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

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A
AMENDMENT NO. 2

(MARK ONE)

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

For the Fiscal Year Ended December 28, 2003

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

For the transition period from ______________ to _______________.

Commission File No. 0-23226

GRILL CONCEPTS, INC.

(Exact name of registrant as specified in its charter)

Delaware	13-3319172
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

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

(Address of Principal Executive Offices) (Zip Code)

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

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

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

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

Common Stock, $.00004 par value

(Title of Class)

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

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

EXPLANATORY NOTE

This amended Annual Report on Form 10-K/A is being filed to restate the financial statements, Management's Discussion and Analysis, and Selected Financial Data previously filed by the Company on March 26, 2004 and May 27, 2004 for certain errors and to retroactively adopt FASB Interpretation No. 46. See "Restatement" under Item 7- Management's Discussion and Analysis of Financial Condition and Note 1 of the consolidated financial statements for information regarding the revisions to the previously issued financial statements. All disclosures in this amendment, other than those related to these financial statement revisions, are as of the date of the original filing and have not been updated.

TABLE OF CONTENTS

PART I

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The Company's actual results could differ materially from those set forth in the forward-looking statements. Certain factors that might cause such a difference are discussed in the section entitled "Certain Factors Affecting Future Operating Results" beginning on page 39 of this Form 10-K.

ITEM 1. BUSINESS

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

GENERAL

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

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

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

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

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

During 2003, the Company continued to pursue a strategic growth plan whereby the Company plans to open, and/or convert, and operate, and/or manage, Daily Grill and The Grill on the Alley restaurants in hotel properties, and free-standing restaurants, in strategic markets throughout the United States.

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

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

3

The tables set forth unaudited restaurant count information, per restaurant sales information, comparable restaurant sales information for restaurants open twelve months in both periods, and total system sales information during 2003 and 2002 by restaurant concept for both owned restaurants ("Company Restaurants") and managed and/or licensed restaurants ("Managed Restaurants"). The restaurant sales information excludes revenue related to reimbursed managed outlet operating expenses and management and license fees. Total system sales is a non-GAAP financial measure and is reconciled below to our consolidated revenues by adding the sales of Managed Restaurants and deducting revenues derived from the reimbursement of managed outlet operating expenses and management and license fees. Management considers total system sales to be an indicator of brand strength.

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

Beginning of year:	4	4
Restaurant openings:	-	-
End of year:	4	4
Total Grill restaurants::		
Beginning of year:	4	4
Restaurant openings:	-	-
End of year:	4	4
Other restaurants1::		
Company Restaurants::		
Beginning of year:	-	1
Restaurants closed or sold:	-	(1)
End of year:	-	-
Managed or Licensed Restaurants::		
Beginning of year:	1	1
End of year:	1	1
Total Other restaurants::		
Beginning of year:	1	2
Restaurants closed or sold:	-	(1)
End of year:	1	1
Total restaurants::		
Beginning of year:	20	20
Restaurant openings:	2	2
Restaurants closed or sold:	-	(2)
End of year:	22	20

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

4

	2003	2002
Weighted average weekly sales per restaurant:		
Daily Grill restaurants:		
Company Restaurants	$ 62,365	$ 57,133
Managed Restaurants.	n.a.	n.a.
Grill restaurants:		
Company Restaurants	$ 78,728	$ 73,057
Managed Restaurants.	n.a.	n.a.
Other restaurants:		
Company Restaurants	-	29,239

Change in comparable restaurant sales:

Daily Grill restaurants		
Company Restaurants	5.3%	(4.2)%
Managed Restaurants	n.a.	n.a.
Grill restaurants		
Company Restaurants	7.8%	(2.3)%
Managed Restaurants	n.a.	n.a.
Other restaurants:		
Company Restaurants	-	-
Total system sales:		
Daily Grill	$31,202,000	$27,643,000
Grill	16,376,000	15,196,000
Pizza Restaurants	-	497,000
Reimbursed costs.	9,728,000	7,270,000
Management and license fees	1,037,000	901,000
Total consolidated revenues	58,343,000	51,507,000
Managed restaurants	13,558,000	11,925,000
Licensed restaurants.	8,762,000	6,963,000
Less: Reimbursed costs	(9,728,000)	(7,270,000)
Management and license fees	(1,037,000)	(901,000)
Total system sales.	$69,898,000	$62,224,000

RESTAURANT CONCEPTS

- DAILY GRILL RESTAURANTS

Background. At December 28, 2003, we, through our subsidiaries, GCI and Grill Concepts Management, Inc., owned and operated, managed or licensed ten Daily Grill restaurants in Southern California, three Daily Grill restaurants in the Washington, D.C./Virginia market, one Daily Grill restaurant in Skokie, Illinois, one Daily Grill restaurant in San Francisco, California, one Daily Grill restaurant in Houston, Texas and one Daily Grill in Portland, Oregon. Daily Grill restaurants are patterned after "The Grill on the Alley" in Beverly Hills, a fine dining American-style grill restaurant which we acquired during 1996. See "-- The Grill on the Alley." The Grill on the Alley was founded by Robert Spivak, Michael Weinstock and Richard Shapiro (the founders of GCI) in the early 1980's to offer classic American foods in the tradition of the classic American dinner house. After successfully operating The Grill on the Alley for a number of years, in 1988, Messrs. Spivak, Weinstock and Shapiro decided to

5

expand on that theme by opening the first Daily Grill restaurant. Daily Grill, in an effort to offer the same qualities that made The Grill on the Alley successful, but at more value oriented prices, adopted six operating principles that characterize each Daily Grill restaurant: high quality food, excellent service, good value, consistency, appealing atmosphere and cleanliness. GCI emphasized those principles in an effort to create a loyal patron who will be a "regular" at its restaurants.

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

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

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

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

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

See "-- Hotel Property Agreement."

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

Existing hotel based Daily Grill restaurants range in size from 5,000 to 8,000 square feet -- of which approximately 30% is devoted to kitchen and service areas -- and seat between 140 and 250 persons. Management anticipates that additional hotel based Daily Grill restaurants will require minimal capital investment on our part. However, each hotel restaurant arrangement will be negotiated separately and our capital investment may vary widely. Our portion of opening costs of existing hotel restaurants, including leasehold improvements, furniture, fixtures and equipment and pre-opening expenses, have ranged from $64,000 to $513,000 per restaurant.

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

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

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

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

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

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

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

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

THE GRILL ON THE ALLEY

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

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

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

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

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

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

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

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

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

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

Because of the unique nature of Grill restaurants, the size, seating capacity and opening costs of future sites cannot be reasonably estimated. Management anticipates that additional hotel based Grill restaurants will require minimal capital investment on our part. However, each hotel restaurant arrangement will be negotiated separately and our capital investment may vary widely. Total project costs of the existing hotel based restaurants, including leasehold improvements, furniture, fixtures and equipment and pre-opening expenses, have ranged from $2.1 million to $3.1 million.

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

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

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

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

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

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

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

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

9

SALE OF PIZZERIA UNO RESTAURANTS

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

OTHER RESTAURANT ACTIVITIES

In addition to owning and operating Daily Grills and The Grills, we, at December 28, 2003, also provided management services for Daily Grill restaurants at the Burbank Hilton, the Georgetown Inn, the Handlery Hotel, the Westin Galleria and the Portland Westin and had granted licenses to operate a Daily Grill at LAX, a Daily Grill at the DoubleTree Hotel in Skokie, Illinois and for the City Bar & Grill in the San Jose Hilton. Under the terms of our management agreements, we are responsible for all aspects of the restaurant's operation for which we earn a fee, however, we have no ownership in the restaurant. We are liable for all debts and obligations that we incur on behalf of the managed outlets including the payroll and related costs of the restaurant staff who are our employees. All such costs are included as expenses in our statement of operations and we also record revenue for those costs that are reimbursed by the restaurants.

- RESTAURANT MANAGEMENT SERVICES

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

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

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

In February 2002, pursuant to the Hotel Property Agreement, we began providing management services for a Daily Grill restaurant at the Handlery Hotel in San Francisco. Pursuant to our management agreement with the hotel, we contributed $331,000 to the restaurant which was expensed through reimbursed costs in 2002 and 2003. We are entitled to a management fee equal to 6% of gross receipts of the restaurant. Additionally, we are entitled to 25% of the net income of the restaurant.

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

In September 2003, pursuant to the Hotel Property Agreement, we began providing management services for a Daily Grill restaurant at the Portland Westin in Portland, Oregon. We were not required to invest in the restaurant.

We are entitled to a management fee of 5% of gross receipts of the restaurant and 35% of annual profit after working capital requirements are satisfied.

- RESTAURANT LICENSING

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

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

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

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

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

HOTEL PROPERTY AGREEMENT

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

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

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

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

BUSINESS EXPANSION

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

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

Our future expansion efforts are expected to concentrate on (1) expansion into new markets through the establishment of hotel based restaurants pursuant to the Hotel Property Agreement, and (2) expansion within existing markets through the opening of non-hotel based restaurants. With the assistance of HRP, we expect to establish name recognition and market presence through the opening of Daily Grill and Grill restaurants in fine hotel properties in strategic markets throughout the United States. Upon establishing name recognition and a market presence in a market, we intend to construct and operate clusters of free-standing restaurants within those markets. Management intends to limit the construction and operation of Grill restaurants to one restaurant per market while constructing multiple Daily Grill restaurants within each market. The exact number of Daily Grill restaurants to be constructed within any market will vary depending upon population, demographics and other factors.

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

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

STARWOOD DEVELOPMENT AGREEMENT

On July 27, 2001, in conjunction with the purchase by Starwood Hotels and Resorts of 666,667 shares of our common stock and 666,667 $2.00 warrants for $1,000,000, we and Starwood entered into a Development Agreement under which we and Starwood agreed to jointly develop our restaurant properties in Starwood hotels.

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

So long as Starwood continues to meet certain development thresholds set forth in the Development Agreement, we are prohibited from developing, managing, operating or licensing our restaurants in any hotel owned, managed or franchised by a person or entity, other than Starwood, with more than 50 locations operated under a single brand. Existing hotel based restaurants are excluded from the exclusive right of Starwood. The development thresholds required to be satisfied to maintain Starwood's exclusive development rights require, generally, (1) the signing of an

average of one management agreement or license agreement with respect to Daily Grill restaurants annually over the life of the Development Agreement, (2) the signing of one management agreement or license agreement in any two year period with respect to Grill restaurants, and (3) the signing of an aggregate average of three management agreements or license agreements with respect to all of our restaurants annually over the life of the Development Agreement. Satisfaction of the thresholds set forth in the Development Agreement are determined on each anniversary of the Development Agreement. With respect to satisfaction of the specific thresholds applying to Daily Grill restaurants and Grill restaurants, the failure to satisfy the development thresholds with respect to those individual brands will terminate the exclusivity provisions relative to such brand but will not affect the exclusivity rights as to the other brand or in general.

Under the Development Agreement, we are obligated to issue to Starwood warrants to acquire a number of shares of our common stock equal to four percent of the outstanding shares upon the attainment of certain development milestones. Such warrants are issuable upon execution of management agreements and/or license agreements relating to the development and operation, and the commencement of operation, of an aggregate of five, ten, fifteen and twenty of our branded restaurants. If the market price of our common stock on the date the warrants are to be issued is greater than the market price on the date of the Development Agreement, the warrants will be exercisable at a price equal to the greater of (1) 75% of the market price as of the date such warrant becomes issuable, or (2) the market price on the date of the Development Agreement. If the market price of our common stock on the date the warrants are to be issued is less than the market price on the date of the Development Agreement, the warrants will be exercisable at a price equal to the market price as of the date such warrants become issuable. The warrants will be exercisable for a period of five years.

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

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

RESTAURANT MANAGEMENT

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

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

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

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

Servers at each restaurant participate in approximately ten days of training during which the employee works under close supervision, experiencing all aspects of the operations both in the kitchen and in the dining room. The extensive training is designed to improve quality and customer satisfaction. Experienced servers are given responsibility for training new employees and are rewarded with additional hourly pay plus other incentives. Management believes that such practice fosters a cooperative team approach which contributes to a lower turnover rate among employees. Representatives of corporate management regularly visit the restaurants to ensure that our philosophy, strategy and standards of quality are being adhered to in all aspects of restaurant operations.

PURCHASING

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

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

ADVERTISING AND MARKETING

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

COMPETITION

The Daily Grill restaurants compete within the mid-price, full-service casual dining segment. Daily Grill competitors include national and regional chains, such as Cheesecake Factory and Houston's, as well as local owner-operated restaurants. Grill restaurants compete within the fine dining segment. Grill competitors include a limited number of national fine dining chains as well as selected local owner-operated fine dining establishments. Competition for our hotel-based restaurants is primarily limited to restaurants within the immediate proximity of the hotels.

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

EMPLOYEES

We, and our subsidiaries, employ approximately 1,569 people, 32 of whom are corporate personnel and 122 of whom are restaurant managers, assistant managers and chefs. The remaining employees are restaurant personnel. Approximately 420 of our employees are located in managed outlets. Of our employees, approximately 40% are full-time employees, with the remainder being part-time employees.

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

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

TRADEMARKS AND SERVICE MARKS

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

GOVERNMENT REGULATION

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

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

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

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

ITEM 2. PROPERTIES

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

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

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

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

ITEM 3. LEGAL PROCEEDINGS

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

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

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

EXECUTIVE OFFICERS

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

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

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

16

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

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

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

There are no family relationships among the executive officers and directors. Except as otherwise provided in employment agreements, each of the executive officers serves at the discretion of the Board.

PART II

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

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

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

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

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

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

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

ITEM 6. SELECTED FINANCIAL DATA

The following tables present selected historical consolidated financial data derived from our consolidated financial statements. The following data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements included elsewhere herein. As discussed in Note 1 of the consolidated financial statements, the Company's consolidated financial statements have been restated 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 September 24, 2004 by the Company 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 adopted the provisions of FASB Interpretation No. 46 (FIN 46) effective December 29, 2003 (the first day of fiscal year 2004), as reported in its Amended Quarterly Report on Form 10-Q/A for the quarterly period ended March 28, 2004 filed on October 12, 2004 and has elected to apply the retroactive adoption provisions of FIN 46 in these restated annual financial statements. These adjustments are described in further detail in Management's Discussion and Analysis of Financial Condition and Results of Operations.

	Fiscal Year Ended December			
	2003	2002	2001	2000
	Restated	Restated	Restated	Restated
	(In thousands except per share data)			
Statement of Operations Data:				
Sales.	$ 47,578	$ 43,336	$ 46,541	$ 46,809
Reimbursed managed outlet operating expenses.	9,728	7,270	3,594	3,510
Management and license fees	1,037	901	771	957
Total revenues	58,343	51,507	50,906	51,276
Gross profit.	45,069	39,580	37,991	37,671
Operating expenses:				
Restaurant operating expenses	29,535	27,082	28,624	28,460
Managed outlet operating expenses	9,772	7,557	3,594	3,510
General and administration.	3,815	3,568	3,530	3,357
Depreciation and amortization	1,746	1,799	1,762	1,640
Pre-opening costs	182	69	199	330
Gain on sale of assets.	(11)	(71)	(225)	-
Unusual charges	-	-	-	73
Total	45,039	40,004	37,484	37,370
Income (loss) from operations	30	(424)	507	301
Interest expense, net	(331)	(364)	(564)	(580)
Income (loss) before taxes and minority interest.	(301)	(788)	(57)	(279)
Provision for income taxes.	(89)	(37)	(65)	(14)
Minority interests.	448	416	126	(37)
Net income (loss)	58	(409)	4	(330)

Preferred dividends accrued	(50)	(50)	(50)	(50)
Net income (loss) applicable to common stock	$ 8	$ (459)	$ (46)	$ (380)
Net income (loss) per share applicable to common stock (1):				
Basic	$ 0.00	$ (0.08)	$ (0.01)	$ (0.09)
Diluted	$ 0.00	$ (0.08)	$ (0.01)	$ (0.09)
Weighted average shares outstanding				
Basic	5,537,071	5,537,071	4,776,741	4,104,360
Diluted	5,640,842	5,537,071	4,776,741	4,104,360
Balance Sheet Data:				
Working deficit	$ (738)	$ (1,273)	$ (903)	$ (2,896)
Total assets	16,005	16,083	17,257	15,927
Long-term debt, less current portion	1,254	1,743	2,371	3,842
Stockholders' equity	5,290	5,232	5,641	3,546

(1) All per share amounts and weighted average shares outstanding have been adjusted to reflect a 1-for-4 reverse stock split effective August 9, 1999.

18

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The Company's actual results could differ materially from those set forth in the forward-looking statements. Certain factors that might cause such a difference are discussed in the section entitled "Certain Factors Affecting Future Operating Results" beginning on page 34 of this Form 10-K.

GENERAL

Grill Concepts develops, owns and operates casual dining restaurants under the name "Daily Grill" and fine dining restaurants under the name "The Grill on the Alley." Additionally, we manage or license other restaurant properties.

During the fiscal year ended December 28, 2003, we owned and operated, for the full fiscal year, thirteen restaurants (nine Daily Grill and four Grill restaurants), including one Daily Grill and three Grill restaurants owned in partnership with third parties. During fiscal 2003, we also operated one Daily Grill that opened in January and is owned in partnership.

Also during fiscal 2003, we managed or licensed, for the full fiscal year, seven restaurants (six Daily Grill and one City Bar and Grill restaurant). During fiscal 2003, we commenced management of one Daily Grill that opened in September.

During the fiscal year ended December 29, 2002, we owned and operated, for the full fiscal year, thirteen restaurants (nine Daily Grill and four Grill restaurants), including one Daily Grill and three Grill restaurants owned in partnership. During fiscal 2003, we operated for a portion of the year two restaurants (one Daily Grill and one Pizzeria Uno) that were closed or sold during the year.

Also during fiscal 2002, we managed or licensed, for the full fiscal year, five restaurants (four Daily Grill and one City Bar and Grill restaurant). During fiscal 2002, we commenced management of two Daily Grill restaurants that opened in February and July, respectively. Under the terms of our management agreements, we are responsible for all aspects of the restaurant's operation for which we earn a fee, however, we have no ownership in the restaurant. We are liable for all debts and obligations that we incur on behalf of the managed outlets including the payroll and related costs of the restaurant staff who are our employees. All such costs are included as expenses in our statement of operations and we also record revenue for those costs that are reimbursed. See "Business."

Sales revenues are derived from sales of food, beer, wine, liquor and non-alcoholic beverages. Approximately 73% of combined 2003 sales were food and 27% were beverage. Sales revenues from restaurant operations are primarily influenced by the number of restaurants in operation at any time, the timing of the opening of such restaurants and the sales volumes of each restaurant.

19

Expenses are comprised primarily of cost of food and beverages and restaurant operating expenses, including payroll, rent and occupancy costs. Our largest expenses are payroll and the cost of food and beverages, which is primarily a function of the price of the various ingredients utilized in preparing the menu items offered at our restaurants. Restaurant operating expenses consist primarily of wages paid to part-time and full-time employees, rent, utilities, insurance and taxes. We typically analyze these costs as a percentage of store sales, not total revenues.

In addition to our cost of food and beverages and normal restaurant operating expenses through April 2002 when we sold our last Pizzeria Uno Restaurant, we paid a continuing license fee with respect to our Pizza Restaurant, an advertising fee and was required to expend certain minimum amounts on local advertising and promotion. See "Business - Sale of Pizzeria Uno Restaurants."

In addition to restaurant operating expenses, we pay certain general and administrative expenses that relate primarily to operation of our corporate offices. Corporate office general and administrative expenses consist primarily of salaries of officers, management personnel and clerical personnel, rent, legal and accounting costs, travel, insurance and office expenses.

RESTATEMENT FOR CORRECTION OF ERRORS AND RETROACTIVE ADOPTION OF FIN 46

The accompanying consolidated financial statements as of December 28, 2003 and December 29, 2002 and for each of the three years in the period ended December 28, 2003 have been 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 ventures, record costs and revenues associated with reimbursed costs under management agreements, and make other miscellaneous corrections.

Additionally, while the Company initially believed the provisions of FASB Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51," (FIN 46) would not have a material effect on the Company, the restatements discussed below changed the expected impact of FIN 46. As a result, the Company considered FIN 46 and its adoption effective December 29, 2003 (the first day of fiscal year 2004), as reported in its Amended Quarterly Report on Form 10-Q/A for the quarterly period ended March 28, 2004 filed on October 15, 2004. The Company now believes the adoption of FIN 46 will have a material effect and will apply the retroactive adoption provisions of FIN 46 in these restated annual financial statements. The following sections discuss separately the adjustments to correct the prior errors, and those to retroactively apply the provisions of FIN 46. (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.)

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 increase operating expenses and net loss by $15,000 in fiscal year 2000; decrease operating expenses and increase net income by $15,000 in fiscal year 2001; and increase operating expenses and decrease net income by $168,000 ($0.03 per share) in fiscal year 2003.

In addition to this change, the Company also recorded additional general and administrative expense of $28,000 ($0.01 per share) in fiscal year 2003 to correctly state its liability for payroll and other costs. The Company also reduced restaurant operating expenses by $20,000 in fiscal year 2001 to correctly state rent expense which should have been recognized in fiscal year 2000. 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.

20

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.

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 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 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. 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, and upon adoption of FIN 46, as a liability of the Company. 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 partner given that MAG had no equity at risk. The impact of these adjustments to correctly recognize interest expense and allocate 100% of the losses to the Company was to increase the equity in loss of ventures by $7,000, $256,000 ($0.06 per share) $243,000 ($0.05 per share) $148,000 ($0.03 per share) and $118,000 ($0.02 per share) for each of the fiscal years in the period from 1999 to 2003, respectively.

As described below, the Company has elected to apply the retroactive adoption policies of FIN 46 which has resulted in treating Chicago - The Grill on the Alley, LLC as a consolidated entity. Once consolidated, the impact of these adjustments was to increase interest expense by $39,000 (0.01 per share) $100,000 ($0.02 per share) $81,000 ($0.02 per share) and $74,000 ($0.01 per share) for each of the fiscal years in the period from 2000 to 2003, respectively, and to decrease the minority interest in loss of subsidiaries by $7,000, $217,000 ($0.05 per share), $143,000 ($0.03 per share) $67,000 ($0.01 per share) and $44,000 ($0.01 per share) for each of the fiscal years in the period from 1999 to 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 in the accounts of the venture. 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 increase the Company's investment in the joint venture by $322,000 in 1999 which was subsequently reduced by the amortization which increased the equity in loss of ventures by $26,000 ($0.01 per share), $33,000 ($0.01 per share), $40,000 ($0.01 per share), $39,000 ($0.01 per share) and $38,000 ($0.01 per share) for each of the fiscal years from 1999 to 2003, respectively. Upon adoption of FIN 46 and the consolidation of this entity, these adjustments increased interest expense.

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. Therefore, for the consolidated Hollywood joint venture, the minority interest in loss of subsidiaries and net income were reduced by $92,000 ($0.02 per share) and increased by $23,000 and $12,000 for fiscal years 2001 through 2003, respectively.

For the San Jose, Continental Park and Universal ventures accounted for under the equity method, the Company increased the equity in loss of joint ventures by $108,000 for fiscal year 1998 and decreased the equity in loss of joint ventures by $149,000 ($0.04 per share) and $18,000 for fiscal years 1999 and 2000, respectively. The Company also increased the equity in loss of joint ventures by $107,000 ($0.02 per share) and $72,000 ($0.01 per share) for fiscal years 2001 and 2002, respectively, and reduced the equity in loss of joint ventures by $14,000 for fiscal year 2003. Upon adoption of FIN 46 and the consolidation of these entities, these adjustments reduced the minority interest in loss of subsidiaries in 2001 and 2002 and increased the minority loss in subsidiaries in 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 the reimbursement of restaurant expenses of the unconsolidated outlets as revenues in its financial statements and the related expenses.

22

In evaluating certain transactions related to the San Francisco managed outlet, the Company also determined that advances made to the restaurant totaling $287,000 ($0.05 per share) in fiscal year 2002 and $44,000 ($0.01 per share) in fiscal year 2003 should have been expensed in the period incurred instead of capitalized and deferred.

The impact of these adjustments was to increase revenues by $7,082,000, $12,890,000, $13,497,000, $16,587,000 and $24,024,000 in fiscal years 1999 to 2003, respectively, and to increase operating expenses by $7,082,000, $12,890,000, $13,497,000, $16,874,000 and $24,068,000 in fiscal years 1999 to 2003, respectively. Upon retroactive adoption of FIN 46, both the revenue and expense adjustments were reduced by $3,233,000, $9,380,000, $9,903,000, $9,317,000 and $14,296,000 in fiscal years 1999 to 2003, respectively, to reflect the consolidation of the LLCs and partnership.

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 $974,000 and $835,000 as of December 29, 2002 and December 28, 2003, respectively. There was no impact on net income as a result of this adjustment, however, depreciation expense was increased and restaurant operating expenses were decreased by $139,000 for each fiscal year in the period from 1999 to 2002 and $140,000 in 2003. Upon retroactive adoption of FIN 46, the adjustment increased fixed assets and other long-term liabilities by $1,414,000 and $1,238,000 as of December 29, 2002 and December 28, 2003, respectively, and increased depreciation expense and decreased restaurant operating expenses by $140,000 in fiscal year 1999 and by $176,000 in fiscal years 2000 through 2003.

Other Equity Award Adjustments

The Company recorded additional interest expense of $13,000, $17,000,

$19,000 and $19,000 for fiscal years 2000, 2001, 2002 and 2003, respectively, 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 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 as an expense in fiscal year 2000.

RETROACTIVE ADOPTION OF FIN 46

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." The Company has elected to retroactively adopt the provisions of FIN 46. The impact of the 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. There is no impact on net income (loss) in any period as a result of the retroactive adoption of FIN 46. Any errors in the prior accounting for these entities were discussed in the preceding 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.

SUMMARY

The above revisions impacted the balance sheets, statements of operations and statements of cash flows for each of the fiscal years 1999 to 2003. The revisions have had no impact on our income tax provisions. The impact of this restatement and the retroactive adoption of FIN 46, which have been reflected throughout the consolidated financial statements and accompanying notes, is as follows:

23

	December 28			
	2003	2003	2003	
Amounts in thousands except per share data	As previously reported	As restated for correction of errors	As restated for correction of errors and retroactive adoption of FIN 46	As r
Revenues				
Sales	$ 45,427	$ 33,577	$ 47,578	$
Reimbursed expenses	-	24,024	9,728	
Management Fees	1,147	1,401	1,037	

Total Revenues	46,574	59,002	58,343	
Cost of sales	12,743	9,208	13,274	
Gross Profit	33,831	49,794	45,069	
Operating expenses				
Restaurant and operating expenses	28,150	20,464	29,535	
Reimbursed costs	-	24,068	9,772	
General and administrative	3,815	3,815	3,815	
Depreciation and amortization	1,461	1,146	1,746	
Pre-opening costs	182	59	182	
Gain on sale of assets	(12)	(11)	(11)	
Unusual charges	-	-	-	
Total operating expenses	33,596	49,541	45,039	
Income (loss) from operations	235	253	30	
Interest expense, net	(194)	(142)	(331)	
Income (loss) before provision from income taxes, minority interest and equity in loss of joint venture	41	111	(301)	
Provision for income taxes	(89)	(75)	(89)	
Income (loss) before minority interest and equity in loss of joint venture	(48)	36	(390)	
Minority interest in loss (earnings) of subsidiaries	317	153	448	
Equity in loss of joint ventures	(19)	(131)	-	
Net income (loss)	250	58	58	
Preferred dividends accrued	(50)	(50)	(50)	
Net income available for common shareholders	$ 200	$ 8	$ 8	$
Net income per share applicable to common stock :				
Basic Net Income	0.04	0.00	0.00	
Diluted Net Income	0.04	0.00	0.00	
Average-weighted shares outstanding				
Basic	5,537	5,537	5,537	
Diluted	5,641	5,641	5,641	

	December 29	December 30		
	2002	2001	2001	
Amounts in thousands except per share data	As restated for correction of errors and retroactive adoption of FIN 46	As previously reported	As restated for correction of errors	As for of re ad
Revenues				

Sales	$ 43,336	$ 44,529	$ 35,635	$
Reimbursed expenses	7,270	-	13,497	
Management Fees	901	872	1,097	
Total Revenues	51,507	45,401	50,229	
Cost of sales	11,927	12,416	9,545	
Gross Profit	39,580	32,985	40,684	
Operating expenses				
Restaurant and operating expenses	27,082	27,263	21,702	
Reimbursed costs	7,557	-	13,497	
General and administrative	3,568	3,530	3,529	
Depreciation and amortization	1,799	1,457	1,216	
Pre-opening costs	69	199	199	
Gain on sale of assets	(71)	(225)	(225)	
Unusual charges	-	-	-	
Total operating expenses	40,004	32,224	39,918	
Income (loss) from operations	(424)	761	766	
Interest expense, net	(364)	(394)	(305)	
Income (loss) before provision from income taxes, minority interest and equity in loss of joint venture	(788)	367	461	
Provision for income taxes	(37)	(65)	(64)	
Income (loss) before minority interest and equity in loss of joint venture	(825)	302	397	
Minority interest in loss (earnings) of subsidiaries	416	211	52	
Equity in loss of joint ventures	-	(9)	(445)	
Net income (loss)	(409)	504	4	
Preferred dividends accrued	(50)	(50)	(50)	
Net income available for common shareholders	$ (459)	$ 454	$ (46)	$
Net income per share applicable to common stock :				
Basic Net Income	(0.08)	0.10	(0.01)	
Diluted Net Income	(0.08)	0.09	(0.01)	
Average-weighted shares outstanding				
Basic	5,537	4,777	4,777	
Diluted	5,537	4,866	4,777	

	December 31			De
	2000	2000	1999	
Amounts in thousands except per share data	As restated for correction of errors	As restated for correction of errors and retroactive adoption of FIN 46	As previously reported	As for o

Revenues				
Sales	$ 36,534	$ 46,809	$ 38,432	$
Reimbursed expenses	12,890	3,510	-	
Management Fees	1,326	957	544	
Total Revenues	50,750	51,276	38,976	
Cost of sales	10,183	13,605	10,886	
Gross Profit	40,567	37,671	28,090	
Operating expenses				
Restaurant and operating expenses	22,515	28,460	23,426	
Reimbursed costs	12,890	3,510	-	
General and administrative	3,357	3,357	3,296	
Depreciation and amortization	1,158	1,640	1,196	
Pre-opening costs	-	330	54	
Gain on sale of assets	-	-	-	
Unusual charges	73	73	-	
Total operating expenses	39,993	37,370	27,972	
Income (loss) from operations	574	301	118	
Interest expense, net	(443)	(580)	(376)	
Income (loss) before provision from income taxes, minority interest and equity in loss of joint venture	131	(279)	(258)	
Provision for income taxes	(14)	(14)	(6)	
Income (loss) before minority interest and equity in loss of joint venture	117	(293)	(264)	
Minority interest in loss (earnings) of subsidiaries	-	(37)	(68)	
Equity in loss of joint ventures	(447)	-	(74)	
Net income (loss)	(330)	(330)	(406)	
Preferred dividends accrued	(50)	(50)	(50)	
Net income available for common shareholders	$ (380)	$ (380)	$ (456)	$
Net income per share applicable to common stock :				
Basic Net Income	(0.09)	(0.09)	(0.11)	
Diluted Net Income	(0.09)	(0.09)	(0.11)	
Average-weighted shares outstanding				
Basic	4,104	4,104	4,004	
Diluted	4,104	4,104	4,004	

(b) The Company previously restated its consolidated financial statements as of December 28, 2003 and December 29, 2002 and for each of the three years in the period ended 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 decrease operating expenses and increase net income by $35,000 in fiscal year 2001 and to increase operating expenses and decrease net income by $196,000 in fiscal year 2003. Net income per share increased from $0.09 to $0.10 in fiscal year 2001, did not change in fiscal year 2002 and decreased from $0.07 to $0.04 in fiscal year 2003 as a result of these adjustments. 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.

RESULTS OF OPERATIONS

The following table sets forth certain items as a percentage of total revenues from our Statements of Operations during 2001, 2002 and 2003. As noted above, we typically analyze our operating expenses as a percentage of sales revenues, not total revenues.

	Fiscal Year Ended December		
	2003	2002	2001
	Restated	Restated	Restated
Sales revenues	81.5%	84.1%	91.4%
Cost reimbursements	16.7	14.1	7.1
Management and licensing fees	1.8	1.8	1.5
Total revenues	100.0	100.0	100.0
Cost of sales	22.8	23.2	25.4
Gross profit	77.2	76.8	74.6
Restaurant operating expense	50.6	52.6	56.2
Reimbursed costs	16.7	14.7	7.1
General and administrative expense	6.5	6.9	6.9
Depreciation and amortization	3.0	3.5	3.5
Pre-opening costs	0.3	0.1	0.4
Gain on sale of assets	(0.0)	(0.1)	(0.4)
Total operating expenses	77.1	77.7	73.7
Operating income (loss)	0.1	(0.8)	0.9
Interest expense, net	(0.6)	(0.7)	(1.1)
Income (loss) before income tax	(0.5)	(1.5)	(0.1)
Provision for taxes	(0.2)	(0.0)	(0.1)
Minority interest	0.8	0.8	0.2
Net income (loss)	0.1%	(0.7)%	(0.1)%

FISCAL YEAR 2003 COMPARED TO FISCAL YEAR 2002

Revenues. Revenues for 2003 increased 13.3% to $58.3 million from $51.5 million in 2002. Sales revenues increased 9.8% to $47.6 million in 2003 from $43.3 million in 2002. Reimbursed costs increased 33.8% to $9.7 million from $7.3 million in 2002. Management and license fee revenues increased to $1.0 million in 2003 from $0.9 million in 2002. The restaurant sales information excludes revenue related to reimbursed operating expenses and management and license fees. System-wide sales, including sales of non-consolidated restaurants operated under license, management or partnership agreement, totaled $69.9 million in 2003, an increase of 12.3% from $62.2 million in 2002. System-wide sales, computed by adding to sales revenues the revenues of unconsolidated restaurants, is considered by management to be a key indicator of brand strength. See reconciliation of system-wide sales to revenues in "Business - General."

Sales for Daily Grill restaurants increased by 12.9% from $27.6 million in 2002 to $31.2 million in 2003. The increase in sales revenues for the Daily Grill restaurants from 2002 to 2003 was primarily attributable to a increase in same store sales of 5.3% ($1.3 million) for restaurants open for 12 months in both 2003 and 2002 and opening of the South Bay Daily Grill ($2.7 million), offset by the closure of the Encino Daily Grill ($0.6 million) and the Cherry Hill Pizzeria Uno ($0.5 million). Weighted average weekly sales at the Daily Grill restaurants increased 9.2% from $57,133 in 2002 to $62,365 in 2003. Comparable restaurant sales and weighted average weekly sales at the Daily Grill restaurants in 2003 were favorably affected approximately equally by increased guest counts and improved average checks.

Sales for Grill restaurants increased by 7.8% from $15.2 million in 2002 to $16.4 million in 2003. The increase in sales revenues for the Grill restaurants from 2002 to 2003 was attributable to the improved check averages and increased guest counts. Weighted average weekly sales at the Grill restaurants increased 7.8% from $73,057 in 2002 to $78,728 in 2003.

Price increases were last implemented during the first quarter of 2003 for certain menu items. Selected price increases may be implemented from time to time in the future, consistent with the casual dining industry and how the economy fares. Future revenue growth is expected to be driven principally by a combination of expansion into new markets and the opening of additional restaurants and establishment of market share in those new markets as well as increases in guest count at existing restaurants and selected price increases. When entering new markets where we have not yet established a market presence, sales levels are expected to be lower than in existing markets where we have a concentration of restaurants and high customer awareness. Although our experience in developing markets indicates that the opening of multiple restaurants within a particular market results in increased market share, decreases in comparable restaurant sales could result.

Reimbursed costs which represent employee and other operating expenses of managed restaurants for which we are reimbursed by the restaurants increased in 2003 primarily due to the opening of Portland Daily Grill.

Management and license fee revenues during 2003 were attributable to (1) hotel restaurant management services which accounted for $834,000 of management fees, and (2) licensing fees from the LAX Daily Grill, Skokie, Illinois Daily Grill and the San Jose City Bar and Grill which totaled $203,000. The increase in management fees during 2003 was attributable to (1) management of the San Francisco Daily Grill open a full year compared to 44 weeks in 2002, (2) management of the Houston Daily Grill for the full year compared to 25 weeks in

2002 and (3) management of the Portland Daily Grill for 15 weeks in 2003.

Cost of Sales and Gross Profit from restaurant sales. While sales revenues increased by 9.8% ($4.2 million) in 2003 as compared to 2002, cost of sales increased by 11.3% ($1.3 million) and increased as a percentage of restaurant sales from 27.5% in 2002 to 27.9% in 2003. The increase in cost of sales as a percentage of restaurant sales was attributable to higher beef costs during the second half of the year.

Gross profit from restaurant sales increased 9.2% to $34.3 million from $31.4 million in 2002.

Operating Expenses and Operating Results. Total operating expenses, including restaurant operating expenses, reimbursed costs, general and administrative expense, depreciation and amortization, pre-opening costs and the gain or loss of the sale of assets increased 12.7% to $45.0 million in 2003 from $40.0 million in 2002.

Restaurant operating expenses increased 9.1% to $29.5 million in 2003 from $27.1 million in 2002. As a percentage of restaurant sales, restaurant operating expenses represented 62.1% in 2003 compared to 62.5% in 2002. The dollar increase in restaurant operating expenses followed the sales increase and was negatively impacted by increases in marketing, stock option compensation expense, workers' compensation and general insurance. The decrease in operating expenses as a percentage of sales resulted from improved labor management.

Reimbursed costs increased 29.3% from $7.6 million in 2002 to $9.8 million in 2003. 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 slightly to $3.8 million in 2003 compared to $3.6 million in 2002. General and administrative expenses represented 8.0% of sales in 2003 as compared to 8.2% of sales in 2002. While these expenses in total were nearly equal, there were increases in payroll and related benefits, stock option compensation expense, professional services and rent, partially offset by decreases in recruitment costs and office expenses. Depreciation and amortization expense was $1.7 million and $1.8 million during 2003 and 2002, respectively.

Pre-opening costs totaled $182,000 in 2003 as compared with $69,000 in 2002. 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 $331,000 during 2003 as compared to $364,000 in 2002. The decrease in interest expense was primarily attributable to the maturing of the loans.

Minority Interest. We reported a minority interest in the loss of our consolidated subsidiaries of $448,000 during 2003, consisting of a minority interest in the earnings of San Jose Grill on the Alley, LLC of $132,000, a minority interest in the loss of The Grill on Hollywood, LLC of $153,000, a minority interest in the loss of The Universal City Walk Daily Grill of $167,000 and a minority interest in the loss of The Daily Grill at Continental Park, LLC of $260,000. We reported a minority interest in the loss of our majority owned subsidiaries of $416,000 for the year ended December 29, 2002 comprised of a minority interest in the earnings of San Jose Grill on the Alley, LLC of $102,000, a minority interest in the loss of The Grill on Hollywood, LLC of

$293,000, a minority interest in the loss of The Universal City Walk Daily Grill of $239,000 and a minority interest income allocation for The Daily Grill at Continental Park of $14,000.

We reported net income of $58,000 in 2003 as compared to a net loss of $409,000 for 2002.

FISCAL YEAR 2002 COMPARED TO FISCAL YEAR 2001

Revenues. Revenues for 2002 increased 1.2% to $51.5 million from $50.9 million in 2001. Sales revenues decreased 6.9% to $43.3 million in 2002 from $46.5 million in 2001. Reimbursed costs increased 102.3% to $7.3 million in 2002 from $3.6 million in 2002. Management and license fee revenues increased to $0.9 million in 2002 from $0.8 in 2001. System-wide sales, a non-GAAP measure, including sales of non-consolidated restaurants operated under license, management agreement or partnership, totaled $62.2 million in 2002, a decrease of 0.3% from $62.4 million in 2001.

Sales for Daily Grill restaurants decreased by 8.3% from $30.1 million in 2001 to $27.6 million in 2002. The decrease in sales revenues for the Daily Grill restaurants from 2001 to 2002 was primarily attributable to a decrease in same store sales of 4.2% ($1.1 million) for restaurants open for 12 months in both 2002 and 2001 and the closure of the Encino Daily Grill ($1.4 million). Weighted average weekly sales at the Daily Grill restaurants decreased 4.8% from $60,041 in 2001 to $57,133 in 2002. Comparable restaurant sales and weighted average weekly sales at the Daily Grill restaurants in 2002 were negatively affected by decreased customer counts in all restaurants.

Sales for Grill restaurants increased by 10.8% from $13.7 million in 2001 to $15.2 million in 2002. The increase in sales revenues for the Grill restaurants from 2001 to 2002 was primarily attributable to the opening of the

Hollywood Grill in November 2001. Weighted average weekly sales at the Grill restaurants decreased 17.9% from $88,965 in 2001 to $73,057 in 2002. Comparable restaurant sales and weighted average weekly sales at the Grill restaurants in 2002 were negatively affected by decreased guest counts and a much lower check average at the Grill on Hollywood compared to other Grill restaurants.

Sales for the Pizza Restaurants decreased by 81.7% from $2.7 million in 2001 to $0.5 million in 2002. The decrease in sales revenues for the Pizza Restaurants from 2001 to 2002 was attributable to the closing of the Pizzeria Uno franchise restaurant in Cherry Hill in April 2002 and the closing of the South Plainfield restaurant in July 2001. Weighted average weekly sales at the Pizza Restaurants decreased 14.9% from $34,340 in 2001 to $29,239 in 2002.

Reimbursed costs which represent employee and other operating expenses of non-consolidated restaurants for which we are reimbursed increased by 110% in 2002 primarily as a result of opening the San Francisco Daily Grill and Houston Daily Grill.

Management and license fee revenues during 2002 were attributable to (1) hotel restaurant management services which accounted for $726,000 of management fees, and (2) licensing fees from the LAX Daily Grill and Skokie, Illinois Daily Grill which totaled $175,000. The increase in management fees during 2002 was attributable to (1) management of the San Francisco Daily Grill for 44 weeks in 2002, and (2) management of the Houston Daily Grill for 25 weeks in 2002 offset by decreases at the Georgetown Inn and Burbank Hilton.

Cost of Sales and Gross Proft from restaurant sales. While sales revenues decreased by 6.9% ($3.2 million) in 2002 as compared to 2001, cost of sales decreased by 7.7% ($1.0 million) and decreased as a percentage of restaurant sales from 27.7% in 2001 to 27.5% in 2002. The decrease in cost of sales as a percentage of sales revenues was attributable to improved purchasing and menu refinements.

Gross profit from restaurant sales decreased 6.6% from $33.6 million (72.3% of sales) in 2001 to $31.4 million (72.5% of sales) in 2002.

Operating Expenses and Operating Results. Total operating expenses, including restaurant operating expenses, reimbursed costs, general and administrative expense, depreciation and amortization, gain and loss on the sale of assets, and pre-opening costs increased 6.7% to $40 million in 2002 from $37.4 million in 2001.

Restaurant operating expenses decreased 5.4% to $27.1 million in 2002 from $28.6 million in 2001. As a percentage of sales, restaurant operating expenses represented 62.5% in 2002 as compared to 61.5% in 2001. The dollar decrease in restaurant operating expenses followed the sales decrease for the Company offset by increases in minimum wages in California. The increase in operating expenses as a percentage of sales resulted from increased insurance costs and labor due to California minimum wage increases.

Reimbursed costs increased 110.3% from $3.6 million in 2001 to $7.6 million in 2002. 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 San Francisco Daily Grill and Houston Daily Grill.

General and administrative expenses rose slightly to $3.6 million in 2002 compared to $3.5 million in 2001. General and administrative expenses represented 8.2% of sales in 2002 as compared to 7.6% of sales in 2001. While these expenses in total were nearly equal, there were increases of approximately $224,000 in wages and related benefits, offset by decreases of approximately $176,000 in professional services.

Depreciation and amortization expense was $1.8 million during 2002 and 2001. Increased depreciation related to the operation of The Grill on Hollywood for a full year was offset by the discontinuance of depreciation for the Encino Daily Grill and the Pizzeria Uno at Cherry Hill.

Pre-opening costs totaled $69,000 in 2002 as compared with $199,000 in 2001. These pre-opening costs were attributable to the opening in January 2003 of the South Bay Daily Grill and the opening of The Grill on Hollywood in November 2001.

Interest Expense. Interest expense, net, totaled $364,000 during 2002 as compared to $564,000 in 2001. The decrease in interest expense was primarily attributable to the reduction in borrowings from 2001 to 2002.

28

Minority Interest. We reported a minority interest in the loss of our majority owned subsidiaries of $416,000 during 2002, consisting of a minority interest in the earnings of San Jose Grill on the Alley, LLC of $102,000, a minority interest in the loss of The Grill on Hollywood, LLC of $293,000, a minority interest in the loss of The Universal City Walk Daily Grill of $239,000 and a minority interest income allocation for The Daily Grill at Continental Park, LLC of $14,000. We reported a minority interest in the loss of our majority owned subsidiaries of $126,000 for the year ending December 30, 2001 consisting of a minority interest in the earnings of San Jose Grill on the Alley, LLC of $77,000 and a minority interest in the loss of The Grill on Hollywood, LLC of $53,000 and a minority interest in the loss of The Universal City Walk Daily Grill of $150,000.

We reported net loss of $409,000 in 2002 as compared to a net income of $4,000 for 2001.

LIQUIDITY AND CAPITAL RESOURCES

CASH POSITION AND SHORT-TERM LIQUIDITY. At December 28, 2003, we had a working capital deficit of $0.7 million and a cash balance of $1.5 million as compared to a working capital deficit of $1.3 million and a cash balance of $1.3 million at December 29, 2002. In 2003 we generated cash from operations of $1.0 million, received tenant improvement allowances of $1.1 million, purchased fixed assets ($1.7 million) and repaid debt ($0.7 million). During 2002 we used cash to purchase fixed assets for the South Bay Daily Grill ($0.6 million), remodel the Newport Beach Daily Grill ($0.4 million) and repay debt ($0.6 million). We have generated positive operating cash flows in each of the last six years.

Our need for capital resources historically has resulted from, and for the foreseeable future is expected to relate primarily to, the construction and opening of new restaurants. Funds necessary to operate restaurants under management agreements are usually funded by cash generated by the restaurant. Sales from these outlets are deposited directly into an agency account belonging to owner and we pay the outlet operating expenses, including our fee, from this agency account. Historically, we have funded our day-to-day operations through operating cash flows that have ranged from $0.6 million to $1.2 million over the past three fiscal years. Growth has been funded through a combination of bank borrowing, loans from stockholders/officers, the sale of debentures and stock, loans and tenant allowances from certain of our landlords, and, beginning in 1999, through joint venture arrangements.

FINANCING FACILITIES. At December 28, 2003, we had a bank credit facility with nothing owing, an obligation to a member of Chicago - The Grill on the Alley, LLC of $1.1 million, loans from stockholders/ officers/directors of $0.2 million, equipment loans of $0.4 million, and loans/advances from a landlord of $0.1 million. Although no amounts have been borrowed under the credit facility since 2001, availability under the line has been reducing in accordance with its terms. Borrowings available under the credit facility are $0.5 million at December 28, 2003 and will ratably reduce until October 2004 when it expires.

On August 1, 2000, we received a $400,000 loan from private individuals. The loan bears interest at 9% and is payable in monthly installments over four years. In connection with the loan, we issued 40,000 warrants. In June 2001 the lender became a member of our Board of Directors and the loan was reclassified as related party debt. The balance owed on the loan at December 28, 2003 was $67,000.

On December 13, 2001 we amended our bank credit facility converting the term loan to a $0.8 million reducing line of credit under which the amount available to draw is reduced each month by $25,000 so that it mimics the previous term loan as to the maximum outstanding balance. The maximum borrowing available under the reducing line of credit was $200,000 at December 28, 2003 and will expire in October 2004. We have an additional line of credit that provides borrowing up to $0.3 million. At December 28, 2003 and December 29, 2002 there were no borrowings under either line of credit. Interest is payable at the bank's prime rate. In connection with the Credit Facility, we are required to comply with certain debt service coverage and liquidity requirements. Two of our principal stockholders have guaranteed the Credit Facility. In exchange for the guarantee, we issued warrants to purchase 150,000 shares at an exercise price of $1.406 per share exercisable for a period of four years and agreed to pay each of the stockholders interest of 2% per annum on the average annual balance on the note payable to the bank for guaranteeing the note. The reducing line of credit matures in October 2004.

29

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 credit facility was executed in June 2004.

OPERATING LEASES. During 2003, we, and our subsidiaries, were obligated under sixteen 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 provided for the payment of minimum aggregate annual rental payments of approximately $3.2 million in 2003 and paid percentage rent obligations above and beyond minimum rent of $0.5 million. Our minimum rent obligations for 2004 are $3.3 million.

CONTRACTUAL OBLIGATIONS. Our only material contractual obligations requiring determinable future payments on our part are various notes payable and our leases relating to our executive offices and restaurants, each of which is described above.

The following table details our contractual obligations as of December 28, 2003:

	Payments due by period				
	Total	2004	2005 - 2006	2007 - 2008	Thereafter
Long-term debt	$ 1,897,000	$ 643,000	$ 492,000	$ 397,000	$ 365,000
Operating lease commitments	22,476,000	3,090,000	5,338,000	4,367,000	9,681,000
Total	$24,373,000	$3,733,000	$ 5,830,000	$ 4,764,000	$10,046,000

COMMITMENTS RELATING TO MANAGED RESTAURANTS AND LLCS. Funds necessary to operate restaurants under management agreements are usually funded by cash generated by the restaurant. Sales from these outlets are deposited directly into an agency account belonging to owner and we pay the outlet operating expenses, including our fee, from this agency account. We began management in February 2002, of the San Francisco Daily Grill in the Handlery Hotel in Union Square. Cost of opening the Handlery Hotel Daily Grill in San Francisco was $2.8 million, of which we contributed approximately $331,000, with the balance being paid by the hotel owners.

We began management of a hotel-based Daily Grill in the Westin Galleria in Houston, Texas on July 10, 2002. Under the terms of the Management Agreement, we advanced $64,000 to the restaurant for initial working capital which has since been repaid in full.

We began management in September 2003, of the Portland Daily Grill in the

Portland Westin Hotel in Portland, Oregon. Under the terms of the Management Agreement, we had no cash obligations for initial advances or construction costs.

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:

CITYWALK. The CityWalk management agreement requires that each member loan, interest free, to the joint venture 50 percent of any operating deficit forecast for the next quarter, such loans to be repaid out of the first cash available from operations.

SAN FRANCISCO DAILY GRILL. The management agreement for the San Francisco Daily Grill stipulates that if in any month there is insufficient working capital to pay operating expenses, excluding payments to us or the owner, we will provide one-half of the required working capital. Such advances are to be repaid prior to deferred payments to us or the owner.

PORTLAND DAILY GRILL. The management agreement for the Portland Daily Grill stipulates that the Owner shall provide working capital of no less than $50,000 or more than $150,000. If during any month there is insufficient working capital to pay for operating expenses the Owner agrees to advance the required working capital until the balance of the Owner Working Capital Advance equals $150,000. Thereafter if additional working capital is necessary we as the manager will be required to loan it. Any advances we make will earn interest at a rate of 12% per annum and will be repaid as second priority behind owner's working capital advance but before owner's return of capital. At December 28, 2003 the Owner had advanced $50,000.

CHICAGO - THE GRILL ON THE ALLEY. The Operating Agreement and the Senior Promissory Note for Chicago - The Grill on the Alley, LLC stipulates that the non-manager member shall receive a preferred return of eight percent on its capital contribution and a payment on its converted capital prior to any distribution of cash. We have guaranteed the repayment of the Senior Promissory Note as well as the contributed capital for Chicago - The Grill on the Alley.

THE GRILL ON HOLLYWOOD. The Operating Agreement for The Grill on Hollywood, LLC stipulates that 90% of distributable cash shall go to the non-managing member until its preferred return, unrecovered contribution and any additional contribution have been returned.

SAN JOSE GRILL. The Operating Agreement for San Jose Grill, LLC stipulates that distributable cash shall be paid first 10% to the manager and 90% to the members in proportion to their ownership percentage until initial capital is recovered, then as a preferred return on the capital contributions to both members in proportion to their ownership percentage, then to the managing member and non-managing member in proportion to their ownership percentage until the additional capital contribution is recovered, and finally 16 2/3% to the manager and the balance to the members in proportion to their ownership percentages.

Our 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 we serve as manager and own a controlling interest. Each of the LLCs has minority interest owners, some of whom have participating rights in the joint venture such as the ability to approve operating and capital budgets and the borrowing of money. In connection with the financing of each of the LLCs, the minority members may have certain rights to priority distributions of capital until they have received a return of their initial investments ("Return of Member Capital") as well as rights to receive defined preferred returns on their invested capital ("Preferred Return").

The following tables set forth a summary for each of the LLCs of (1) the initial capital contributions of the Company and the minority LLC members (the "Members"), (2) the distributions of capital to the Members and/or us during the year ended December 28, 2003, (3) the unreturned balance of the capital contributions of the Members and/or us at December 28, 2003, (4) the Preferred Return rate to Members and/or us, (5) the accrued but unpaid preferred returns due to the Members and/or us at December 28, 2003, (6) the management incentive fees, if any, payable to us, and (7) a summary of the principal distribution provisions. The distribution provisions outlined below are consistent with the order of distributions in a liquidation scenario and are utilized for purposes of allocated profits and losses under the hypothetical liquidation model described under Critical Accounting Policies under "Principles of Consolidation and Minority Interests."

SAN JOSE GRILL LLC

Initial Capital Contribution:	Members (a)	$1,149,650
	Company	$ 350,350
Distributions of capital, preferred return and profit during the year ended December 28, 2003:	Members	$ 275,000
	Company	$ 275,000
Unreturned Initial Capital Contributions at December 28, 2003:	Members	$ 0
	Company	$ 0
Preferred Return rate:	Members	10%
	Company	10%
Accrued but unpaid Preferred Returns at December 28, 2003:	Members	$ 0
	Company	$ 0
Management Fee:	Company	5%

Principal Distribution Provisions:

Order of Distributions ALLOCATION

1	Until Return of Initial Capital	10% to Company (Manager) 50.05% of 90% to Company 49.95% of 90% to Members
2	Until Return of Preferred Return	50.05% to Company 49.95% to Members
3	Until Return of Additional Contributions	50.05% to Company 49.95% to Members
	Thereafter:	
4	Balance of distributable cash	16.67% to Company (Manager) 50.05% of 83.33% to Company 49.95% of 83.33% to Members

32

CHICAGO - GRILL ON THE ALLEY

Initial Capital Contribution:	Members (b)	$1,700,000
	Company	$ 0
Distributions of capital and note repayments during the year ended December 28, 2003:	Members (b)	$ 252,000
Unreturned Initial Capital Contributions at December 28, 2003:	Members	$1,235,000
Preferred Return rate:	Members	8%
Accrued but unpaid Preferred Returns at December 28, 2003:	Members	$ 0
Management Fee:	Company	5%

Principal Distribution Provisions:

	Order of Distributions	Allocation
1	Until Return of Members Capital	100% to Members
2	Until Return of Preferred Return	100% to Members
	Thereafter:	
3	Balance of distributable cash	60% to Company

40% to Members

THE GRILL ON HOLLYWOOD LLC

Initial Capital Contribution:	Members	$1,200,000
	Company	$ 250,000
Distributions of capital during nine months ended December 28, 2003:	Members	$ 0
	Company	$ 0
Unreturned Initial Capital Contributions at December 28, 2003:	Members	$1,200,000
	Company	$ 250,000
Preferred Return rate:	Members	12%
	Company	12%
Accrued but unpaid Preferred Returns at December 28, 2003:	Members	$ 0
	Company	$ 65,000
Management Fee:	Company	5%

Principal Distribution Provisions:

	Order of Distributions	Allocation
1	Until Return of Members Capital and Preferred Return	10% to Company (Manager) 90% to Members
2	Until Return of Company's Capital and Preferred Return	90% to Company (Manager) 10% to Members
	Thereafter:	
3	Balance of distributable cash	51% to Company 49% to Members

SOUTH BAY DAILY GRILL (CONTINENTAL PARK LLC)

Initial Capital Contribution:	Members	$1,000,000
	Company	$ 350,000
Distributions of capital during nine months ended December 28, 2003:	Members	$ 0
	Company	$ 0
Unreturned Initial Capital Contributions at December 28, 2003:	Members	$1,000,000
	Company	$ 350,000
	Members	10%
Preferred Return rate:	Company I	10%
Accrued but unpaid Preferred Returns at December 28, 2003:	Members	$ 100,000
	Company	$ 35,000
Management Fee:	Company	5%

34

Principal Distribution Provisions:

	Order of Distributions	Allocation
1	Until payment in full of all deferred management fees	100% to Company (Manager)
2	Until Return of Any Additional Contributions and Preferred Returns thereon	Ratably to Company and Members
3	Until $300,000 is paid	33.3% to Company 66.7% to Members
4	Until Return of Members accrued and unpaid preferred returns	10% to Company 90% to Members
5	Until Members Capital Contribution Returned	10% to Company 90% to Members
6	Until Return of Company's Preferred Return	90% to Company 10% to Members
7	Until Return of Company's Capital	90% to Company

	Contribution	10% to Members
	Thereafter	
8	Balance of distributable cash	50.1% to Company 49.9% to Members

(a) The initial capital contributions of the Members of San Jose Grill LLC consisted of a capital contribution of $349,650 and a loan of $800,000.

(b) The initial capital contributions of the Members of Chicago - Grill on the Alley LLC consisted of a capital contribution of $1,000 and a loan of $1,699,000. $1,189,000 of the loan was converted to capital in 1999. Under the terms of the joint venture agreement, the LLC is obligated to repay both the converted capital and loan and the Company guaranteed the joint venture's payment of these obligations. Distribution of capital and note repayments for the year ended December 28, 2003 includes $108,000 of capital and note payments and $144,000 of payment of interest and preferred return. No losses are allocated to the minority interest partner as the investor has no equity at risk. The loan of $1,699,000 has been recognized as notes payable - related parties. I Our preferred return with respect to the South Bay Daily Grill is based on unrecovered capital contribution and accrued but unpaid management fees.

OFF-BALANCE SHEET ARRANGEMENTS. At December 28, 2003, we had no off-balance sheet arrangements of the nature described in Item 303(a)(4) of Regulation S-K.

CAPITAL EXPENDITURES. 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 which will cause the cost to us of opening such restaurants to be less than our cost to build and open non-hotel based restaurants.

Capital expenditures were $1.4 million in 2001, $1.3 million in 2002 and $1.7 million in 2003. Capital expenditures in fiscal 2004 are expected to be between $0.2 million and $2.2 million, primarily for the development of new restaurants, capital replacements and refurbishing existing restaurants. The amount of actual capital expenditures will be dependent upon, among other things, the proportion of free standing versus hotel based properties as hotel based restaurants are expected to generally require lower capital investment on our part. In addition, if we open more, or less, restaurants than we currently anticipate, our capital requirements will increase, or decrease, accordingly.

In October 2002, we signed a lease for an owned hotel based restaurant in Bethesda, Maryland. The restaurant opened January 19, 2004. Construction of the restaurant was paid for through a $1.8 million tenant improvement allowance.

CONVERTIBLE SECURITIES AND WARRANTS. In order to finance restaurant openings during 1997 and 1998, we conducted an offering of common stock, convertible preferred stock and warrants during 1997 and entered into a joint operating arrangement and loan in 1998.

The 1997 offering provided net proceeds of approximately $1.5 million. The 1997 offering consisted of a private placement of 50,000 shares of common stock, 1,000 shares of Series I Convertible Preferred Stock, 500 shares of Series II 10% Convertible Preferred Stock, 187,500 five year $8.00 Warrants and 187,500 five year $12.00 Warrants. The aggregate sales price of those securities was $1,500,000.

The Series I Convertible Preferred Stock was converted into 200,000 shares of common stock in July 2000.

The Series II 10% Convertible Preferred Stock is convertible into common stock commencing one year from the date of issuance at the greater of (i) $4.00 per share, or (ii) 75% of the average closing price of our common stock for the five trading days immediately prior to the date of conversion; provided, however, that the conversion price shall in no event exceed $10.00 per share. The Series II 10% Convertible Preferred Stock is entitled to receive an annual dividend equal to $100 per share payable on conversion or redemption in cash or, at our option, in common stock at the then applicable conversion price. The Series II Convertible Preferred Stock is subject to redemption, in whole or in part, at our option on or after the second anniversary of issuance at $1,000 per share. Accrued dividends in arrears total $326,000 at December 28, 2003 and $276,000 at December 29, 2002.

The $8.00 Warrants were exercisable to purchase common stock at a price of $8.00 per share commencing three years from the date of issuance and ending five years from the date of issuance. The warrants expired in June 2002.

The $12.00 Warrants were exercisable to purchase common stock at a price of $12.00 per share commencing three years from the date of issuance and ending five years from the date of issuance. The warrants expired in June 2002.

STARWOOD ALLIANCE

In July 2001, we completed a transaction with Starwood Hotels and Resorts Worldwide, Inc. pursuant to which we sold 666,667 shares of restricted common stock and 666,667 stock warrants at $2.00 to Starwood for $1,000,000. Concurrently, we sold an additional 666,666 shares of restricted common stock and 666,666 stock purchase warrants for $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 investment by Starwood, we and Starwood entered into a Development Agreement under which we and Starwood agreed to jointly develop our restaurant properties in Starwood hotels.

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

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

Under the Development Agreement, we are obligated to issue to Starwood warrants to acquire a number of shares of our common stock equal to four percent of the outstanding shares upon the attainment of certain development milestones. Such warrants are issuable upon execution of management agreements and/or license agreements relating to the development and operation, and the commencement of operation, of an aggregate of five, ten, fifteen and twenty of our branded restaurants. If the market price of our common stock on the date the warrants are to be issued is greater than the market price on the date of the Development Agreement, the warrants will be exercisable at a price equal to the greater of (1) 75% of the market price as of the date such warrant becomes issuable, or (2) the market price on the date of the Development Agreement. If the market price of our common stock on the date the warrants are to be issued is less than the market price on the date of the Development Agreement, the warrants will be exercisable at a price equal to the market price as of the date such warrants become issuable. The warrants will be exercisable for a period of five years.

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

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

TERMINATION OF PIZZERIA UNO OPERATIONS

In July 2001, we sold our South Plainfield, New Jersey Pizza Restaurant for net proceeds of $225,000.

In April 2002, we sold our Cherry Hill, New Jersey Pizza Restaurant for net proceeds of $264,000.

RESTAURANT CLOSINGS

In April 2002, we closed our Encino, California Daily Grill restaurant when the lease expired. Assets of the restaurant were sold for net proceeds of $61,000.

SHORT-TERM FINANCING REQUIREMENTS

Management believes that we have adequate resources on hand and operating cash flow to sustain operations for at least the following 12 months through September 2005. We project increased operating cash flows in 2004 which, when added to existing cash balances, will allow us to meet all operating, investing and financing needs. Such projections are based on sales increases due to store openings, as well as modest increases in same store sales. We do not expect sales to decrease in fiscal year 2004 as was the case in fiscal 2002, however, a further deterioration in the economy and the hospitality industry could impact projected cash flows. Management believes it can respond to a decrease in sales through cost controls, reductions in discretionary capital improvements and borrowings under the existing credit facility. In order to fund the opening of additional restaurants, we might require additional capital that might be raised through the issuance of debt or equity securities, or the formation of additional investment/loan arrangements, or a combination thereof. We presently have no commitments in that regard. See "Business - Business Expansion" and "Management's Discussion and Analysis - Certain Factors Affecting Future Operating Results."

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our financial statements.

Principles of Consolidation and Minority Interests

Our restaurant operations are conducted through multiple wholly-owned subsidiaries as well as through four majority-owned limited liability companies and through a 50% owned joint venture. Our consolidated financial statements include balance sheet and income statement items, after eliminating intercompany accounts and transactions, of each wholly-owned and majority-owned subsidiary. The allocated interest of the earnings or loss of majority-owned subsidiaries attributable to the minority owners of those subsidiaries is reflected in a single statement of operations entry, with minority interests in earnings being a reduction in net income and minority interests in losses being an increase in net income. The proportionate interest in the equity of majority-owned subsidiaries attributable to the minority owners of those subsidiaries is reflected as a single balance sheet entry between liabilities and stockholders' equity.

The Company allocates profits and losses to the minority interest in its majority-owned subsidiaries based on the underlying economics of the investment. These may or may not reflect the Company's ownership percentage and can be inconsistent with the allocation provisions specified in the joint venture agreements. Where there is a disparity among the ownership percentages, the terms of the agreements and the underlying economics, the Company utilizes a hypothetical liquidation model to allocate profits and losses. Under this model, all of the venture's assets and liabilities as reflected in the balance sheet are assumed to be realized at their GAAP carrying values. The hypothetical liquidating proceeds are calculated at the end of each period and applied to the capital accounts as would occur under a true liquidation scenario. The change in this balance from period to period represents the investors' share of the income or loss. 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 Annual Report on Form 10-K/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: Chicago - The Grill on the Alley, San Jose Grill, Daily Grill at Continental Park LLC, The Grill on Hollywood and Universal CityWalk Daily Grill. The Company has determined it is the primary beneficiary for all these entities.

Impairment of Long-Lived Assets

We review all long-lived assets on a regular basis to determine if there has been an impairment in the value of those assets. If, upon review, it is determined that the carrying value of those assets may not be recoverable, we will record a charge to earnings and reduce the value of the asset on the balance sheet to the amount determined to be recoverable.

For purposes of evaluating recoverability of long-lived assets, the recoverability test is performed using undiscounted cash flows of the individual restaurants and consolidated undiscounted net cash flows for long-lived assets not identifiable to individual restaurants compared to the related carrying value. If the undiscounted operating income is less than the carrying value, the amount of the impairment, if any, will be determined by comparing the carrying value of each asset with its fair value. Fair value is generally based on a discounted cash flow analysis.

38

Based on our review of our presently operating restaurants and other long-lived assets, during the fiscal year ended December 28, 2003, we recorded no impairments of our long-lived assets.

Valuation of Accounts Receivable

We review all of our accounts receivable on a regular basis to determine the collectability of each account based on age, response to collection efforts, and other factors. We establish a reserve for those accounts where collection seems doubtful. If a determination is made that the customer will definitely not pay, the amount is written off against the reserve.

Based on our review at December 28, 2003, the current reserve for ncollectible accounts receivable is adequate.

Recording Reimbursable Costs

We operate a number of restaurants under management agreements whereby we are responsible for all aspects of restaurant operation. For our services, we typically receive a management fee based on a percentage of revenue and an incentive fee which is usually a profit sharing arrangement. Under the terms of the management agreements, we are hired as an independent contractor and are responsible for all debts and liabilities of the restaurant. Additionally, all employees are employees of Grill Concepts, 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, "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred," and EITF 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent," we consider ourselves the primary obligor in these arrangements. Accordingly, we recognize restaurant expenses of the managed outlets in our financial statements and record the reimbursement for such expenses as revenues.

CERTAIN FACTORS AFFECTING FUTURE OPERATING RESULTS

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Our actual results could differ materially from those set forth in the forward-looking statements. Certain factors that might cause such a difference include the following: adverse weather conditions and other conditions affecting agricultural output which may cause shortages of key food ingredients and volatility of food prices and which, in turn, may reduce operating margins; changes in consumer tastes, demographics and adverse economic conditions which may result in reduced frequency of dining at our restaurants; the dependence on key personnel and ability to attract and retain qualified management and restaurant personnel to support existing operations and future growth; regulatory developments, particularly relating to labor matters (i.e., minimum wage, health insurance and other benefit requirements), health and safety conditions, service of alcoholic beverages and taxation, which could increase the cost of restaurant operations; establishment of market position and consumer acceptance in new markets in light of intense competition in the restaurant industry and the geographic separation of senior management from such markets; potential delays in securing sites for new restaurants and delays in opening restaurants which may entail additional costs and lower revenues than would otherwise exist in the absence of such delays; the availability of capital to fund future restaurant openings; rising energy costs and the occurrence of rolling blackouts in California which may result in higher occupancy costs and periodic restaurant closures; potential increases in meat prices with corresponding decreases in operating margins. In addition to the foregoing, the following specific factors may affect the Company's future operating results:

The anticipated opening of additional Daily Grill and Grill locations is expected to result in the incurrence of various pre-opening expenses and high initial operating costs which may adversely impact earnings during the first year of operations of such restaurants. However, management anticipates that each of such operations can be operated profitably within the first year of operations and that the opening of each of the restaurants presently contemplated will improve revenues and profitability.

In order to better manage the cost of our workers compensation expense, commencing in 2004, we have altered our workers compensation coverage to substantially increase our per event and aggregate deductibles. As a result, we expect to substantially reduce our recurring cost of workers compensation insurance. On the other hand, we will have substantially higher exposure to losses resulting from claims under that policy should those claims exceed our prior deductible levels.

The employees of the Chicago restaurant are members of the Hotel Employees and Restaurant Employees Union AFL-CIO. The union contract covering the Chicago Grill was recently signed extending it until August 2005. Under the new union contract, our labor costs are expected to increase slightly.

FUTURE ACCOUNTING REQUIREMENTS

In November 2002, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. ("FIN") 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires that upon issuance of a guarantee, the entity (i.e., the guarantor) must recognize a liability for the fair value of the obligation it assumes under that guarantee. FIN 45's provisions for initial recognition and measurement were effective on a prospective basis to guarantees issued or modified after December 31, 2002. Consistent with the provisions of FIN 45, we have applied this statement prospectively. As required by FIN 45, the disclosure provisions, when required, have been included in our consolidated financial statements for the year ended 2003. Adoption of this statement has had no impact on our consolidated financial statements.

In December 2002, the 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 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method on reported results of operations. As we have 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 our financial position or results of operations. All disclosure requirements of SFAS No. 148 have been adopted and are reflected in these financial statements.

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 Annual Report on Form 10-K/A is more consistent, with, and reflective of, 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: Chicago - The Grill on the Alley, San Jose Grill, Daily Grill at Continental Park LLC, The Grill on Hollywood and Universal CityWalk Daily Grill. The Company has determined it is the primary beneficiary for all these entities.

In May 2003, SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", was issued. This Statement establishes standards for how an issuer classifies and measurers certain financial instruments with characteristics of both liabilities and equity. FASB Staff Position No. FAS 150-3, "Effective Date for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under FASB Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity," was issued on November 7, 2003. The FASB Staff Position deferred the effective date for the classification and measurement provisions for certain mandatorily redeemable noncontrolling interests for an indefinite period. The other provisions of this Statement were effective for financial instruments entered into or modified after May 31, 2003, and otherwise were effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 for those provisions effective in the current period has not had a significant impact on the Company's financial results of operations and financial position. The adoption of those provisions effective in 2004 is not expected to have a significant impact on the Company's financial results of opertions and financial position.

IMPACT OF INFLATION

Substantial increases in costs and expenses, particularly food, supplies, labor and operating expenses, could have a significant impact on our operating results to the extent that such increases cannot be passed along to customers. We do not believe that inflation has materially affected our operating results during the past two years.

A majority of our employees are paid hourly rates related to federal and state minimum wage laws and various laws that allow for credits to that wage. Our cost of operations have been affected by several increases in the Federal and State minimum wage in recent years, including a state minimum wage increase in California in January 2002. In addition, further increases in the minimum wage are also being discussed by the federal and various state governments. Although we have been able to and will continue to attempt to pass along increases in costs through food and beverage price increases, there can be no assurance that all such increases can be reflected in our prices or that increased prices will be absorbed by customers without diminishing, to some degree, customer spending at its restaurants.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from changes in interest rates on funded debt. This exposure relates to its reducing credit line facility. At December 28, 2003 there are no borrowings under the credit line. Borrowings under the credit facility bear interest at the lender's prime rate. A hypothetical 1% interest rate change would not have a material impact on our results of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements, together with the report of independent registered public accounting firm appear herein. See Index to Financial Statements on F-1 of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. 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 Annual Report on Form 10-K was prepared and filed on March 26, 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 "Exchange Act"). Based on their evaluation, our chief executive officer and chief financial officer had originally concluded that our disclosure controls and procedures are 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.

41

Subsequent to filing our original report, and in connection with the review of our financial statements for the first and second quarters of 2004, the Company was informed by its independent accountants that first, our stock options plans which had been accounted for using fixed accounting should have been accounted for using variable accounting; and second that (i) the Company's accounting for its joint ventures including loss allocations, guarantees of returns, consolidation decisions 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 and for the year ended December 28, 2003 and for the first three quarters of fiscal 2003 and 2002. During the restatement process, we also elected to make other miscellaneous corrections which were previously identified but passed upon due to their immaterial impact on our consolidated financial statements.

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. 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 III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item will be included in a definitive proxy statement, pursuant to Regulation 14A, to be filed not later than 120 days after the close of our fiscal year. Such information is incorporated herein by reference.

Information with respect to our executive officers is included in Part I.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item will be included in a definitive proxy statement, pursuant to Regulation 14A, to be filed not later than 120 days after the close of our fiscal year. Such information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item will be included in a definitive proxy statement, pursuant to Regulation 14A, to be filed not later than 120 days after the close of our fiscal year. Such information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item will be included in a definitive proxy statement, pursuant to Regulation 14A, to be filed not later than 120 days after the close of our fiscal year. Such information is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item will be included in a definitive proxy statement, pursuant to Regulation 14A, to be filed not later than 120 days after the close of our fiscal year. Such information is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) The following documents are filed as a part of this Report:

(1) Consolidated Financial Statements: See Index to Financial Statements on page F-1 of this report for financial statements and supplementary data filed

as part of this report.

(2) Financial Statement Schedules

Schedule II - Valuation and Qualifying Accounts and Allowances

(b) Exhibits

Exhibit Number	Description of Exhibit
3.1	Certificate of Incorporation, as amended, of Grill Concepts, Inc. (7)
3.2	Certificate of Amendment to Restated Certificate of Incorporation of Grill Concepts, Inc
3.3	Certificate of Amendment to Restated Certificate of Incorporation of Grill Concepts, Inc August 1999 (13)
3.4	Certificate of Amendment of Restated Certificate of Incorporation of Grill Concepts, Inc July 3, 2001 (20)
3.5	Bylaws, as amended, of Grill Concepts, Inc. (1)
3.6	Amendment to Bylaws of Magellan Restaurant Systems, Inc. dated December 31, 1994 (2)
4.1	Certificate of Designation fixing terms of Series II Preferred Stock (8)
4.2	Specimen Common Stock Certificate (1)
4.3	Form of Offshore Warrant (3)
4.4	Form of $8.00 Warrant (8)
4.5	Form of $12.00 Warrant (8)
10.1	Form of Franchise Agreement (1)
10.2	Lease Agreement between Uno Concepts of Cherry Hill, Inc. and Denbob Corp. dated June 29 for premises in Cherry Hill, New Jersey (1)
+10.3	Grill Concepts, Inc. 1995 Stock Option Plan (6)
+10.4	Employment Agreement, dated January 1, 2001, with Robert Spivak (18)
10.5	Operating Agreement for San Jose Grill LLC, dated June 1997 (9)
10.6	Amendment, dated December 1997, to Operating Agreement for San Jose Grill LLC (9)
10.7	Subordinate Note, dated December 1997, relating to San Jose Grill LLC (9)
10.8	Management Agreement re: San Jose City Bar & Grill (10)
10.9	Blanket Conveyance, Bill of Sale and Assignment between Grill Concepts, Inc. and Air Ter Services, Inc. (11)
10.10	License Agreement between Grill Concepts, Inc. and Airport Grill, L.L.C. (11)
10.11	Agreement, dated August 27, 1998, between Grill Concepts, Inc. and Hotel Restaurant Prop Inc. (11)
10.12	Restaurant Management Agreement between Grill Concepts, Inc., Hotel Restaurant Propertie and CapStar Georgetown Company, L.L.C. for the Georgetown Inn (11)
10.13	Loan Agreement between Grill Concepts, Inc. and The Wolff Revocable Trust of 1993 (12)
10.14	Addendum to Management Agreement re: San Jose City Bar & Grill (12)

43

Exhibit Number	Description of Exhibit
+10.15	Grill Concepts, Inc. 1998 Comprehensive Stock Option and Award Plan, as amended February 2001 (14)
10.16	Bank of America Business Loan Agreement (15)
10.17	Peter Roussak Warrant dated November 1999 (15)
10.18	Chicago - Grill on the Alley Warrant (15)
10.19	Chicago - Grill on the Alley First Extension Warrant (15)
10.20	Chicago - Grill on the Alley Second Extension Warrant (15)
10.21	Guaranty - Michigan Avenue Group Note (15)
10.22	Operating Agreement for Chicago - The Grill on the Alley LLC (15)
10.23	Letter Agreement dated July 19, 2000 with Wells Fargo Bank (16)
10.24	Indemnification Agreement between Grill Concepts, Inc., Lewis N. Wolff and the Lewis N. Revocable Trust of 1993 and Michael S. Weinstock and Michael S. Weinstock Trustee of the

	Michael S. Weinstock Living Trust (16)
10.25	Form of Letter Agreement regarding Loan Facility (16)
10.26	Form of four year 9% Promissory Note (16)
10.27	Form of Warrant issued in connection with Promissory Notes (16)
10.28	Guarantee Agreement dated July 11, 2000 with Michael Weinstock and Lewis Wolff (16)
10.29	Form of Warrant issued in connection with Loan Guaranty (16)
10.30	Michael Grayson Warrant (17)
10.31	Daily Grill Restaurant Management Agreement, dated February 5, 2001, between Grill Conce Management, Inc., Hotel Restaurant Properties II Management, Inc., and Handlery Hotel, I
10.32	Asset Purchase Agreement, dated October 18, 2000 re: South Plainfield Pizzeria Uno (17)
10.33	Subscription Agreement, dated May 16, 2001, by and between Grill Concepts, Inc. and Star Hotels & Resorts Worldwide, Inc. (19)
10.34	Development Agreement by and between Grill Concepts, Inc. and Starwood Hotels & Resorts Worldwide, Inc. (19)
10.35	Investor Rights Agreement by and between Grill Concepts, Inc. and Starwood Hotels & Reso Worldwide, Inc. (19)
10.36	Stockholders' Agreement by and between Grill Concepts, Inc., Starwood Hotels & Resorts Worldwide, Inc., Robert Spivak, Michael Weinstock, Lewis Wolff, Keith Wolff and Wolff Revocable Trust of 1993. (18)
10.37	Form of $2.00 Warrant. (19)
10.38	Amendment to Hotel Restaurant Properties, Inc. Agreement, dated July 27, 2001 (20)
10.39	Amendment to San Jose City Bar and Grill Agreement (21)
14.1	Code of Business Ethics - CEO and Senior Financial Officers (22)
14.2	Code of Ethics (22)
21.1	Subsidiaries of Registrant (22)
23.1*	Consent of PricewaterhouseCoopers LLP
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 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 of the Sarbanes-Oxley Act of 2002.