner so as to replace the cash flows from the Pizza Restaurants.

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 and term loan facility (the "Credit Facility"). Borrowings outstanding under the Credit Facility totaled $850,000 at September 30, 2001. 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.

PART II - OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

On July 27, 2001, the Company sold (1) 666,667 shares of common stock and 666,667 five year common stock purchase warrants exercisable at $2.00 per share to Starwood Hotels and Resorts Worldwide, Inc. for $1,000,000 and (2) 666,666 shares of common stock and 666,666 five year common stock purchase warrants exercisable at $2.25 per share to 16 investors for $1,000,000. The securities were issued, without the use of an underwriter or placement agent and without the payment of commissions, pursuant to the exemption set forth in Rule 506 of the Securities Act of 1933. The securities were offered and sold to a limited number of purchasers, all of whom are accredited investors, in a privately negotiated transaction without general solicitation or general advertising. All of the certificates evidencing the securities sold are marked with a legend indicating that the shares are "restricted stock" which may not be resold except pursuant to an effective registration statement or an exemption from registration.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No.	Description
None	

(b) Reports on Form 8-K

None

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: November 13, 2001

By:/s/ Robert Spivak

Robert Spivak, President
and C.E.O

Dated: November 13, 2001

By:/s/ Daryl Ansel

Daryl Ansel, Chief Financial Officer