GRILL CONCEPTS INC
Form 10-K
March 30, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(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 31, 2000

[ ] 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. [X]

4,203,888 shares of common stock of the Registrant were outstanding as of February 15, 2001. As of such date, the aggregate market value of the voting

and non-voting common equity held by non-affiliates, based on the closing price on the NASDAQ Small-Cap Market, was approximately $6,000,000.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive annual proxy statement to be filed within 120 days of the Registrant's fiscal year ended December 31, 2000 are incorporated by reference into Part III.

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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 24 of this Form 10-K.

ITEM 1. BUSINESS

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, the Company owns and operates, or has 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 its acquisition of Grill Concepts, Inc., a California corporation ("GCI"), in March of 1995, the Company has focused principally on the expansion of the "Daily Grill" and "The Grill on the Alley" restaurant formats of GCI.

At December 31, 2000, the Company owned and operated 15 restaurants and managed or licensed 5 additional restaurants, consisting of 10 Daily Grill restaurants, 3 The Grill on the Alley restaurants and 2 Pizzeria Uno Restaurants which are owned and operated by the Company, 2 Daily Grill restaurants and a City Bar & Grill restaurant which are managed by the Company and 2 Daily Grill restaurants which are licensed by the Company. With the exception of two The Grill on the Alley restaurants and one Daily Grill restaurant, which restaurants are operated by partnerships, all of the Daily Grill and The Grill on the Alley restaurants which were owned and operated at December 31, 2000 were solely owned and operated on a non-franchise basis by the Company. The two Pizzeria Uno Restaurants are operated pursuant to franchise agreements.

During 2000, the Company (1) opened The Grill on the Alley in Chicago, Illinois, (2) opened a licensed Daily Grill in Skokie, Illinois, (3) closed its Pizzeria Uno franchise in Media, Pennsylvania, and (4) entered into an agreement to sell its Pizzeria Uno franchise in South Plainfield, New Jersey.

During 2000, 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 in strategic markets throughout the United States. 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. The opening of the Grill on the Alley in Chicago marked the Company's initial entry into the Chicago area.

The following table sets forth unaudited restaurant count information, per restaurant sales information, comparable restaurant sales information for restaurants open twelve months in both periods, and total sales information during 2000 and 1999 by restaurant concept for both Company owned restaurants ("Company Restaurants") and Company managed and/or licensed restaurants ("Managed Restaurants"):

1

	1999	2000
Number of restaurants:		
Daily Grill restaurants:		
Company Restaurants:		
Beginning of year..................	9	10
Restaurant openings................	1	0
End of year........................	10	10
Managed Restaurants:		
Beginning of year..................	1	3
Restaurant openings................	3	1
Restaurants closed or sold.........	(1)	0
End of year........................	3	4

Total Daily Grill restaurants:		
Beginning of year..................	10	13
Restaurant openings................	4	1
Restaurants closed or sold.........	(1)	0
End of year........................	13	14
Grill restaurants:		
Company Restaurants:		
Beginning of year..................	2	2
Restaurant openings................	0	1
End of year........................	2	3
Total Grill restaurants:		
Beginning of year..................	2	2
Restaurant openings................	0	1
End of year........................	2	3
Other restaurants1:		
Company Restaurants:		
Beginning of year..................	3	3
Restaurants closed or sold.........	0	(1)
End of year........................	3	2
Managed or Licensed Restaurants:		
Beginning of year..................	2	1
Restaurants closed or sold.........	(1)	0
End of year........................	1	1
Total Other restaurants:		
Beginning of year..................	5	4
Restaurants closed or sold.........	(1)	(1)
End of year........................	4	3
Total restaurants:		
Beginning of year..................	17	19
Restaurant openings................	4	2
Restaurants closed or sold.........	(2)	(1)
End of year........................	19	20

1 Includes three Pizzeria Uno Restaurants in 1999, and two Pizzeria Uno Restaurants in 2000, operated by the Company pursuant to franchise agreements; and restaurants in two hotel properties for which the Company assumed management One of the managed hotel restaurants was converted to a Daily Grill format in January of 1999 and is reflected as both a Managed Daily Grill restaurant opening and a Managed Other restaurant closed or sold during 1999.

	1999	2000
Weighted average weekly sales per restaurant:		
Daily Grill restaurants:		
Company Restaurants...................	$ 55,545	$ 58,920
Managed Restaurants...................	n.a.	n.a.
Grill restaurants:		
Company Restaurants...................	$ 71,447	$ 89,476
Managed Restaurants...................	n.a.	n.a.
Other restaurants:		
Company Restaurants...................	$ 32,093	$ 32,029
Change in comparable restaurant sales:		
Daily Grill restaurants		
Company Restaurants...................	1.1%	8.1%
Managed Restaurants...................	n.a.	n.a.
Grill restaurants		
Company Restaurants...................	3.7%	25.2%
Managed Restaurants...................	n.a.	n.a.
Other restaurants:		
Company Restaurants...................	(2.3)%	(0.2%)
Total system sales:		
Daily Grill.............................	$ 25,994,890	$ 28,104,683
Grill...................................	7,430,460	12,168,746
Pizza Restaurants.......................	5,006,536	4,323,920
Management and license fees.............	544,090	1,078,272
Total consolidated revenues.............	$ 38,975,976	$ 45,675,621
Total system sales......................	$ 50,834,918	$ 62,323,172

Restaurant Concepts

- Daily Grill Restaurants

Background. At December 31, 2000, the Company, through its subsidiary, GCI, owned and operated, managed or licensed ten Daily Grill restaurants in Southern California, three Daily Grill restaurants in the Washington, D.C./Virginia market and one Daily Grill restaurant in Skokie, Illinois. Daily Grill restaurants are patterned after "The Grill on the Alley" in Beverly Hills, a fine dining American-style grill restaurant which was acquired by the Company 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 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 31, 2000, fourteen Daily Grill restaurants were in operation, nine

of which were 100% owned by the Company and located in shopping malls and other commercial properties, one of which was 50% owned and located in Universal CityWalk, California, two of which were managed by the Company and located in hotels and two of which were licensed restaurants.

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

Location	Opened	Ownership Interest, Licensed or Managed
Brentwood, California	September 1988	100%
Los Angeles, California	April 1990	100%
Newport Beach, California	April 1991	100%
Encino, California	April 1992	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)	September 2000	Licensed
San Francisco, California (Handlery Union Square Hotel)	Fall 2001	Managed

Each 100% owned Daily Grill restaurant is located in leased facilities. Site selection is viewed as critical to the success of the Company 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 anchor tenants at high profile malls 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 the Company, operated pursuant to a partnership, joint venture or license arrangement or operated pursuant to 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 is the responsibility of HRP which identifies suitable locations and negotiates leases, licenses 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 of 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 the Company's part. However, each hotel restaurant arrangement will be negotiated separately and the capital investment by the Company may vary widely. Opening costs, for the Company, of existing hotel restaurants, including leasehold improvements, furniture, fixtures and equipment and pre-opening expenses, have ranged from $150,000 to $600,000 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, in contrast to the "nouvelle cuisine" and diet meal fads of the 1980'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 in menu pricing, from $9.50 for an "original" beef dip sandwich to $21.95 for a char-broiled 16 oz. T-bone steak with all the trimmings. The average lunch check is $14.00 per person and the average dinner check is $19.00 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 31, 2000, food and non-alcoholic beverage sales constituted approximately 86% of the total restaurant revenues for the Daily Grill restaurants, with alcoholic beverages accounting for the remaining 14%.

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. The Company's management believes that its 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. 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. The 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".

The feeling of comfort and tradition is enhanced by the restaurant policy of not requiring, nor accepting, reservations except for groups of six or more. As a result, patrons are served on a first-come-first-served basis and never have to wait for a table while a vacant table is being held for patrons with reservations.

The attention to detail and quality of the 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 the Company's 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 the Company's procedures and policies but in every aspect of Daily Grill operations. The Company's 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 70% per year for hourly employees, considerably below the industry average which management believes to be approximately 125%.

The Company believes 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 as many as 60% of the guests at the Daily Grills which have been open for over a year represent repeat business, and many guests have become "regulars" in the tradition of the neighborhood restaurant.

The Grill on the Alley

Background. At December 31, 2000, the Company, through its subsidiary, GCI, owned and operated three The Grill on the Alley restaurants ("Grill"), one in Beverly Hills, California, one in San Jose, California, and one in Chicago, Illinois.

The original Grill is an upscale 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, the Company acquired the original Grill from a partnership, the managing partner of which was controlled by the Company's principal shareholders and directors.

Restaurant Sites. At December 31, 2000, the Company operated three Grill restaurants, one of which is a non-hotel based facility and two of which are hotel-based facilities.

Grill locations opened, or are scheduled to open, 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%

The Company's Grill restaurants are located in leased facilities. As with the Company's Daily Grill restaurants, site selection is viewed as critical to the success of the Company 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 criteria.

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 the Company, operated pursuant to a partnership or joint venture arrangement or operated pursuant to a management agreement. As with free standing restaurants, site selection is viewed as critical to the success of the Company and, accordingly, significant effort is exerted to assure that each site selected is appropriate.

The existing non-hotel based Grill restaurant is approximately 4,300 square feet -- of which approximately 1,500 square feet is devoted to kitchen and service areas -- and seats 120 persons. Because of the unique nature of Grill restaurants, the size, seating capacity and opening costs of future sites cannot be reasonably estimated.

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. Management anticipates that additional hotel based Grill restaurants will require minimal capital investment on the Company's part. However, each hotel restaurant arrangement will be negotiated separately and the capital investment by the Company may vary widely. Opening 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 $3.4 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 $11.95 for a hamburger to $34.50 for a Prime Porterhouse Steak. The average lunch check is $22.00 per person and the average dinner check is $46.00 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 31, 2000, food and non-alcoholic beverage sales constituted approximately 72% of the total restaurant revenues for Grill restaurants, with alcoholic beverages accounting for the remaining 28%.

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. The Company's management believes that its 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.

The attention to detail and quality of the 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 the Company's 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 the Company's procedures and policies but in every aspect of Grill operations. The Company's 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.

The Company believes 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 as many as 75% of the guests at the original Grill represent repeat business, and many guests have become "regulars" in the tradition of the neighborhood restaurant.

- Pizzeria Uno Restaurants

Restaurant Sites. At December 31, 2000, the Company, through its wholly-owned subsidiaries, operated "Pizzeria Uno Restaurant & Bar" locations in South Plainfield and Cherry Hill, New Jersey (the "Pizza Restaurants"). The Company's Pizza Restaurants are operated in accordance with certain guidelines established by, and with managerial assistance from and training provided by, the Franchisor. See "-- The Franchise Agreements" below.

The Pizza Restaurants are located in suburban areas in leased premises. The Pizza Restaurants range in size from approximately 5,300 square feet to approximately 7,900 square feet, including a bar and lounge area, and have seating capacities ranging from 180 to 200 customers.

Menu and Food Preparation. The Pizza Restaurants offer a diverse menu in accordance with guidelines established by the Franchisor, featuring gourmet, Chicago-style deep-dish pizzas, filled with ingredients such as fresh meats, spices, vegetables and cheese and baked to order based on proprietary recipes of the Franchisor. The Pizza Restaurants also offer a variety of sandwiches, hamburgers, appetizers, salads, desserts and beverages, including a full liquor selection. All of the menu items offered by the Pizza Restaurants are also available for delivery or carry-out. Delivery service is provided by third parties pursuant to contractual arrangements. Entree selections currently range in price from approximately $4.95 to $8.95, with an average cost per person per meal, including beverage, of approximately $6.25 for lunch and $9.25 for dinner.

Atmosphere and Service. The Pizza Restaurants are characterized by a casual, friendly and entertaining atmosphere, full and efficient service, and high-quality menu items at moderate prices. Each of the Pizza Restaurants employs between three and four full time managers and assistant managers and between 45 and 85 part-time and full-time employees. The Pizza Restaurants are generally open from 11:00 a.m. to midnight, seven days per week, except on Friday and Saturday when the Pizza Restaurants remain open until 1:00 a.m.

The Franchise Agreements. The Company acquired the rights to operate under the "Pizzeria Uno" name and use certain proprietary recipes and procedures pursuant to three separate franchise agreements (the "Franchise Agreements") between the Company or its subsidiaries and the Franchisor, a national operator and franchisor of "Pizzeria Uno" restaurants.

Pursuant to the Franchise Agreements, the Company has the exclusive rights to utilize the proprietary marks, recipes, procedures and system developed by the Franchisor within a three mile radius of the Pizza Restaurants' designated locations. The Franchise Agreements each have a term of 20 years with three successive ten-year renewal periods at the option of the Company, provided that the agreements have not previously been terminated.

In addition to use of the "Pizzeria Uno" name and mark and proprietary recipes, the Franchise Agreements entitle the Company to certain initial and ongoing services to be provided by the Franchisor. The Franchisor is also obligated to conduct ongoing national, regional and local advertising and promotions utilizing advertising fees paid by its various franchisees.

The Company, in turn, is obligated to comply with the guidelines set forth in the Franchisor's Operating Manual and to maintain its confidentiality. Among the various guidelines and prohibitions imposed on the Company pursuant to the Franchise Agreements and the Manual are minimum insurance requirements, noncompetition provisions, confidentiality requirements, product offering requirements, physical appearance requirements, trade name and trademark protection requirements, local advertising requirements, and operating requirements, among others. The Company is also obligated to pay certain ongoing fees in order to retain its franchises. Such ongoing fees consist of a continuing license fee (5% of gross revenues), subject to certain prescribed periodic minimum amounts and advertising fee (approximately 1% of gross revenues).

Potential Sale of Pizza Restaurant. During 1998, the Company determined that the continued ownership and operation of the Pizza Restaurants did not fit with the Company's strategic growth plan. In July, 2000, the Company closed its Pizzeria Uno restaurant in Media, Pennsylvania due to declining operations. In October 2000, the Company entered into an agreement to sell its Pizzeria Uno restaurant in South Plainfield, New Jersey for $700,000. The Company is also seeking a suitable buyer for its Pizzeria Uno restaurant located in Cherry Hill, New Jersey.

Other Restaurant Activities

In addition to owning and operating Daily Grill, The Grill and the Pizza Restaurants, the Company, at December 31, 2000, also provided management services for Daily Grill restaurants at the Burbank Hilton and the Georgetown Inn and for the City Bar & Grill in the San Jose Hilton and had granted licenses to operate a Daily Grill at LAX and a Daily Grill at the DoubleTree Inn in Skokie, Illinois.

- Restaurant Management Services

In conjunction with the Company's entry into the hotel restaurant market, in May 1998, the Company began providing management services at the City Bar & Grill at the San Jose Hilton. The Company is entitled to a management fee equal to 4% of the gross receipts of the City Bar & Grill. Additionally, the Company is entitled to a percentage of the annual profits of the City Bar & Grill in excess of certain historical profits.

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In May 1998, the Company, pursuant to its agreement with Hotel Restaurant Properties, Inc., began providing management services for a restaurant in the Burbank Hilton Hotel. The restaurant was converted from its former format to a Daily Grill in January 1999. Pursuant to its management agreement with the hotel, the Company invested $500,000 for conversion of the restaurant to a Daily Grill and is responsible for management and supervision of the restaurant. The Company is entitled to a management fee equal to 8.5% of the gross receipts of the restaurant. Additionally, the Company is entitled to a 30% percentage of the annual profits of the restaurant in excess of a base amount.

In March 1999, the Company, pursuant to the Hotel Property Agreement, (see below) began providing management services for a Daily Grill restaurant at the Georgetown Inn. Pursuant to its management agreement with the hotel, the Company was not required to invest in the restaurant but is responsible for management and supervision of the restaurant. The Company is entitled to a management fee equal to 8% of the gross receipts of the restaurant. Additionally, the Company is entitled to a percentage of the annual profits of the restaurant in excess of a base amount.

- Restaurant Licensing

LAX Daily Grill. In March of 1995, the Company entered into an operating agreement to own and operate restaurants within Los Angeles International Airport ("LAX"). Profits were shared 51% by the Company and 49% by CA One Services after the payment of a management fee equal to 4% of gross revenues to each of the Company and CA One Services and after the repayment of CA One Services' advances, with interest.

In January of 1997, a Daily Grill restaurant was opened in the International Terminal of LAX ("LAX Daily Grill"). The LAX Daily Grill is an 8,300 square foot full-service restaurant seating approximately 300 persons.

Effective April 1, 1998, the Company sold and assigned its interest in the venture and the LAX Daily Grill to CA One Services, Inc.

Simultaneous with the sale of its interest in the LAX Daily Grill, the Company entered into a License Agreement pursuant to which CA One will continue to have the right to utilize the "Daily Grill" name, logos, recipes and other rights associated with the operation of the Daily Grill restaurant at Thomas Bradley International Airport. Pursuant to the terms of the License Agreement, the Company is 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, a licensed Daily Grill restaurant was opened in the DoubleTree Inn in Skokie, Illinois. Under the terms of the license, the hotel operator paid all costs to build and open the restaurant and the Company is entitled to a license fee equal to the greater of $65,000 or 2% of sales per year.

Hotel Property Agreement

In order to facilitate the Company's efforts to open restaurants on a large scale basis in Hotel properties, the Company, in August of 1998 entered into the Hotel Property Agreement with HRP pursuant to which HRP has agreed to assist the Company in locating suitable hotel locations for the opening of the Company's restaurants. 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. The Company will, in turn, enter into management agreements with HRP or the hotel owners, as appropriate. The Company will 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. The Company will be entitled to receive from HRP a base overhead fee equal to $1,667 per month per Managed Outlet. Net income after repayments required on Manager Loans from each Managed Outlet will be allocated 75% to the Company and 25% to HRP. The Agreement also provides that in case of a change in control of the Company both HRP and the Company will have certain rights to cause the Company to acquire HRP commencing in May of 2004.

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Business Expansion

The Company's 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 review will 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, the Company intends to monitor the results of any modifications to its existing restaurants and to incorporate any successful modifications into future restaurants. All future restaurants are expected to feature full bar service.

The Company's 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, the Company expects 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, the Company intends 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 31, 2000, the Company 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, 2001, no definitive sites 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 the Company pursues expansion.

At December 31, 2000, hotel based Daily Grill restaurants were operated under management or licensing agreements in Southern California, Washington, D.C., and Skokie, Illinois, and hotel based Grill restaurants were operated in San Jose, California and Chicago, Illinois. In February 2001, the Company entered into a management agreement with Handlery Hotel, Inc. pursuant to which the Company has agreed to manage a Daily Grill to be located adjacent to the Handlery Union Square Hotel in San Francisco. The restaurant is scheduled to open in the Fall of 2001. The Company 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 by the Company may vary widely.

Restaurant Management

The Company strives to maintain quality and consistency in its 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. The Company believes that its concept and high sales volume enable it to attract quality, experienced restaurant management and hourly personnel. The Company has experienced a relatively low turnover at every level at its Daily Grill and Grill restaurants. See "-- Daily Grill Restaurants" above.

Daily Grill and Grill. 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 the Company. The general manager has primary responsibility for the operation of the restaurant and reports directly to an Area Director who in turn reports to the Company's President. 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 85 employees. Restaurant operations are standardized, and a comprehensive management manual exists to ensure operational quality and consistency.

The Company maintains 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.

All managers participate in a comprehensive seven 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, the Company has developed training courses for assistant managers and chefs. The Company typically has a number of employees involved in management training, so as to provide qualified management personnel for new restaurants. The Company's 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. Two or three times every month, an independent service is paid to go to each location and prepare a report on every aspect of the meal, the service and the ambiance.

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 the Company's philosophy, strategy and standards of quality are being adhered to in all aspects of restaurant operations.

Pizza Restaurants. The staff of the Company's Pizza Restaurants consists of between three and four managers and between 40 and 85 hourly employees, most of whom are part-time employees, per location.

All managers of the Pizza Restaurants participate in an onsite training program and are provided with the Franchisor's Operating Manual. Additionally, selected management personnel participate in periodic meetings conducted by the Franchisor focusing on marketing, new products and other aspects of business management.

The Company has an Area Director who oversees and supervises the operations of each of the Company's Pizza Restaurants, providing ongoing guidance and assistance to managers as necessary. Additionally, field-service supervisors of the Franchisor periodically visit and inspect the operations of the Pizza Restaurants to assure compliance with the quality, service and other standards imposed by the Franchisor.

Purchasing

Daily Grill and Grill. The Company has developed proprietary recipes for substantially all the items served at its 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 the Company's Vice President-Executive Chef. 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, the Company is working with outside suppliers to produce a limited number of selected proprietary items such as salad dressings and seasoning combinations.

The Company utilizes its point-of-sale computer system to monitor inventory levels and sales, then orders food ingredients daily based on such levels. The Company employs contract purchasing in order to lock in food prices and reduce short term exposure to price increases. The Company's Vice President - Executive Chef establishes general purchasing policies and is responsible for controlling the price and quality of all ingredients. The Vice President - Executive Chef, in conjunction with the Company's 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

Daily Grill and Grill. The Company has historically relied primarily on reputation, local reviews and word of mouth to promote its Daily Grill and Grill restaurants. Daily Grill and Grill restaurants have been featured in articles and reviews in numerous local as well as national publications. The Company supplements its 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, participating in local charity events and providing a location and refreshments for meetings of charity organizations. During 2000, expenditures for advertising and promotion were approximately 1.8% of gross revenues.

Pizza Restaurants. The Company participates in local and regional/national advertising programs, including paying certain advertising fees (1% of gross revenues) to the Franchisor and spending certain minimum amounts for local advertising (2% of gross revenues) as required by the Franchise Agreements. See "The Pizza Restaurants - Franchise Agreements."

The Company budgets an average of 3% of Pizza Restaurant sales annually for advertising and promotion. The Company's primary marketing philosophy is to create an enjoyable, fun dining atmosphere and rely on word-of-mouth to attract customers.

Competition

The Daily Grill restaurants compete within the rapidly growing 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. The primary competitors to the Company's Pizza Restaurants are casual theme restaurant chains including Friday's and the Olive Garden. Competition for the Company's hotel based restaurants is primarily limited to restaurants within the immediate proximity of the hotel.

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. The Company believes it competes favorably with respect to these factors. The Company believes that its ability to compete effectively will continue to depend in large measure on its ability to offer a diverse selection of high quality,

fresh food products with an attractive price/value relationship served in a friendly atmosphere.

Management believes that its affiliation with, and operation under the name of, "Pizzeria Uno" provides certain competitive advantages to the Company's Pizza Restaurants. Management believes that the quality products, friendly full-service atmosphere, diverse menu and moderate prices associated with Pizzeria Uno restaurants, and the Company's Pizza Restaurants in particular, enable the Company to compete effectively with other local and national-chain restaurants.

Employees

The Company and its subsidiaries employ approximately 1,400 people, 26 of whom are corporate personnel and 100 of whom are restaurant managers, assistant managers and chefs. The remaining employees are restaurant personnel. Of the Company's employees, approximately 65% are full-time employees, with the remainder being part-time employees.

With the exception of the Chicago Grill on The Alley, none of the Company's employees are represented by labor unions or are subject to collective bargaining or other similar agreements. Management believes that its employee relations are good at the present time.

Trademarks and Service Marks

The Company regards its trademarks and service marks as having significant value and as being important to its marketing efforts. The Company has registered its "Daily Grill" mark and logo and its "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 has secured California state registration of such marks. The Company's policy is to pursue registration of its marks and to oppose strenuously any infringement.

Pursuant to the Franchise Agreements, the Company's Pizza Restaurants operate under the "Pizzeria Uno" trademark and service marks. The Franchisor has undertaken to keep in place and renew, as necessary, its trademark registrations and to vigorously oppose any infringements of its marks.

Government Regulation

The Company is subject to various federal, state and local laws affecting its business. Each of the Company's 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 the Company's restaurants.

Alcoholic beverage control regulations require each of the Company's 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 the Company's restaurants, including minimum age of patrons and employees, hours of operation, advertising, wholesale purchasing, inventory control, and handling, storage and dispensing of alcoholic beverages.

The Company 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. The Company presently carries liquor liability coverage as part of its existing comprehensive general liability insurance.

Various federal and state labor laws govern the Company's relationship with its 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 the Company's restaurants. Management is not aware of any environmental regulations that have had a material effect on the Company to date.

ITEM 2. PROPERTIES

With the exception of the Company's Cherry Hill Pizza Restaurant and certain properties which may be operated pursuant to management arrangements or partnership or joint venture arrangements, all of the Company's restaurants are located in space leased from parties unaffiliated with the Company. The leases have initial terms ranging from 10 to 25 years, with varying renewal options on all but one of such leases. Each of the leases provides 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 "Description of Business."

The Company's Cherry Hill Pizza Restaurant is located in space leased from Denbob Corporation, a corporation controlled by a director of the Company, Robert L. Wechsler. The Grill restaurant in San Jose is located in space leased from a hotel management company which may be deemed to be controlled by Lew Wolff who may also be deemed to be an affiliate of the Company as a result of his holdings of common stock and securities convertible into or exercisable to acquire common stock of the Company.

The Company's 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 January 2002.

Management believes that the Company's existing restaurant and executive office space is adequate to support current operations. The Company intends to lease, from time to time, such additional office space and restaurant sites as management deems necessary to support its future growth plans.

ITEM 3. LEGAL PROCEEDINGS

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

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

No matters were submitted to a vote of the Company's stockholders through the solicitation of proxies, or otherwise, during the fourth quarter of the Company's fiscal year ended December 31, 2000.

PART II

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

The Company's 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 the Company's common stock for each quarterly period during the last two fiscal years, adjusted to reflect a 1-for-4 reverse stock split effective August 9, 2000:

		High	Low
1999 -	First Quarter	4.375	3.5
	Second Quarter	3.875	2.75
	Third Quarter	3.125	1.656
	Fourth Quarter	2	1.219
2000 -	First Quarter	1.812	1.281
	Second Quarter	1.968	1.000
	Third Quarter	2.125	1.234
	Fourth Quarter	3.750	1.375

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

At March 20, 2001, the closing bid price of the Common Stock was $2.063.

As of March 20, 2001, there were approximately 412 holders of record of the Common Stock of the Company.

The Company has never declared or paid any cash dividend on its Common Stock and does 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 the consolidated financial statements of the Company. The following data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements of the Company included elsewhere herein.

	Fiscal Year Ended December			
	1996	1997	1998	1999
	(In thousands except per share data)			
Statement of Operations Data:				
Sales..............................	$ 22,744	$ 28,901	$ 34,464	$ 38,432
Management and license fees..........	-	-	444	544

Total revenues	22,744	28,901	34,908	38,976	
Gross profit	16,534	20,981	25,234	28,090	
Operating expenses:					
Restaurant operating expenses	13,970	17,446	21,321	23,426	
General and administration	2,172	2,648	2,755	3,296	
Depreciation and amortization	827	948	1,137	1,196	
Amortization of preopening costs	40	337	175	54	
Unusual charges	2,052	-	964	-	
Total	19,061	21,380	26,352	27,972	
Income (loss) from operations	(2,528)	(399)	(1,118)	118	
Interest income (expense), net	(86)	(166)	(231)	(376)	
Nonrecurring gain (costs)	(231)	93	-	-	
Income (loss) before taxes, minority interest, equity in loss of joint venture and cumulative effective of change in accounting principle	(2,845)	(472)	(1,349)	(258)	
Provision for income taxes	(8)	(5)	(10)	(6)	
Equity in loss of joint venture	-	-	-	(74)	
Minority interests	-	-	122	(68)	
Cumulative effect of change in accounting principle	-	-	(70)	-	
Net income (loss)	$ (2,853)	$ (477)	$ (1,307)	$ (406)	
Preferred dividends accrued or paid	-	(69)	(85)	(50)	
Accounting deemed dividends	-	(211)	(83)	-	
Net income (loss) applicable to common stock	$ (2,853)	$ (757)	$ (1,475)	$ (456)	
Net income (loss) per share (1):					
Basic	$ (0.83)	$ (0.13)	$ (0.33)	$ (0.10)	
Preferred stock:					
Dividends	-	(0.02)	(0.02)	(0.01)	
Accounting deemed dividends	-	(0.05)	(0.02)	(0.00)	
Basic net income (loss) applicable to common stock	$ (0.83)	$ (0.20)	$ (0.37)	$ (0.11)	
Weighted average shares outstanding	3,426,472	3,773,560	3,972,256	4,003,738	4

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Balance Sheet Data:					
Working capital (deficit)............	$ (1,199)	$ (1,223)	$ (2,300)	$ (3,685)	$
Total assets.........................	8,082	9,011	11,387	11,288	
Long-term debt, less current portion....................	1,031	699	2,928	2,033	
Stockholders' equity................	4,202	5,183	3,867	3,461	

(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.

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 24 of this Form 10-K.

General

During the fiscal year ended December 31, 2000, the Company owned and operated a total of 16 restaurants and managed or licensed 5 additional restaurants, consisting of 10 Daily Grill restaurants, 3 Pizzeria Uno restaurants (one was closed in July 2000) and 3 The Grill on the Alley restaurants which are owned and operated by the Company, 2 Daily Grill restaurants and a City Bar & Grill restaurant which are managed by the Company and 2 Daily Grill restaurants which are licensed by the Company. During the fiscal year ended December 26, 1999, the Company owned and operated a total of 15 restaurants and managed or licensed 4 additional restaurants, consisting of 10 Daily Grill restaurants, 3 Pizzeria Uno restaurants and 2 The Grill on the Alley restaurants which are owned and operated by the Company, 2 Daily Grill restaurants and a City Bar & Grill restaurant which are managed by the Company and one Daily Grill restaurant which was licensed by the Company. During fiscal 1998, the Company operated a total of 14 restaurants, consisting of 9 Daily Grill restaurants, 3 Pizzeria Uno restaurants, one Grill and Rhino Chasers. See "Description of Business."

Fiscal 2000 operating results include a full year of operations and management fees from the Georgetown Inn Daily Grill restaurant (compared to 39 weeks of operations in 1999) and the Universal CityWalk Daily Grill (compared to 25 weeks of operations in 1999) 29 weeks of operations of the Chicago Grill restaurant, and 12 weeks of operations at the Daily Grill in Skokie, Illinois. The Pizzeria Uno restaurant in Media, Pennsylvania was closed in July 2000 and revenues from that restaurant terminated at that date.

Fiscal 1999 operating results include a full year of operations from the Tyson's Corner Daily Grill and the San Jose Fairmont Grill and a full year of management fees from the Burbank Hilton Daily Grill, each of which opened in 1998, 39 weeks of management fees from the Georgetown Inn Daily Grill, 25 weeks of management fees from the Universal CityWalk Daily Grill and no management fees from the Salt Lake City Hilton Daily Grill. The Salt Lake City Daily Grill was closed in November 1999 and management fees on that restaurant terminated at that date.

Fiscal 1998 operating results include eleven weeks of operations at the Company's Tysons Corner Daily Grill and thirty-four weeks of operations at the San Jose Fairmont Grill and 32 weeks of management fees from the restaurant

which became the Burbank Hilton Daily Grill. The Company sold its interest in the LAX Daily Grill and Rhino Chasers in April of 1998.

The Company accounts for its interest in the Universal CityWalk Daily Grill and, prior to their sale, accounted for its interest in the LAX Daily Grill using the equity method. All other owned restaurants are consolidated with minority interest being reflected in the San Jose Fairmont Grill and The Chicago Grill on the Alley.

Sales revenues of the Company are derived from sales of food, beer, wine, liquor and non-alcoholic beverages. Approximately 75% of combined 2000 sales were food and 25% 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.

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The Company's expenses are comprised primarily of cost of food and beverages and restaurant operating expenses, including payroll, rent, occupancy costs and franchise fees. The largest expenses of the Company 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 the Company's restaurants. Restaurant operating expenses consist primarily of wages paid to part-time and full-time employees, rent, utilities, insurance and taxes.

In addition to its cost of food and beverages and normal restaurant operating expenses, the Company has paid, and is obligated to pay, certain fees to its Franchisor as well as certain minimum advertising expenses. Pursuant to the Company's Franchise Agreements, the Company pays a continuing license fee with respect to each of its Pizza Restaurants, an advertising fee and is required to expend certain minimum amounts on local advertising and promotion. See "Description of Business - The Pizza Restaurants -- The Franchise Agreements."

In connection with acquisition of the Grill during 1996, the Company capitalized $246,000 of goodwill which is being amortized over a thirty year period. As this item involves the payment of certain amounts in advance and the expensing of such amounts in subsequent years, the Company's operating results reflect amortization expense which does not affect the Company's operating cash flows.

Consistent with practices in the restaurant industry, the Company historically deferred its restaurant preopening costs and amortized those costs over a twelve month period following the opening of the respective restaurant. In April 1998, The American Institute of Certified Public Accountants ("AICPA") issued Statement of Position ("SOP") 98-5 "Reporting on the Costs of Start-Up Activities." The SOP required entities to expense as incurred all start-up and preopening costs that are not otherwise capitalizable as long-lived assets. The SOP is effective for the fiscal years beginning after December 15, 1998, with earlier adoption encouraged. The Company adopted the SOP during 1998 resulting in a one-time charge against earnings during fiscal 1998 of $70,000. Excluding the one-time cumulative effect, the adoption of the new accounting standard impacted the Company's reported results for fiscal 1998 by $513,000, or $0.13 per basic share.

In addition to restaurant operating expenses, the Company pays certain general and administrative expenses which relate primarily to operation of the Company's corporate offices. Corporate office general and administrative expenses consist primarily of salaries of officers and clerical personnel, rent, legal and accounting costs, travel, insurance and various office expenses.

Results of Operations

The following table sets forth certain items as a percentage of total revenues from the Company's Statements of Operations during 1998, 1999 and 2000:

	Fiscal Year Ended December		
	1998	1999	2000
Sales revenues	98.7%	98.6%	97.6%
Management and licensing fees	1.3	1.4	2.4
Total revenues	100.0	100.0	100.0
Cost of sales	27.7	27.9	28.5
Gross profit	72.3	72.1	71.5
Restaurant operating expense	61.1	60.1	59.6
General and administrative expense	7.9	8.5	7.2
Depreciation and amortization	3.8	3.1	2.9
Unusual charges	2.7	0.1	0.2
Total operating expenses	75.5	71.8	70.6
Operating income (loss)	(3.2)	0.3	0.9
Interest expense, net	(0.6)	(1.0)	(1.0)
Loss before income tax	(3.8)	(0.7)	(0.1)
Provision for taxes	(0.0)	0.0	(0.0)
Minority interest	0.3	(0.2)	0.2
Equity in loss of joint venture	0.0	(0.2)	(0.0)
Cumulative effect of change in accounting principle	(0.2)	0.0	0.0
Net income (loss)	(3.7)%	(1.0)%	0.1%

Fiscal Year 2000 Compared to Fiscal Year 1999

Revenues. The Company's revenues for 2000 increased 17.2% to $45.7 million from $39 million in 1999. Sales revenues increased 16% to $44.6 million in 2000 from $38.4 million in 1999. Management and license fee revenues increased to $1,078,000 in 2000 from $544,000 in 1999. System-wide sales, including sales of non-consolidated restaurants operated under license, management agreement or partnership, totaled $62.3 million in 2000, an increase of 22.6% from $50.8 million in 1999.

Sales for Daily Grill restaurants increased by 8.1% from $26 million in 1999 to $28.1 million in 2000. The increase in sales revenues for the Daily Grill restaurants from 1999 to 2000 was primarily attributable to an increase in

same store sales of 8.1% for restaurants open for 12 months in both 1999 and 2000. Weighted average weekly sales at the Daily Grill restaurants increased 6.1% from $55,545 in 1999 to $58,920 in 2000 and the additional week in 2000 contributed, on average, $530,000, or 2% of sales. Comparable restaurant sales and weighted average weekly sales at the Daily Grill restaurants in 2000 were positively affected by increased customer counts in all restaurants and a price increase in October 2000.

Sales for Grill restaurants increased by 63.8% from $7.4 million in 1999 to $12.2 million in 2000. The increase in sales revenues for the Grill restaurants from 1999 to 2000 was primarily attributable to (1) the opening of the Chicago Grill in June 2000, and (2) an increase in same store sales of 16.1% at the Grill restaurants which were open for 12 months in both 1999 and 2000. Weighted average weekly sales at the Grill restaurants increased 25.2% from $71,450 in 1999 to $89,476 in 2000. Comparable restaurant sales and weighted average weekly sales at the Grill restaurants in 2000 were positively affected by the maturing of the San Jose Grill, now in its third year of operation, and increased customer counts at The Grill in Beverly Hills.

Sales for the Pizza Restaurants decreased by 13.6% from $5.0 million in 1999 to $4.3 million in 2000. The decrease in sales revenues for the Pizza Restaurants from 1999 to 2000 was attributable to (1) the closing of the Pizzeria Uno franchise restaurant in Media, Pennsylvania and (2) a 0.2% decline in same store sales. Weighted average weekly sales at the Pizza Restaurants decreased 0.2% from $32,100 in 1999 to $32,000 in 2000. Management has determined that continued ownership and operation of the Pizza Restaurants does not fit with the Company's strategic growth plans. In October 2000, the Company entered into an agreement to sell its Pizza Restaurant in South Plainfield, New Jersey for $700,000. The Company is also seeking a suitable buyer for its Pizza Restaurant in Cherry Hill, New Jersey.

Price increases were last implemented during the fourth quarter of 2000 for certain menu items. While selected price increases may be implemented from time to time in the future, the Company does not plan to implement additional price increases in the foreseeable future. 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 head count at existing restaurants and selected price increases. When entering new markets where the Company has not yet established a market presence, sales levels are expected to be lower than in existing markets where the Company has a concentration of restaurants and high customer awareness. Although the Company's 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 may result.

Management and license fee revenues during 2000 were attributable to (1) hotel restaurant management services which accounted for $750,000 of management fees, and (2) licensing fees from the LAX Daily Grill and Skokie, Illinois Daily Grill which totaled $148,000 and (3) $122,000 in fees from Universal CityWalk. The increase in management fees during 2000 was attributable to (1) management of the Georgetown Inn Daily Grill for all of 2000 as compared to 39 weeks during 1999, and (2) management of the Universal CityWalk Daily Grill for all of 2000 as compared to 25 weeks in 1999.

The Company accounts for its 50% interest in the Universal CityWalk Daily Grill using the equity method. As a result, the Company's sales do not include sales from Universal CityWalk. Total revenues for the Universal CityWalk Daily Grill were $2.2 million during 2000 as compared to $1.1 million during 1999.

Cost of Sales and Gross Profit. While sales revenues increased by 16.0 % ($6.2 million) in 2000 as compared to 1999, cost of sales increased by 19.4% ($2.1 million) and increased as a percentage of sales from 27.9% in 1999 to 28.5% in 2000. The increase in cost of sales as a percentage of sales revenues was attributable to the additional Grill restaurant and the 16.1% same store increase for the Grills, which typically have a higher cost of sales than Daily Grills.

Gross profit increased 16.3% from $28.1 million (72.1% of sales) in 1999 to $32.7 million (71.5% of sales) in 2000.

Operating Expenses and Operating Results. Total operating expenses, including restaurant operating expenses, general and administrative expense, depreciation and amortization, preopening costs, and unusual charges, rose 15.3% to $32.2 million in 2000 (representing 70.6% of revenues) from $28.0 million in 1999 (representing 71.8% of sales).

Restaurant operating expenses increased 16.1% to $27.2 million in 2000 from $23.4 million in 1999. As a percentage of sales, restaurant operating expenses represented 59.6% in 2000 as compared to 60.1% in 1999. The increase in restaurant operating expenses followed the 16% sales increase for the Company and resulted from the additional costs of opening the Chicago Grill, offset by the spreading of fixed costs over the significant same store sales increases experienced in the Daily Grills and the Grill restaurant same stores.

General and administrative expenses were flat at $3.3 million in 2000 and 1999. General and administrative expenses represented 7.2% of sales in 2000 as compared to 8.5% of sales in 1999. While these expenses in total were nearly equal, there were increases of approximately $120,000 in legal expense relating to establishment of new credit facilities, efforts to sell the Pizza restaurants and certain litigation, offset by decreases in other expenses such as, restaurant management hiring and training.

Depreciation and amortization expense was $1.3 million during 2000 as compared to $1.2 million during 1999. The increase in depreciation and amortization expense reflects the opening of the Chicago Grill in June 2000 offset by a reduction in this expense in the older Daily Grill restaurants.

Preopening costs totaled $330,000 in 2000 as compared with $54,000 in 1999. These pre-opening costs were attributable to the opening in 2000 of the Chicago Grill.

Unusual charges totaling $73,000 in 2000 related to the costs of closing the Media Pizza Restaurant. The Company reported no unusual charges in 1999.

Interest Expense. Interest expense, net, totaled $478,000 during 2000 as compared to $376,000 in 1999. The increase in interest expense was primarily attributable to the added debt for the Chicago Grill plus a slight increase in interest rates on bank debt.

Minority Interest and Equity in Loss of Joint Venture. The Company reported a minority interest in the loss of its majority owned subsidiaries of $103,000 during 2000, consisting of a minority interest in the earnings of San Jose Grill on the Alley, LLC of $114,000 and a minority interest in the loss of Chicago - The Grill on the Alley LLC of $217,000. For the year ending December 26, 1999 the Company recorded a minority interest in the earnings of San Jose Grill on the Alley, LLC of $68,000.

The Company recorded equity in loss of joint venture of $9,000 in 2000 and $74,000 in 1999 which is primarily attributable to the preopening costs incurred in 1999 related to the Universal CityWalk Daily Grill.

The Company reported net income of $34,000 in 2000 as compared to a net loss of $406,000 for 1999.

Fiscal Year 1999 Compared to Fiscal Year 1998

Revenues. The Company's revenues for 1999 increased 11.7% to $39.0 million from $34.9 million in 1998. Sales revenues increased 11.3% to $ 38.4 million in 1999 from $34.5 million in 1998. Management and license fee revenues increased to $ 544,000 in 1999 from $444,000 in 1998.

Sales for Daily Grill restaurants increased by 11.1% from $23.4 million in 1998 to $26.0 million in 1999. The increase in sales revenues for the Daily Grill restaurants from 1998 to 1999 was primarily attributable to (1) the operation of the Tysons Corner Daily for the full year in 1999 as compared to eleven weeks during 1998 ($0.6 million), and (2) an increase in same store sales of 1.1% for restaurants open for 12 months in both 1998 and 1999. Weighted average weekly sales at the Daily Grill restaurants increased 1.1% from $54,900 in 1998 to $55,545 in 1999. Comparable restaurant sales and weighted average weekly sales at the Daily Grill restaurants in 1999 were positively affected by a significant increase in sales at the Palm Desert restaurant.

Sales for Grill restaurants increased by 25.4% from $5.9 million in 1998 to $7.4 million in 1999. The increase in sales revenues for the Grill restaurants from 1998 to 1999 was primarily attributable to (1) the operation of the San Jose Fairmont Grill for the full year in 1999 as compared to thirty-four weeks during 1998 ($2.4 million), and (2) an increase in same store sales of 4.7% at the one Grill restaurant which was open for 12 months in both 1998 and 1999. Weighted average weekly sales at the Grill restaurants increased 3.7% from $68,900 in 1998 to $71,450 in 1999. Comparable restaurant sales and weighted average weekly sales at the Grill restaurants in 1999 were positively affected by increased customer counts.

Sales for the Pizza Restaurants decreased by 2.0% from $5.1 million in 1998 to $5.0 million in 1999. The decrease in sales revenues for the Pizza Restaurants from 1998 to 1999 was attributable to a decrease in same store sales. Weighted average weekly sales at the Pizza Restaurants decreased 2.1% from $32,800 in 1998 to $32,100 in 1999. Comparable restaurant sales and weighted average weekly sales at the Pizza Restaurants in 1999 were negatively affected by (1) several restaurant days lost because restaurants were closed due to severe weather and (2) a large decrease at the Media, Pennsylvania restaurant.

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Price increases were last implemented during the second quarter of 1998 for certain menu items. While selected price increases may be implemented from time to time in the future, the Company does not plan to implement additional price increases in the foreseeable future. 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 head count at existing restaurants and selected price increases. When entering new markets where the Company has not yet established a market presence, sales levels are expected to be lower than in existing markets where the Company has a concentration of restaurants and high customer awareness. Although the Company's 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 may result.

Management and license fee revenues during 1999 were attributable to (1) the commencement of hotel restaurant management services during the second quarter of 1998 which accounted for $432,000 of management fees in 1999 and $186,000 of management fees in 1998, and (2) licensing fees from the LAX Daily Grill which totaled $112,000 in 1999 and gain from the sale of the Company's interest in the LAX Daily Grill and licensing fees from the LAX Daily Grill which totaled $258,000 in 1998. The increase in management fees during 1999 was attributable to (1) management of the Burbank Daily Grill for all of 1999 as compared to 33 weeks during 1998, (2) management of the Georgetown Inn Daily Grill for 39 weeks during 1999, (3) management of the Salt Lake City Hilton Daily Grill for 37 weeks during 1999 (this restaurant was closed and management fees terminated in November 1999), (4) management fees from operation of the Universal CityWalk Daily Grill for 25 weeks during 1999, and (5) management of the City Grill restaurant for all of 1999 as compared to 33 weeks during 1998.

The Company accounts for its 50% interest in the Universal CityWalk Daily Grill using the equity method. As a result, the Company's sales do not include sales from Universal CityWalk. Total revenues from the Universal CityWalk Daily Grill were $1,140,000 during 1999.

Cost of Sales and Gross Profit. While sales revenues increased by 11.5% ($3.9 million) in 1999 as compared to 1998, cost of sales increased by 12.5% ($1.2 million) and increased as a percentage of sales from 27.7% in 1998 to 27.9% in 1999. The increase in cost of sales as a percentage of sales revenues was attributable to the additional Grill restaurant, which typically have a higher cost of sales than Daily Grills.

Gross profit increased 11.5% from $25.2 million (72.3% of sales) in 1998 to $28.1 million (72.1% of sales) in 1999.

Operating Expenses and Operating Results. Total operating expenses, including restaurant operating expenses, general and administrative expense and depreciation and amortization, rose 6.1% to $28.0 million in 1999 (representing 71.8% of revenues) from $26.4 million in 1998 (representing 75.5% of sales).

Restaurant operating expenses increased 9.9% to $23.4 million in 1999 from $21.3 million in 1998. As a percentage of sales, restaurant operating expenses represented 60.1% in 1999 as compared to 61.1% in 1998. The increase in restaurant operating expenses was primarily attributable to (1) an increase in labor cost and (2) occupancy cost associated with new restaurants during 1998 and 1999. The decrease in restaurant operating expenses as a percentage of sales was primarily attributable to lower percentage in the Grill restaurants. Restaurant labor wage rates decreased during 1999, with total restaurant labor costs representing 32.3% of sales revenues during 1999 as compared to 34.3% of sales revenues during 1998. The decrease in restaurant labor costs as a percentage of sales revenues was primarily attributable to lower labor costs in the Grill restaurants due to higher per customer sales. Occupancy costs, consisting principally of rent expense, increased by 7.1% from $2.8 million in 1998 to $3.0 million in 1999, or 7.8% of sales revenues in 1999 as compared to 8% of sales revenues in 1998. The decrease in occupancy costs as a percentage of sales revenues was primarily attributable to a very favorable rental cost at the San Jose Grill.

General and administrative expenses increased 17.9% to $3.3 million in 1999 from $2.8 million in 1998. General and administrative expenses represented 8.5% of sales in 1999 as compared to 7.9% of sales in 1998. The increase in total general and administrative expenses was primarily attributable to the addition of corporate office personnel and related costs to support expansion. The increase in this category reflects the higher cost for additional restaurants, some of which are not included in consolidated sales.

Depreciation and amortization expense, including amortization of pre-opening expense, was $1.2 million during 1999 as compared to $1.3 million during 1998. The decrease in depreciation and amortization expense reflects the operation of three additional restaurants during part of 1998 and all of 1999 offset by a reduction in this expense in the older Daily Grill restaurants. Also, depreciation and amortization expense during 1998 included the amortization of pre-opening costs in the amount of $176,000 associated with the opening of the San Jose Grill during May of 1998 and the Tysons Corner Daily Grill during October of 1998.

Unusual Charges, Other Income and Expenses, Minority Interest, Equity in Loss of Joint Venture, Effect of Change in Accounting Principle and Net Income. The Company reported unusual charges totaling $964,000 during 1998 relating to the Company's early adoption of SOP 98-5 ($513,000) and the write-off of fixed assets ($451,000) of two restaurants due to negative projected cash flows from those restaurants. The Company incurred no similar charges during 1999.

As noted, in addition to the unusual charge of $513,000 during 1998 relating to the incremental impact of early adoption of SOP 98-5, the Company reported a $70,000 charge reflecting the cumulative effect of a change in accounting principle as a result of the early adoption of SOP 98-5.

Net interest expense increased by approximately $145,000 reflecting higher average borrowing during the year attributable to the opening of the San Jose Fairmont Grill and the Tysons Corner Daily Grill, offset by interest earned on funds provided to be used in connection with the scheduled opening of the Chicago Westin Grill during 2000.

The Company reported a minority interest in the earnings of its majority owned subsidiaries (San Jose Grill on the Alley, LLC and Chicago - The Grill on the Alley LLC) of $68,000 during 1999. For the year ending December 27, 1998 the Company recorded a minority interest in the loss of its subsidiary of $121,000 attributable to the minority interest in the San Jose Grill which commenced operations in May of 1998.

The Company recorded equity in loss of joint venture of $74,000 which is primarily attributable to the preopening costs incurred related to the Universal CityWalk Daily Grill.

The Company reported a net loss of $406,000 during 1999 as compared to a net loss of $1,307,000 for 1998. In accordance with the position of the Securities and Exchange Commission relating to accounting for Preferred Stock which is convertible into common stock at a discount from the market price of the common stock, the Company reported a "deemed dividend" of approximately $83,000 during 1998. The "deemed dividend", which relates to the Company's issuance of convertible preferred stock during 1997, is a non-cash, non-recurring accounting entry for determining income (loss) applicable to common stock. After giving effect to preferred stock dividends ($85,000 during 1998) and the "deemed dividend", the net loss attributable to common stock was $456,000 for fiscal 1999 and $1,475,000 for fiscal 1998.

Liquidity and Capital Resources

At December 31, 2000, the Company had a working capital deficit of $2.7 million and a cash balance of $0.6 million as compared to a working capital deficit of $3.7 million and a cash balance of $0.4 million at December 26, 1999. The variance in the Company's working capital and cash was primarily attributable to the pay down in the Company's line of credit of $0.8 million and the reduction in other current debt of $0.1 million, resulting from a

refinancing of debt and cash flow from operations.

The Company's 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. Historically, the Company has funded its day-to-day operations through its operating cash flow, while funding growth through a combination of bank borrowing, loans from stockholders/officers, the sale of debentures and preferred stock, loans and tenant allowances from certain of its landlords, and, beginning in 1999, through joint venture arrangements. At December 31, 2000, the Company had existing bank borrowing of $1.2 million, a loan from a member of Chicago - The Grill on the Alley, LLC of $0.5 million, loans from private investors of $0.4 million, an SBA loan of $0.1 million, loans from stockholders/officers of $0.2 million, equipment loans of $1.4 million, and loans/advances from a landlord of $0.1 million.

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On August 1, 2000, the Company 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, the Company issued 40,000 warrants.

At December 31, 2000, the Company had a bank credit facility of $1.5 million consisting of a $0.3 million revolving line of credit and a $1.2 million term loan payable. Interest is payable at the bank's prime rate, which was 9.5% at December 31, 2000. In connection with the Credit Facility the Company is required to comply with certain debt service coverage and liquidity requirements. Two of the Company's principal stockholders have guaranteed the Credit Facility. In exchange for the guarantee, the Company 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. At December 31, 2000, the Company had utilized $100,000 of its available line of credit. The line of credit matures in August 2001. The term loan is payable in 48 installments over 4 years.

During 2000, the Company and its subsidiaries were obligated under 16 leases covering the premises in which the Company's Daily Grill, Grill and Pizza Restaurants are located as well as leases on its 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 $2.6 million in 2000, with varying escalation and percentage rent clauses in each of the restaurant leases. Minimum rental payments during 2001 on existing leases as of December 31, 2000, total $2.3 million.

The Company currently expects to open one restaurant in 2001, in San Francisco, and is currently negotiating for two additional locations, which would open in 2001 or 2002. Cost of opening the Handlery Hotel Daily Grill in San Francisco is estimated at $2.8 million, of which the Company expects to pay approximately $250,000, with the balance being paid by the hotel. 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 the Company of opening such restaurants to be less than the Company's cost to build and open non-hotel based restaurants.

Capital expenditures were $3.8 million in 1998, $1.1 million in 1999 and $2.3 million in 2000. Capital expenditures in fiscal 2001 are expected to be

between $1.0 million and $1.5 million, primarily for the development of new restaurants, capital replacements and refurbishing for 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 the Company's part. In addition, if the Company opens more, or less, restaurants than it currently anticipates, its capital requirements will increase, or decrease, accordingly.

In order to finance restaurant openings during 1997 and 1998, the Company 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 to the Company of approximately $1.5 million. The 1997 offering consisted of a private placement of 200,000 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 the Company's 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 the Company's 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 the option of the Company on or after the second anniversary of issuance at $1,000 per share.

The $8.00 Warrants are 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 $12.00 Warrants are 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.

In February of 1999, the Company entered into a limited liability company/member loan arrangement to provide financing for the planned opening of a Grill restaurant at the Chicago Westin Hotel which opened June of 2000. Pursuant to the financing arrangement for the Chicago Westin Hotel Grill, investor members of the limited liability company (the "Chicago LLC") invested $1,000 in the Chicago LLC and loaned an additional $1.699 million to the Chicago LLC. The Company manages the Chicago LLC for which it receives a management fee of 5% of sales and owns a 60% interest in the Chicago LLC. The Company guaranteed repayment of the loan to the Chicago LLC and issued warrants to acquire 203,645 shares of common stock at $1.75 per share. The total cost to construct the Chicago Grill was $2.5 million. The Chicago Grill opened in June 2000.

The Company may enter into investment/loan arrangements in the future on terms similar to the Chicago Westin Grill arrangements to provide for the funding of selected restaurants.

In September 2000, the Company opened a hotel-based licensed Daily Grill restaurant at the Double Tree in Skokie, Illinois. All costs to build and open the restaurant were paid by the hotel operator.

Management believes that the Company has adequate resources on hand and operating cash flow to sustain operations for at least the following 12 months. In order to fund the opening of additional restaurants, the Company will require, and intends to raise, additional capital, the issuance of debt or equity securities, or the formation of additional investment/loan arrangements, or a combination thereof. The Company presently has no commitments in that regard. See "Description of Business -- Business Expansion" and "Management's Discussion and Analysis -- Certain Factors Affecting Future Operating Results."

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. 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 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 the Company's 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; and 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 which could adversely impact revenues and earnings; and potential increases in meat prices, and corresponding decreases in operating margins, as a result of quarantine and destruction of livestock in Europe due to disease. 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.

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The Company closed its Media, Pennsylvania Pizza Restaurant in 2000 and, in October 2000, entered into an agreement to sell its South Plainfield, New Jersey Pizza Restaurant for $700,000. Sale of the South Plainfield Restaurant is subject to certain contingencies.

Future Accounting Requirements

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". This Statement requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives will be recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. The new rules will be effective the first quarter of 2001 as amended by SFAS No. 137 in June 1999. The Company does not believe that the new standard will have a material impact on the Company's financial statements.

Impact of Inflation

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

A majority of the Company's employees are paid hourly rates related to federal and state minimum wage laws and various laws that allow for credits to that wage. The Company's 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 2001. In addition, further increases in the minimum wage are also being discussed by the federal and various state governments. Although the Company has 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 its 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

The Company is exposed to market risk from changes in interest rates on funded debt. This exposure relates to its $1.5 million revolving credit and term loan facility. Borrowings outstanding under the credit facility totaled $1.2 million at December 31, 2000. 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 the Company's results of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of the Company, together with the independent accountants report thereon of PricewaterhouseCoopers, LLP, appears 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.

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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 the Company's fiscal year. Such information is incorporated herein by reference.

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 the Company's 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 the Company's 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 the Company's fiscal year. Such information is incorporated herein by reference.

PART IV

ITEM 14. 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

None

(3) 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. (8)
3.3	Certificate of Amendment to Restated Certificate of Incorporation of Grill Concepts, Inc. dated August 1999 (13)
3.4	Bylaws, as amended, of Grill Concepts, Inc. (1)
3.5	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, 1989 for premises in Cherry Hill, New Jersey (1)

+10.3 Employment Agreement with Robert Wechsler (2)
10.4 Operating Agreement for The Airport Grill LLC between Grill Concepts and CA One Services, Inc. dated March 15, 1995 (5)
+10.5 Grill Concepts, Inc. 1995 Stock Option Plan (6)
+10.6 Employment Agreement, dated January 1, 2000, with Robert Spivak (12)
10.7 Operating Agreement for San Jose Grill LLC, dated June 1997 (9)
10.8 Amendment, dated December 1997, to Operating Agreement for San Jose Grill LLC (9)
10.9 Subordinate Note, dated December 1997, relating to San Jose Grill LLC (9)
10.10 Management Agreement re: San Jose City Bar & Grill (10)
10.11Blanket Conveyance, Bill of Sale and Assignment between Grill Concepts, Inc. and Air Terminal Services, Inc. (11)
10.12License Agreement between Grill Concepts, Inc. and Airport Grill, L.L.C. (11)
10.13Agreement, dated August 27, 1998, between Grill Concepts, Inc. and Hotel Restaurant Properties, Inc. (11)
10.14Restaurant Management Agreement between Grill Concepts, Inc., Hotel Restaurant Properties, Inc. and CapStar Georgetown Company, L.L.C. for the Georgetown Inn (11)
10.15Loan Agreement between Grill Concepts, Inc. and The Wolff Revocable Trust of 1993 (12)
10.16Addendum to Management Agreement re: San Jose City Bar & Grill (12)
+10.17Grill Concepts, Inc. 1998 Comprehensive Stock Option and Award Plan(24)
10.18Bank of America Business Loan Agreement (15)
10.19Peter Roussak Warrant dated November 1999 (15)
10.20Chicago - Grill on the Alley Warrant (15)
10.21Chicago - Grill on the Alley First Extension Warrant (15)
10.22Chicago - Grill on the Alley Second Extension Warrant (15)
10.23Guaranty - Michigan Avenue Group Note (15)
10.24Operating Agreement for Chicago - The Grill on the Alley LLC (15)
10.25 Letter Agreement dated July 19, 2000 with Wells Fargo Bank (16)
10.26Indemnification Agreement between Grill Concepts, Inc., Lewis N. Wolff and the Lewis N. Wolff Revocable Trust of 1993 and Michael S. Weinstock and Michael S. Weinstock Trustee of the Michael S. Weinstock Living Trust (16)

10.27 Form of Letter Agreement regarding Loan Facility (16)
10.28 Form of four year 9% Promissory Note (16)
10.29 Form of Warrant issued in connection with Promissory Notes (16)
10.30Guarantee Agreement dated July 11, 2000 with Michael Weinstock and Lewis Wolff (16)

10.31Form of Warrant issued in connection with Loan Guaranty (16)

10.32*Michael Grayson Warrant

10.33*Daily Grill Restaurant Management Agreement, dated February 5, 2001, between Grill Concepts Management, Inc., Hotel Restaurant Properties II Management, Inc., and Handlery Hotel, Inc.

10.34* Asset Purchase Agreement, dated October 18, 2000 re: South Plainfield Pizzeria Uno

21.1* Subsidiaries of Registrant

23.1* Consent of PricewaterhouseCoopers LLP

+ Compensatory plan or management agreement.

* Filed herewith

(1) Incorporated by reference to the respective exhibits filed with Registrant's Registration Statement on Form SB-2 (Commission File No. 33-55378-NY) declared effective by the Securities and Exchange Commission on May 11, 1993.

(2) Incorporated by reference to the respective exhibits filed with Registrant's Registration Statement on Form S-4 (Commission File No. 33-85730) declared effective by the Securities and Exchange Commission on February 3, 1995.

(3) Incorporated by reference to the respective exhibits filed with Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 1996.

(4) Incorporated by reference to the respective exhibits filed with Registrant's Current Report on Form 8-K dated December 13, 1996.

(5) Incorporated by reference to the respective exhibits filed with Registrant's Annual Report on Form 10-KSB for the year ended December 25, 1994.

(6) Incorporated by reference to the respective exhibits filed with Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 25, 1995.

(7) Incorporated by reference to the respective exhibits filed with Registrant's Registration Statement on Form SB-2 (Commission File No. 33-55378-NY) declared effective by the Securities and Exchange Commission on May 11, 1993 and the exhibits filed with the Registrant's Current Report on Form 8-K dated March 3, 1995.

(8) Incorporated by reference to the respective exhibits filed with the Registrant's Form 10-QSB for the quarter ended June 29, 1997.

(9) Incorporated by reference to the respective exhibits filed with the Registrant's Annual Report on Form 10-KSB for the year ended December 28, 1997.

(10) Incorporated by reference to the respective exhibits filed with the Registrant's Form 10-QSB for the quarter ended March 29, 1998.

(11) Incorporated by reference to the respective exhibits filed with the Registrant's Form 10-QSB for the quarter ended September 27, 1998.

(12) Incorporated by reference to the respective exhibits filed with the Registrant's Annual Report on Form 10-K for the year ended December 27, 1998.

(13) Incorporated by reference to the respective exhibits filed with the Registrant's Form 10-Q for the quarter ended June 27, 1999.

(14) Incorporated by reference to the Company's Definitive Proxy Statement filed April 28, 1998.

(15) Incorporated by reference to the respective exhibits filed with the Registrant's Form 10-K for the year ended December 26, 1999.

(16) Incorporated by reference to the respective exhibits with the Registrant's Form 10-Q for the quarter ended September 24, 2000.

(b) Reports on Form 8-K

The Company filed no reports on Form 8-K during the quarter ended December 31, 2000.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GRILL CONCEPTS, INC.

By: /s/ Robert Spivak
Robert Spivak
President

Dated: March 30, 2001

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Robert Spivak Robert Spivak	President, Chief Executive Officer and Director (Principal Executive Officer)	March 30, 2001
/s/ Michael Weinstock Michael Weinstock	Chairman of the Board of Directors and Executive Vice President	March 30, 2001
Robert Wechsler	Director	March __, 2001
/s/ Charles Frank Charles Frank	Director	March 30, 2001
/s/ Glenn Golenberg Glenn Golenberg	Director	March 30, 2001

/s/ Keith Wolff --------------------- Keith Wolff	Director	March 30, 2001
/s/ Daryl Ansel --------------------- Daryl Ansel	Chief Financial Officer (Principal Accounting Officer and Principal Financial Officer)	March 30, 2001

Grill Concepts, Inc. and Subsidiaries
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Report of Independent Accountants

To the Board of Directors
Grill Concepts, Inc.

In our opinion, based on our audits and the report of other auditors, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders' equity, and cash flows present fairly, in all material respects, the financial position of Grill Concepts, Inc. and its Subsidiaries at December 31,2000 and December 26, 1999, and the results of their operations and their cash flows for each of the three fiscal years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the Company's majority-owned subsidiaries, The San Jose

Grill, LLC (a California Limited Liability Company) and Chicago-The Grill on The Alley, LLC (an Illinois Limited Liability Company) as of December 31, 2000 and for the year then ended, which combined statements reflect total assets and total revenues of $4,430,447 and $8,062,717, respectively. In addition, we did not audit the financial statements of the San Jose Grill, LLC as of December 26, 1999 and for the year then ended, which statements reflect total assets and total revenues of $1,897,962 and $3,783,430, respectively. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the aforementioned majority-owned subsidiaries, is based solely on the reports of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

As discussed in Note 8 to the consolidated financial statements, the Company changed its method of accounting for the cost of start-up activities in 1998.

Price Waterhouse Coopers L.L.P.
March 14, 2001

Grill Concepts, Inc. and Subsidiaries
Consolidated Balance Sheets

	December 31, 2000
Assets	
Current assets:	
Cash and cash equivalents	$ 623,097
Inventories	541,579
Receivables	654,594
Prepaid expenses and other current assets	270,672
Total current assets	2,089,942
Furniture, equipment and improvements, net	9,300,548
Goodwill, net	213,053
Liquor licenses	587,614
Other assets	342,921
Total assets	$12,534,078
Liabilities, Minority Interest and Stockholders' Equity	
Current liabilities:	

Bank line of credit	$ 100,00
Accounts payable	1,420,59
Accrued expenses	2,358,69
Current portion of long-term debts	737,8
Notes payable - related parties	191,7
Total current liabilities	4,808,88
Long-term debts	2,408,15
Notes payable - related parties	458,1
Total liabilities	7,675,170
Minority interest	1,363,494
Commitments and contingencies (Note 9)	
Stockholders' equity:	
Series A, 10% Convertible Preferred Stock, $.001 par value; 1,000,000 shares authorized, none issued and outstanding in 2000 and 1999	
Series B, 8% Convertible Preferred Stock, $.001 par value; 1,000,000 shares authorized, none issued and outstanding in 2000 and 1999	-
Series I, Convertible Preferred Stock, $.001 par value; 1,000,000 shares authorized, 0 and 1,000 shares issued and outstanding in 2000 and 1999, respectively	-
Series II, 10% Convertible Preferred Stock, $.001 par value; 1,000,000 shares authorized, 500 shares issued and outstanding in 2000 and 1999, liquidation preference of $175,695 and $125,695 in 2000 and 1999, respectively	1
Common Stock, $.00004 par value; 7,500,000 shares authorized, 4,203,888 and 4,003,738 issued and outstanding in 2000 and 1999, respectively	168
Additional paid-in capital	11,071,055
Accumulated deficit	(7,575,810
Total stockholders' equity	3,495,414
Total liabilities, minority interest and stockholders' equity	$ 12,534,078

The accompanying notes are in integral part of these consolidated financial statements

Grill Concepts, Inc. and Subsidiaries
Consolidated Statements of Operations

	December 31, 2000	December 1999

Revenues:		
Sales	$ 44,597,349	$38,431,8
Management and license fees	1,078,272	544,0
Total revenues	45,675,621	38,975,9
Cost of sales	13,001,701	10,886,4
Gross profit	32,673,920	28,089,5
Operating expenses:		
Restaurant operating expenses	27,201,008	23,426,2
General and administrative	3,302,704	3,295,3
Depreciation and amortization	1,334,008	1,195,9
Preopening costs	330,168	54,1
Unusual charges	72,990	
Total operating expenses	32,240,878	27,971,7
Income (loss) from operations	433,042	117,7
Interest expense, net	(398,288)	(180,2
Interest expense - related parties	(80,001)	(195,3
Loss before provision for income taxes, minority interest, equity in loss of joint venture and cumulative effect of change in accounting principle	(45,247)	(257,8
Provision for income taxes	(14,000)	(6,0
Loss before minority interest, equity in loss of joint venture and cumulative effect of change in accounting principle	(59,247)	(263,8
Minority interest in loss (earnings) of subsidiaries	102,754	(67,5
Equity in loss of joint venture	(9,469)	(74,1
Income (loss) before cumulative effect of change in accounting principle	34,038	(405,5
Cumulative effect of change in accounting principle	-	
Net income (loss)	34,038	(405,5
Preferred stock:		
Preferred dividends accrued or paid	(50,000)	(50,0
Accounting deemed dividends	-	
	(50,000)	(50,0
Net loss applicable to common stock	(15,962)	(455,5
Net income (loss) per share:		
Net income (loss) before preferred dividend	$ .01	$ (0.1
Preferred stock:		
Dividends	(.01)	(0.
Accounting deemed dividends	(.00)	(0.
	(.01)	(0.
Basic net income (loss) applicable to common stock	$ .00	$ (0.
Average-weighted shares outstanding	4,104,360	4,003,7

The accompanying notes are in integral part of these consolidated financial statements

Grill Concepts, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity

	Series A Preferred Stock	Series B Preferred Stock	Series I Preferred Stock	Series II Preferred Stock	Common Stock	Additi Paid- Capit
Balance, December 28, 1997	$ -	$ 1	$ 1	$ 1	$ 157	$ 11,053
Dividends of Series B, 8% Convertible Preferred Stock, paid in cash	-	-	-	-	-	(9
Dividends of Series B, 8% Convertible Preferred Stock, paid by issuance of common stock	-	-	-	-	1	26
Conversion of Series B, 8% Convertible Preferred Stock, to common stock	-	(1)	-	-	2	
Net loss	-	-	-	-	-	
Balance, December 27, 1998	-	-	1	1	160	11,071
Net loss	-	-	-	-	-	
Balance, December 26, 1999	-	-	1	1	160	11,071
Conversion of Series I, Convertible Preferred Stock, to common stock			(1)		8	
Net income	-	-	-	-	-	
Balance, December 31, 2000	$ -	$ -	$ -	$ 1	$ 168	$ 11,07

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

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Grill Concepts, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

	December 31 2000	Decemb 199
Cash flows from operating activities:		
Net income (loss)	$ 34,038	$ (405
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,334,008	1,195
Cumulative effect of change in accounting principle	-	
Unusual charges - write-off of assets	72,990	
Minority interest in net (loss) earnings of subsidiaries	(102,754)	67
Equity in loss of joint venture	9,469	74
Changes in operating assets and liabilities:		
Inventories	(114,899)	(41
Receivables	84,163	(382
Prepaid expenses and other current assets	23,579	169
Liquor licenses and other assets	50,930	(28
Accounts payable	(461,317)	461
Accrued expenses	695,109	617
Net cash provided by operating activities	1,625,316	1,728
Cash flows from investing activities:		
Additions to furniture, equipment and improvements	(2,381,899)	(1,117
Investment in joint venture	-	(83
Net cash used in investing activities	(2,381,899)	(1,201
Cash flows from financing activities:		
Proceeds from issuance of notes payable	400,000	
Net increase in bank line of credit	100,000	344
Proceeds from term debt	1,200,000	624
Proceeds from investment in San Jose Grill LLC	-	
Proceeds from investment in Chicago Grill LLC	1,190,000	
Preferred return to minority member on Chicago - The Grill on the Alley, LLC	(73,402)	
Proceeds from equipment financing	1,007,144	
Payments on long term debt and bank loans	(2,397,957)	(455
Payments on related party debt	(398,558)	(1,126
Dividends paid	-	
Net cash provided by (used in) financing activities	1,027,227	(612
Net increase (decrease) in cash and		

cash equivalents	270,644	(85
Cash and cash equivalents, beginning of year	352,453	438
Cash and cash equivalents, end of year	$ 623,097	$ 352
Supplemental cash flows information:		
Cash paid during the year for:		
Interest	$ 543,897	$ 378
Income taxes	$ 12,200	$ 6

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

GRILL CONCEPTS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Business, Organization and Basis of Presentation

General

Grill Concepts, Inc. (the "Company") is incorporated under the laws of the State of Delaware. The Company operates exclusively in the restaurant industry in the United States. At December 31, 2000, the Company owned and operated fifteen restaurants, consisting of eight Daily Grill restaurants in California; The Grill on the Alley ("The Grill"); The Grill in San Jose ("The San Jose Grill LLC"); The Grill in Chicago ("Chicago - The Grill on the Alley LLC"); one Daily Grill in Washington, D.C.; one Daily Grill in Virginia; and two Pizzeria Uno Restaurants located in the eastern part of the United States. With the exception of the two Pizzeria Uno Restaurants which are operated pursuant to franchise agreements, each of the Company's restaurants is owned and operated on a nonfranchise basis solely by the Company.

Management's Plans

The Company reported net income of $34,038 in the year ended December 31, 2000 , but incurred net losses of $ 405,537 and $1,306,602 for the years ended December 26, 1999, and December 27, 1998, respectively, and has a negative working capital of $2,718,945 as of December 31, 2000. Although the Company has had recurring losses, the Company generated positive cash flows from operations of $1,625,316, $1,728,211 and $696,896 for the years ended December 31, 2000, December 26, 1999, and December 27, 1998, respectively.

Management's plans for profitable operations include increasing sales at its existing restaurants and increased cost controls and efficiency gains through leveraging the recently implemented information systems, implementation of procedures and improving management practices. In addition, the Company has shifted some of its business focus to include hotel-based restaurants. Accordingly, the Company has initiated a strategic growth plan whereby the Company plans to operate its restaurants in hotel properties in strategic markets throughout the United States. The Company believes that the opening of restaurants in hotel properties in strategic markets will help further establish brand name recognition. Also the Company has shown that it

is able to expand its restaurant base with little to no equity investment in new locations. Specifically, the new locations to be opened in 2001 are already fully funded through landlord contributions, joint ventures, partnerships, or a combination thereof. The Company will earn management fee income in addition to profit sharing, thereby increasing the predictability of its income stream and significantly enhancing its return on assets. The Company believes that these activities will allow the Company to meet its existing and ongoing obligations, and achieve profitability and better margins from successfully shifting some of its focus to hotel-based restaurants. If the Company requires additional financing for the opening of additional restaurants, acquisitions, or if there is a significant downturn in sales that result in a decrease in cash flows, the Company may seek additional financing by issuing debt or equity securities, the formation of additional investment/loan arrangements, or a combination thereof. However, there is no assurance that adequate financing will be available to the Company at acceptable terms, if at all.

The Company funds its operations through its operating cash flow, and various borrowings. At December 31, 2000 the Company had a bank credit facility of $1,500,000 consisting of a line of credit of $ 300,000 and a $1,200,000 term loan payable in 48 equal monthly installments. The line of credit matures in August 2001.

2. Summary of Significant Accounting Policies

Principles of Consolidation and Minority Interest

The consolidated financial statements at December 31, 2000 include the accounts of Grill Concepts, Inc. and its wholly-owned subsidiaries, which include the two Pizzeria Uno Restaurants, The Grill on the Alley, Universal Grill Concepts, Inc. and two majority-owned subsidiaries The San Jose Grill LLC (a California Limited Liability Company) and Chicago - The Grill on the Alley, LLC. All significant intercompany accounts and transactions for the periods presented have been eliminated in consolidation. The equity method of accounting is used by Universal Grill Concepts, Inc. to account for the investment in the joint venture in Universal CityWalk.

In connection with the building of a new restaurant, in February 1999, a limited liability company was formed for the operation of "The Grill on the Alley" restaurant in Chicago, Illinois, of which the Company owns 60.0%. Construction of the restaurant has been funded primarily by a capital contribution of $1,190,000 and a loan of $510,000 from the other minority interest member of the limited liability company and $750,000 of equipment financing. The consolidated financial statements include the accounts of the limited liability company with minority interest reflected.

In connection with the building of a new restaurant, in January 1998, a limited liability company was formed for the operation of "The Grill" restaurant in San Jose, California, of which the Company owns 50.05%. Construction of the restaurant has been funded primarily by a capital contribution from the Company of $350,350 and by a capital contribution of $349,650 and a $800,000 loan from the other minority interest member of the limited liability company. The consolidated financial statements include the accounts of the limited liability company with minority interest reflected.

Fiscal Year

The Company's fiscal year is the 52 or 53 weeks ending the Sunday closest to December 31. The fiscal year 2000 consisted of 53 weeks ended December 31, 2000. The fiscal years 1999 and 1998 consisted of 52 weeks ended December 26, 1999 and December 27, 1998, respectively.

Revenue Recognition

Revenue from restaurant sales is recognized when food and beverage products are sold. Management and license fees are recognized on an accrual basis when earned.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less at date of purchase to be cash equivalents.

2. Summary of Significant Accounting Policies (Continued)

Concentration of Credit Risk

Financial instruments which potentially subject the Company to a concentration of credit risk are cash and cash equivalents. The Company currently maintains substantially all of its day-to-day operating cash balances with major financial institutions. At times, cash balances may be in excess of Federal Depository Insurance Corporation ("FDIC") insurance limits.

Inventories

Inventories consist of food, wine and liquor and are stated at the lower of cost or market, cost generally being determined on a first-in, first-out basis.

Furniture, Equipment and Improvements

Furniture, equipment and improvements are stated at cost.

Depreciation of furniture and equipment is computed by use of the straight-line method based on the estimated useful lives of 5 to 10 years of the respective assets. Leasehold improvements are amortized using the straight-line method over the life of the improvement or the remaining life of the lease, whichever is shorter. Interest costs incurred during construction were capitalized and are being amortized over the related assets' estimated useful lives. When properties are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts, and the resulting gain or loss is credited or charged to current-year operations. The policy of the Company is to charge amounts expended for maintenance and repairs to current-year expense and to capitalize expenditures for major replacements and betterments.

Goodwill

Goodwill relates to the excess of cost over the fair value of the net

assets of The Grill acquired in April 1996. Goodwill is being amortized on a straight-line basis over 30 years. Accumulated amortization at December 31, 2000 was $32,776.

Expendables

Initial amounts spent for china, glassware and flatware in connection with the opening of a new restaurant are capitalized. Subsequent purchases are expensed as incurred.

Liquor Licenses

The cost of acquiring liquor licenses is capitalized at cost and is stated at the lower of cost or market.

2. Summary of Significant Accounting Policies (Continued)

Pre-opening Costs

Effective with fiscal year 1998, pre-opening costs are expensed as incurred.

Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes," which prescribes an asset and liability approach. Under the asset and liability method, deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory rates applicable to future years to the difference between the financial statement carrying amounts and the tax basis of existing assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. The Company establishes a valuation allowance to reduce net deferred tax assets to the amount expected to be realized.

Advertising and Promotion Costs

All costs associated with advertising and promoting products are expensed in the year incurred. Advertising and promotion expense for the years ended December 31, 2000, December 26, 1999 and December 27, 1998 was $ 844,221, $804,275 and $928,911, respectively.

Reclassifications

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

Long-Lived Assets

In accordance with SFAS No. 121, long-lived assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of evaluating the recoverability of long-lived assets, the recoverability test is performed using undiscounted net 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. Based on its review, the Company does not believe that any impairment of its goodwill, intangibles or other long-lived assets has occurred.

2. Summary of Significant Accounting Policies (Continued)

Stock-Based Compensation

The Company accounts for stock-based employee compensation arrangements in accordance with provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, and complies with the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Under APB 25, compensation expense is based on the difference, if any, on the date of grant between the fair value of the Company's stock and the amount an employee must pay to acquire the stock. The Company accounts for stock and options to non-employees at fair value in accordance with the provisions of SFAS No. 123 and the Emerging Issues Task Force Consensus on Issue No. 96-18.

Net Income Per Share

Pursuant to SFAS No. 128 "Earnings Per Share" basic net income per share is computed by dividing the net income attributable to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed by dividing the net income attributable to common shareholders by the weighted-average number of common and common equivalent shares outstanding during the period. Common share equivalents included in the diluted computation represent shares issuable upon assumed exercise of stock options, warrants and convertible preferred stocks using the Treasury Stock method.

Dilutive net income (loss) per share is not presented since all of the dilutive shares are antidilutive for the periods presented. Net income (loss) per share for fiscal year 1998 has also been adjusted to give effect to the deemed dividends.

On August 9, 1999, the Company effected a 1-for-4 reverse stock split of the Company's common stock. All shares and per share data have been restated to reflect the reverse stock split.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company's management to make estimates and assumptions for the reporting period and as of the financial statement date. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities, and the reported amounts of revenue and expenses. Actual results could differ from those estimates.

Fair Value of Financial Instruments

SFAS No. 107, "Disclosure About Fair Value of Financial Instrument," requires disclosure of fair value information about most financial instruments both on and off the balance sheet, if it is practicable to

estimate. SFAS No. 107 excludes certain financial instruments, such as certain insurance contracts, and all nonfinancial instruments from

2. Summary of Significant Accounting Policies (Continued)

its disclosure requirements. A financial instrument is defined as a contractual obligation that ultimately ends with the delivery of cash or an ownership interest in an entity. Disclosures regarding the fair value of financial instruments have been derived using external market sources, estimates using present value or other valuation techniques.

Cash, accounts payable and accrued liabilities are reflected in the financial statements at fair value because of the short-term maturity of these instruments. The fair value of long-term debt closely approximates its carrying value.

Recent Accounting Pronouncements

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". This Statement requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives will be recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. The new rules will be effective the first quarter of 2001, as amended by SFAS No. 137 in June 1999. The Company does not believe that the new standard will have a material impact on the Company's financial statements.

During fiscal 1998, the Company elected early adoption of American Institute of Certified Public Accountants ("AICPA") Statement of Position ("SOP") 98-5, "Reporting on the Costs of Start-Up Activities." This new accounting standard requires entities to expense all start-up and pre-opening costs as they are incurred. Consistent with the practice of most casual dining restaurant companies, the Company previously deferred such costs and then wrote them off over the twelve-month period following the opening of each restaurant. Restatement of previously issued financial statements is not permitted by SOP 98-5, and entities are not required to report the pro forma effects of the retroactive application of the new accounting standard.

3. Furniture, Equipment and Improvements, Net

Furniture, equipment and improvements at December 31, 2000 and December 26, 1999 consisted of:

	2000	1999
Furniture, fixtures and equipment	$ 7,034,256	$ 6,213,473
Leasehold improvements	8,763,894	7,155,076
Motor vehicle	22,577	22,577
Expendables	335,164	237,841
Construction-in-progress	-	334,048
Furniture, equipment and improvements	16,155,891	13,963,015

Less, Accumulated depreciation	(6,855,343)	(5,690,506)
Furniture, equipment and improvements, net	$ 9,300,548	$ 8,272,509

4. Accrued Expenses

Accrued Expenses at December 31, 2000 and December 26, 1999 consist of the following:

	2000	1999
Accrued Payroll	$ 587,185	$ 311,639
Accrued Sales Tax	282,712	237,855
Accrued Interest	110,987	176,595
Deferred Rent	291,604	239,441
Other	1,086,211	698,060
Total	$ 2,358,699	$1,663,590

5. Debts

Debts at December 31, 2000 and December 26, 1999 are summarized as follows:

	2000
Note payable to bank under a credit agreement, expiring August 1, 2004, payable in forty-eight equal monthly installments starting September 1, 2000, plus interest. Also available is $300,000 under a revolving line of credit expiring August 1, 2001 ($100,000 outstanding at December 31, 2000). Interest is payable monthly at the Banks' Reference Rate (9.5% at December 31, 2000). The note is collateralized by an interest in the assets of the Company. In addition, two of the Company's principal stockholders have guaranteed the credit facility. In connection with this facility, the Company is required to comply with a number of restrictive covenants, including meeting certain debt service coverage and liquidity requirements. The credit agreement also contains a subjective acceleration clause and a cross-default provision.	$1,200,000
Note payable to bank under revolving credit agreement, expiring August 1, 2003, payable in sixty equal monthly installments starting September 1, 1998, plus interest. Also available is $1,000,000 under a revolving line of credit expiring June 30, 2000 ($935,000 outstanding at December 26, 1999). Interest is payable monthly at the Bank's Reference Rate (8.75% at December 26, 1999) plus 0.25%. The Company has the option of fixing the interest rate. The note is collateralized by an interest in the assets of the Company. In addition, two of the Company's principal stockholders have guaranteed the credit facility and it is their intention to continue guaranteeing the credit facility upon renewal. In connection with this credit facility, the Company is required to comply with a number of restrictive covenants, including meeting certain debt service cover and liquidity requirements. The credit agreement also	

contains a subjective acceleration clause and a cross-default provision. The note was terminated and paid in full in August 2000.

5. Debts (Continued)

	2000
Note payable to Small Business Administration collateralized by property, payable monthly, $1,648, including interest at 4.0%, due September 23, 2006.	$ 101,425
Note payable to lessor, uncollateralized, payable monthly, $1,435, including interest at 10.0%, due April 30, 2013.	128,325
Note payable for equipment, payable monthly, $2,039, due December 8, 2001.	21,659
Note payable for equipment, payable monthly, $14,597, including interest at 9.25%, due April 30, 2004.	489,700
Note payable for equipment, payable monthly, $6,382, including interest at 10.8%, due May 1, 2004.	220,058
Note payable to two non-related parties, payable monthly, $9,954, including interest at 9.0%, due August 1, 2004	371,870
Note payable for equipment, payable monthly, $15,396, including interest at 10.8%, due December 1, 2005	709,374
Note payable for equipment, payable monthly, $136, including interest at 11.8%, due July 1, 2003	3,621
	3,246,032
Less, Current portion of long-term debts	737,881
Less, Bank line of credit	100,000
Long-term portion	$ 2,408,151

Principal maturities of long-term debt are as follows:

Year Ending December 31,	
2001	$ 837,881
2002	758,205
2003	803,821
2004	534,751

2005	196,850
Thereafter	114,524
Total	$3,246,032

6. Related Parties

Debts with related parties at December 31, 2000 and December 26, 1999 consisted of:

	2000
Uncollateralized note payable to shareholder, with interest payable at a rate of 10% per annum. The note payable and interest is due on July 31, 2001.	$ 70,000
Uncollateralized subordinated note payable to shareholders, with interest payable at a rate of 7.0% per annum. The note payable and interest is due on December 23, 2001.	84,500
Uncollateralized note payable to one of the shareholders' revocable trusts ($500,000 original principal amount), with interest payable at a rate of 10.0% per annum. Management fees received by the Company from the management of the Burbank Daily Grill are remitted as principal and interest payments. As a result, the current portion at 1998 fiscal year-end is calculated based on projected 1999 results of operations of the restaurant. The note was terminated and paid in full in September 2000.	-
Uncollateralized subordinated note payable to a member of The San Jose Grill LLC ($800,000 original principal amount), with interest payable annually at a rate of 10.0% per annum. The note payable has no defined payment terms and is due in January 2018. Substantially all operating cash flows from the limited liability company will be used to pay down the note prior to the distribution of funds to the members. The note was terminated and paid in full in September 2000.	-
Collateralized subordinated note payable to a member of Chicago - The Grill on the Alley LLC ("Chicago LLC"). Conversion of the note is at the option of the member. The original principle amount of the note was $1,699,000. However, in February 1999, the member converted $1,190,000 of the note to equity. The note bears monthly payments of $6,292, including interest at 8% per annum. The note will mature on October 1, 2009. The Company guaranteed repayment of the loan to Chicago LLC and issued 203,645 warrants to acquire common stock at $7.00 per share.	495,348
	649,848
Less, Current portion of notes payable - related parties	191,716

Long-term portion	$ 458,132

6. Related Parties (Continued)

Principal maturities of debts with related parties are as follows:

Year Ending December 31,	
2001	$ 191,716
2002	40,305
2003	43,650
2004	47,273
2005	51,197
Thereafter	275,707
Total	$ 649,848

The Company agreed to pay to each of two stockholders interest at a rate of 2% per annum of the average annual balance of the note payable to the bank for guaranteeing the note with their personal assets. Interest expense totaled $43,820, $78,734 and $66,834 for fiscal years 2000, 1999 and 1998, respectively.

A stockholder of the Company is the lessor for property leased by one of the Pizzeria Uno Restaurants. Rent expense related to this operating lease was $248,000 in 2000 and $244,000 for each of the fiscal years 1999 and 1998.

The holder of all of the Company's preferred stocks is a part owner of the San Jose Fairmont Hotel, the site of The San Jose Grill LLC. He is also a part owner of the San Jose Hilton Hotel, the site of The City Bar & Grill, which is one of the restaurants managed by the Company through management agreements entered into during 1998. Revenue related to this management agreement was $ 92,000 and $78,000 for the fiscal years 2000 and 1999, respectively.

In August 1998, the Company entered into an agreement (the "Agreement") with Hotel Restaurant Properties, Inc. ("HRP") in which HRP will assist the Company in locating hotel locations for the opening of Company restaurants. One of the two owners of HRP is a family member of the above-referenced preferred stockholder of the Company. A portion of the management fees received by the Company, as a result of the management agreements entered into with the assistance of HRP, are payable to HRP. There were $187,604 and $80,651 of management fees paid to HRP on this Agreement for fiscal year 2000 and 1999 respectively. The Agreement also provides that the HRP will repay to the Company amounts advanced to managed units on behalf of HRP. As of December 31, 2000, $28,813 was payable to HRP and at December 26, 1999, a receivable of $129,266 was due from HRP. Additionally, the Agreement provides that in case of a change in control of the Company both HRP and the Company will have certain rights to cause the Company to acquire HRP commencing in May of 2004.

7. Stockholders' Equity

In June 1996, the Board of Directors authorized and the Company completed an offering of $1.5 million of 1,500 shares of Series A, 10% Convertible Preferred Stock to an offshore investor. The preferred shares are convertible at the option of the holder in 25% increments commencing 60, 90, 120 and 150 days after June 17, 1996. The conversion price of the preferred shares is equal to the lesser of $9.00 per share or 85% of the average closing bid price of the common stock for the five trading days preceding notice of conversion. The Company may, at its option, redeem the preferred shares at their initial offering price or force conversion of the preferred shares at the then applicable conversion price commencing June 17, 1998. During fiscal year 1996, 800 shares of Series A Convertible Preferred Stock were converted, resulting in the issuance of an aggregate of 108,322 shares of common stock at an average price of $7.36 per share.

During fiscal year 1997, all of the remaining 700 shares of Series A Convertible Preferred Stock were converted, resulting in the issuance of an aggregate of 200,474 shares of common stock at an average price of $3.48 per share. In 1997, the Company paid $35,000 in dividends by issuing common stock, calculated based on the market rate at the issuance date, to the preferred shareholder. There were no accumulated dividends in arrears at December 26, 1999 and December 27, 1998.

In December 1996, the Board of Directors authorized and the Company completed an offering of $650,000 of 65 shares of Series B, 8% Convertible Preferred Stock. The preferred shares are convertible at the option of the holder in one-third increments commencing 60, 75 and 90 days after December 13, 1996. The conversion price of the preferred shares is equal to the lesser of $10.00 per share or the average closing bid price of the common stock for the five trading days preceding notice of conversion multiplied by the following percentages when converted during the period after the issuance of the preferred shares indicated: 61 to 90 days - 85%; 91 to 130 days - 83.5%; 131 to 180 days - 82%; and 181 or more days - 80%. The preferred shares are entitled to receive an 8% cumulative dividend payable on conversion or redemption; provided, however, that with respect to any preferred shares converted prior to 180 days after issuance, the dividend shall be reduced to 4%. During fiscal year 1997, 33 shares of Series B Convertible Preferred Stock were converted, resulting in the issuance of an aggregate of 97,017 shares of common stock at an average price of $3.40 per share. During fiscal year 1998, all of the remaining 32 shares of Series B, 8% Convertible Preferred Stock were converted, resulting in the issuance of an aggregate of 79,640 shares of common stock at an average price of $4.00 per share. The Company paid $0, $9,689 and $8,473 in cash dividends during fiscal years 2000, 1999 and 1998, respectively. There were no accumulated dividends in arrears at December 31, 2000, December 26, 1999 and December 27, 1998.

In June 1997, the Company completed 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.

7. Stockholders' Equity (Continued)

The Series I Convertible Preferred Stock is convertible into common stock at $5.00 per share. In July 2000, the holder of Series I

convertible preferred stock converted 1,000 shares of preferred stock into 200,000 share of common stock. There were no conversions during the years ended December 26, 1999 and December 27, 1998.

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 the Company's 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 the Company's option, in common stock at the then-applicable conversion price. The Series II, 10% Convertible Preferred Stock is subject to redemption, in whole or in part, at the option of the Company on or after the second anniversary of issuance at $4,000 per share. There were no conversions as of December 31, 2000. Accumulated dividends in arrears totaled $175,695 and $125,695 as of December 31, 2000 and December 26, 1999, respectively.

Warrants

At December 31, 1995, the Company had outstanding 47,698 warrants previously issued by Magellan and exercisable at a price of $8.00 per share. These warrants expired in 2000. Additionally, in connection with the merger and a private placement during 1995, the Company issued an additional 25,000 warrants, which are exercisable at $12.00 per share.

In connection with the offshore placement of the Series A, 10% Convertible Preferred Stock in June 1996, the Company issued warrants to acquire an aggregate of 62,500 shares of the Company's common stock at a price of $12.00 per share for a period expiring June 17, 2001. The warrants are redeemable at the Company's option commencing June 17, 1999 at a price of $.01 per warrant providing that the closing bid price of the Company's common stock has equaled or exceeded $18.00 per share for 20 trading days.

In June 1997, 187,500 warrants exercisable at $8.00 per share and 187,500 warrants exercisable at $12.00 per share were issued in connection with the offering of the Series I Convertible Preferred Stock which are scheduled to expire June 26, 2002. These warrants are subject to cancellation in the event the holders of the Series I Convertible Preferred Stock, or common stock issued upon conversion of such preferred stock, sell, assign or transfer such preferred stock or underlying common stock, other than transfers to permitted persons, within three years of the initial sale of the stock.

In February 1999, 17,708 warrants exercisable at $7.00 per share were issued in connection with the receipt of a loan from a Member of the Chicago - The Grill on the Alley, LLC. The exercisability of these warrants is contingent on the accepting of

7. Stockholders' Equity (Continued)

renewal options with regard to the restaurant lease for the Chicago - The Grill on the Alley, LLC. These warrants expire June 2010.

In February 1999, 8,854 warrants exercisable at $7.00 per share were issued in connection with the receipt of a loan from a Member of the

Chicago - The Grill on the Alley, LLC. The exercisability of these warrants is contingent on the accepting of renewal options with regard to the restaurant lease for the Chicago - The Grill on the Alley, LLC. These warrants expire June 2015.

In February 1999, 177,083 warrants exercisable at $7.00 per share were issued in connection with the receipt of a loan from a Member of the Chicago - The Grill on the Alley, LLC. These warrants expire April 1, 2005.

In November 1999, 3,750 warrants exercisable at $2.00 were issued and are scheduled to expire November 2004.

In connection with a $400,000 loan to the Company, the Company issued 40,000 warrants to two accredited investors. The warrants are exercisable for a period of four years at a price of $1.406 per share. The warrants were issued pursuant to a privately negotiated lending arrangement with two accredited investors pursuant to the exemption from registration in Section 4(2) of the Securities Act of 1933, as amended.

In connection with a guaranty of the Company's bank lending facility, the Company issued 150,000 warrants to two principle shareholders of the Company. The warrants are exercisable for a period of four years at a price of $1.406 per share. The warrants were issued pursuant to a privately negotiated guarantee of the Company's loan facility by two directors of the Company pursuant to the exemption from registration in Section 4(2) of the Securities Act of 1933, as amended.

Deemed Dividend

In accordance with the position of the Securities and Exchange Commission regarding accounting for preferred stock which is convertible at a discount from market price for common stock, the Company has reflected, for purposes of presenting net income (loss) per share, an accounting "deemed dividend." This deemed dividend, which relates to the issuance of the preferred stock, is a noncash, nonrecurring amount for the purpose of presenting income (loss) applicable to common stock and income (loss) per share. This deemed dividend was calculated at the date of issue as the difference between the conversion price and the fair value of the common stock into which the preferred stock is convertible, multiplied by the number of shares into which the preferred stock convertible.

Options

On June 1, 1995, the Company's Board of Directors adopted the Grill Concepts, Inc. 1995 Stock Option Plan (the "1995 Plan") and on June 12, 1998 the 1998 Stock Option Plan (the "1998 Plan") was adopted. These Plans provide for options to be issued to the

Company's employees and others. The exercise price of the shares under option shall be equal to or exceed 100% of the fair market value of the shares at the date of grant. The options generally vest over a five-year period.

A total of 572,500 common shares are reserved for issuance pursuant to

these plans. During the year, upon recommendation of the Compensation Committee, 92,300 options were granted at $1.55. The Plans were approved at the 1996 and 1998 annual stockholders' meetings. Transactions during the fiscal years 2000, 1999 and 1998 under the Plans were as follows (included in the following in the year 1998 are 10,000 shares from a discontinued plan, which expired in 1998):

	2000		1999		
	Number of Shares	Weighted-Average Option Exercise Price	Number of Shares	Weighted-Average Option Exercise Price	Number of Share
Options outstanding at beginning of year	362,812	$ 5.05	320,275	$ 5.24	356,525
Options granted - price less than fair value	-	-	-	-	-
Options granted - price equals fair value	92,300	1.55	121,625	4.20	5,000
Options granted - price greater than fair value	-	-	-	-	-
Options exercised			-	-	-
Options cancelled	(73,624)	4.96	(79,088)	4.62	(41,250
Options outstanding at end of Year	381,488	$ 4.22	362,812	$ 5.05	320,275
Options exercisable at end of Year	234,863		227,175		184,985
Options available for grant at end of year	191,013		209,688		252,225

The following table summarizes information about stock options outstanding at December 31, 2000 (shares in thousands):

	Options Outstanding			Options Exerci
Range of Exercise Price	Number Outstanding at December 31, 2000	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Outstanding December 31, 2000
$1.55	92,300	9.7	$ 1.55	-
$4.00 to $4.68	124,313	5.5	$ 4.26	83,838
$5.36 to $6.12	164,875	3.1	$ 5.68	151,025

381,488	234,863
=======	=======

7. Stockholders' Equity (Continued)

The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," and will continue to use the intrinsic value-based method of accounting prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation expense has been recognized for the stock option plans. Had compensation expense for the Company's stock option plans been determined based on the fair value at the grant date for awards in fiscal year 2000 consistent with the provisions of SFAS No. 123, the Company's net earnings and earnings per share would not have changed for pro forma purposes, however, for awards in 1999 and 1998, net earnings and earnings per share would have been reduced to the pro forma amounts indicated below:

	2000	1999	1998
Net income (loss), as reported	$ 34,038	$ (405,537)	$ (1,306,60
Net income (loss), pro forma	$ 34,038	$ (419,625)	$ (1,388,60
Net income (loss) per share, as reported	$ .01	$ (0.10)	$ (0.3
Net income (loss) per share, pro forma	$ .01	$ (0.10)	$ (0.3

The fair value of each option grant issued in fiscal year 2000, 1999 and 1998 is estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: (a) no dividend yield on the Company's stock, (b) expected volatility ranging from 54.11% to 66.72%, (c) risk-free interest rates ranging from 4.69% to 6.45%, and (d) expected option lives of five years.

8. Unusual Charges and Adoption of Statement of Position 98-5, "Reporting On the Costs of Start-Up Activities"

In 2000 the Company recorded a charge to earnings of $72,990 for the costs related to the closure of the Pizzeria Uno restaurant in Media, PA.

In 1998 the Company recorded a charge to earnings of $450,513 for the write-off of long-lived assets related to a Daily Grill restaurant and one of the Pizzeria Uno restaurants in accordance with SFAS No. 121. The carrying values of the fixed assets were completely written off due to negative projected future cash flows pertaining to the two restaurants. The charge was recorded in the Consolidated Statements of Operations under Unusual Charges for fiscal year 1998. The write-off of the fixed assets of the two restaurants impacted the Company's reported results for fiscal 1998 by approximately $0.11 per basic share.

The Company elected early adoption of SOP 98-5, "Reporting on the Costs of Start-Up Activities," during fiscal 1998. This new accounting standard, issued in 1998 by the AICPA, requires entities to expense all

start-up and pre-opening costs as they are incurred. Consistent with the practice of most casual dining restaurant companies, the

8. Unusual Charges and Adoption of Statement of Position 98-5, "Reporting On the Costs of Start-Up Activities" (continued)

Company previously deferred such costs and then wrote them off over the twelve-month period following the opening of each restaurant. The early adoption of SOP 98-5 was made retroactive to the first quarter of fiscal 1998. The cumulative effect of this change in accounting principle was $70,281. This new accounting standard will accelerate the Company's recognition of pre-opening costs but will benefit the post-opening results of new restaurants. Excluding the one-time cumulative effect, the adoption of the new accounting standard impacted the Company's reported results for fiscal 1998 by $513,318 or $0.13 per basic share. This incremental impact has been included in the Consolidated Statements of Operations under Unusual Changes for fiscal year 1998.

9. Pension Plan

Effective January 1, 1996, the Company established the Grill Concepts, Inc. 401(k) Plan (the "Plan"), a defined contribution savings plan, which is open to all employees of the Company who have completed one year (1,000 hours in that year) of service and have attained the age of 21. The Plan allows employees to contribute up to the lesser of the Internal Revenue Code-prescribed maximum amount or 20% of their income on a pre-tax basis, through contribution to the Plan. The Company's contributions are discretionary. For the years 2000, 1999 and 1998, the Company made no contributions to the Plan.

10. Commitments and Contingencies

The Company leases most of its restaurant facilities and corporate offices under noncancellable operating leases. The restaurant leases generally include land and building, require various expenses incidental to the use of the property, and certain leases require contingent rent above the minimum lease payments based on a percentage of sales. Certain leases also contain renewal options and escalation clauses.

The aggregate minimum lease payments under noncancellable operating leases are as follows:

Fiscal Year Ending	
2001	$ 2,322,846
2002	2,145,145
2003	2,081,465
2004	2,007,624
2005	1,894,689
Thereafter	6,634,911
Total	$ 17,086,680

10. Commitments and Contingencies (continued)

Rent expense was $ 2,989,918, $2,938,534 and $2,590,021 for fiscal years 2000, 1999 and 1998, respectively, including $ 395,384, $235,847 and $171,955 for 2000, 1999 and 1998, respectively, for contingent rentals which are payable on the basis of a percentage of sales in excess of base rent amounts.

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

The Company plans on new restaurant openings during 2001. The restaurants will be structured as either joint ventures, LLCs or management agreements. In connection with the building of the restaurants, the Company may be obligated for a portion of the start-up and/or construction costs.

11. Income Taxes

The provisions for income taxes for the fiscal years ended December 31, 2000 December 26, 1999 and December 27, 1998 are as follows:

	2000	1999	1998
Current - federal	$ 9,700	$ -	$ -
Current - state	4,300	6,000	9,500
	$ 14,000	$ 6,000	$ 9,500

The following is a reconciliation between the U.S. federal statutory rate and the effective tax rate:

	2000	1999	1998
Federal tax rate	(34.0%)	(34.0%)	(34.0%)
Net operating loss for which no tax benefit was realized	47.4%	23.6%	25.0%
Other	17.3%	12.0%	10.0%
Effective tax rate	30.7%	1.6%	1.0%

11. Income Taxes (continued)

Deferred tax assets and liabilities consist of the following as of December 31, 2000, December 26, 1999 and December 27, 1998:

	2000	1999	1998
Deferred tax assets:			
Net operating loss	$1,089,964	$1,469,881	$1,435,707
Fixed assets	806,355	809,958	883,183
Pre-opening costs	169,820	106,018	148,841
State taxes		-	-
General business credit	720,609	561,563	384,716
Other	77,009	49,358	17,402
Total gross deferred tax assets	2,863,757	2,996,778	2,869,849
Less, Valuation allowance	(2,696,683)	(2,827,325)	(2,701,262)
Net deferred tax assets	167,074	169,453	168,587
Deferred tax liabilities:			
Intangible assets	(167,074)	(169,453)	(168,587)
Net deferred tax assets and liabilities	$ -	-	-

At December 31, 2000, the Company has available federal and state net operating loss carryforwards of $ 2,440,042 and $2,464,632 respectively, that may be utilized to offset future federal and state taxable earnings. Federal net operating losses begin to expire in 2006. A portion of state net operating losses began expiring in 2000. A full valuation allowance has been established to reduce net deferred tax assets to the amount expected to be realized.

12. Store Openings

On December 31, 1998, the Company signed and executed a joint venture agreement with Universal Studios, Inc. to open a Daily Grill restaurant at Universal Studios CityWalk Hollywood, California. This restaurant opened in July 1999 and has a year ending of June 30.

In connection with the building of a new restaurant in February 1999, Chicago - The Grill on the Alley LLC ("Chicago LLC") was formed for the operation of a "The Grill" restaurant at the Chicago Westin Hotel in Chicago, Illinois. The Chicago LLC was financed through a combination of equity capital and a secured convertible promissory note. See Note 6 for information on the terms of the note.

Store Closings

In October 2000, the Company entered into an agreement to sell its Pizzeria Uno restaurant in South Plainfield, New Jersey for $700,000. The Company is also seeking a suitable buyer for its Pizzeria Uno restaurant located in Cherry Hill, New Jersey.

As noted in Note 8, the Company ceased to operate the Pizzeria Uno restaurant in Media, Pennsylvania in July 2000.

In November 1999, the Company ceased to operate the Daily Grill restaurant in Salt Lake City, Utah.

13. Quarterly Financial Data (Unaudited)

Summarized unaudited quarterly financial data for fiscal years 2000. 1999 and 1998 is as follows:

	Quarter Ended			
	March 26, 2000	June 25, 2000	September 24, 2000	Decembe 2000
Total revenues	$ 10,825,730	$ 10,341,365	$ 10,932,719	$ 13,575
Income (loss) from operations	403,444	(223,247)	(42,519)	295
Net income (loss)	273,432	(120,595)	(120,185)	1
Basic net income (loss) per share	$ 0.07	(0.03)	(0.03)	

	March 28, 1999	June 27, 1999	September 26, 1999	Dec
Total revenues	$ 10,288,042	$ 9,567,423	$ 9,101,697	$ 10,
Income (loss) from operations	377,986	233,364	8,210	(
Net income (loss)	262,258	109,789	(211,468)	(
Basic net income (loss) per share	$ 0.07	$ 0.02	$ (0.05)	$

	March 29, 1998	June 28, 1998	September 27, 1998	Dec
Total revenues	$ 8,361,241	$ 8,450,280	$ 8,641,440	$ 9,
Income (loss) from operations	101,180	(354,890)	(196,806)	(
Net income (loss)	60,861	(369,729)	(201,880)	(
Basic net income (loss) per share	$ 0.02	$ (0.10)	$ (0.05)	$