

GRILL CONCEPTS INC
Form DEF 14A
April 27, 2007

SCHEDULE 14A

**Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934**

(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under Rule 14a-12

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GRILL CONCEPTS, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

(3) Proposed maximum aggregate value of transaction:

(4) Total fee paid:

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(1) Amount Previously Paid:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Filing Party:

(5) Date Filed:

GRILL CONCEPTS, INC.

11661 San Vicente Blvd., Suite 404

Los Angeles, California 90049

April 27, 2007

Dear Stockholder:

We cordially invite you to attend our 2007 annual meeting of stockholders, which will be held at 10:00 a.m. on Wednesday, June 20, 2007 at the Daily Grill in Santa Monica at 2501 Colorado Avenue B-190, Santa Monica, CA 90404.

At this year's annual meeting, the agenda will include the election of directors, the ratification of the selection of our independent registered public accounting firm for fiscal 2007 and the transaction of such other business as may properly come before the meeting or any adjournment thereof. Please refer to the enclosed proxy statement for detailed information on each of these proposals and other important information about Grill Concepts.

We hope you will be able to attend the annual meeting, but we know that not every stockholder will be able to do so. Whether or not you plan to attend, please complete, sign and return your proxy, or vote by telephone or via the Internet according to the instructions on the proxy card, so that your shares will be voted at the annual meeting.

Sincerely,

Michael Weinstock

Chairman of the Board

GRILL CONCEPTS, INC.

11661 San Vicente Blvd., Suite 404

Los Angeles, California 90049

NOTICE OF 2007 ANNUAL MEETING OF STOCKHOLDERS

June 20, 2007

Dear Stockholder:

The annual meeting of stockholders of Grill Concepts, Inc. will be held at 10:00 a.m. on Wednesday, June 20, 2007, at the Daily Grill in Santa Monica at 2501 Colorado Avenue B-190, Santa Monica, CA 90404. The purpose of the annual meeting is to:

1. Elect seven directors to hold office until the next annual meeting of stockholders or until their successors are duly elected and qualified.
2. Ratify the selection of Moss Adams LLP as our independent registered public accounting firm for the 2007 fiscal year.
3. Transact such other business as may properly come before the meeting or any adjournments thereof.

Only stockholders of record at the close of business on April 20, 2007 will be entitled to vote at the annual meeting and any and all adjourned sessions thereof. Our stock transfer books will remain open.

To ensure that your vote is recorded promptly, please vote as soon as possible. If you are a stockholder of record, please complete, sign and mail the proxy card in the enclosed postage-paid envelope. If your shares are held in street name, that is held for your account by a broker or other nominee, you will receive instructions from the holder of record that you must follow for your shares to be voted.

By Order of the Board of Directors,

Michael Weinstock

Chairman

Los Angeles, California

April 27, 2007

GRILL CONCEPTS, INC.

11661 San Vicente Blvd., Suite 404

Los Angeles, California 90049

PROXY STATEMENT

Our board of directors is soliciting your proxy for the annual meeting of stockholders to be held at the Daily Grill in Santa Monica at 2501 Colorado Avenue B-190, Santa Monica, CA 90404, on Wednesday, June 20, 2007 at 10:00 a.m. and at any and all adjourned sessions of the annual meeting.

We are mailing our annual report for the fiscal year ended December 31, 2006, to our stockholders with this notice and proxy statement (including the form of proxy) on or about May 4, 2007.

Record Date and Quorum Requirements

Only stockholders of record at the close of business on April 20, 2007 will be entitled to vote at the annual meeting. The majority of the shares of common stock issued and outstanding and entitled to vote on the record date must be present in person or by proxy to have a quorum for the transaction of business at the annual meeting. Shares of common stock present in person or represented by proxy (including shares which abstain, withhold the vote or do not vote with respect to one or more of the matters presented for stockholder approval) will be counted for purposes of determining whether a quorum exists for a matter presented at the annual meeting. At the close of business on April 20, 2007, we had 6,422,916 shares of common stock issued and outstanding.

Voting Your Shares and Votes Required

Your vote is very important. If you do not vote your shares, you will not have an impact with respect to the issues to be voted on at this annual meeting. In addition, banks and brokers cannot vote on their clients' behalf on non-routine proposals.

The holders of all outstanding shares of Common Stock are entitled to one vote for each share of Common Stock registered in their names on the books of the Company at the close of business on the record date. Additionally, every stockholder voting for the election of directors may cumulate such stockholder's votes and give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of shares held by the stockholder as of the record date, or distribute such stockholder's votes on the same principle among as many candidates as the stockholder may select, provided that votes cannot be cast for more than the number of directors to be elected. However, no stockholder shall be entitled to cumulate votes unless the candidate's name has been placed in nomination prior to the voting and the stockholder, or any other stockholder, has given notice at the meeting prior to the voting of the intention to cumulate the stockholder's votes.

In order to be elected as directors, each of the nominees for director must receive a plurality of the votes cast at the annual meeting. Ratification of the selection of Moss Adams LLP as our independent registered public accounting firm for the 2007 fiscal year will require the affirmative vote of a majority of the shares of common stock present or represented by proxy at the annual meeting.

Shares that abstain from voting on a particular proposal, and shares held in street name by brokers or nominees who indicate on their proxies that they do not have discretionary authority to vote such shares on a particular proposal, will not be counted as votes in favor of such proposal, and will also not be counted as votes cast or shares voting on that proposal. Accordingly, abstentions and broker non-votes will have no effect on the

voting on a proposal that requires the affirmative vote of a certain percentage of the votes cast or shares voting on a proposal. However, abstentions are considered to be present or represented in determining whether a quorum exists on a given matter.

Submitting Your Proxy

If you complete and submit your proxy, the persons named as proxies will vote the shares represented by your proxy in accordance with your instructions. If you submit a proxy card but do not fill out the voting instructions on the proxy card, the persons named as proxies will vote the shares represented by your proxy as follows:

FOR the election of the director nominees; and

FOR the ratification of the selection of Moss Adams LLP as our registered public accounting firm.

To ensure that your vote is recorded promptly, please vote as soon as possible. To vote by proxy, please complete, sign and mail the proxy card in the enclosed postage-paid envelope.

Stockholders that attend the annual meeting and wish to vote in person will be given a ballot at the meeting. If your shares are held in street name and you want to attend the annual meeting, you must bring an account statement or letter from the brokerage firm or bank holding your shares showing that you were the beneficial owner of the shares on the record date. If you want to vote shares that are held in street name or are otherwise not registered in your name, you will need to obtain a legal proxy from the holder of record and present it at the annual meeting.

Revoking or Changing Your Proxy

You may revoke or change your proxy at any time before it is voted. For a stockholder of record, meaning one whose shares are registered in his or her own name, to revoke or change a proxy, the stockholder may follow one of the procedures listed below.

submit another properly signed proxy, which bears a later date;

deliver a written revocation to our corporate secretary; or

attend the annual meeting or any adjourned session thereof and vote in person.

If you are a beneficial owner of our common stock, and not the stockholder of record (for example your common stock is registered in street name with a brokerage firm), you must follow the procedures required by the holder of record, which is usually a brokerage firm or bank, to revoke or change a proxy. You should contact the stockholder of record directly for more information on these procedures.

Other Information

We will bear the expense of soliciting proxies. Our officers and certain other employees, without additional remuneration, may solicit proxies personally or by telephone, e-mail or other means.

Our Annual Report on Form 10-K for the year ended December 31, 2006, which is not part of the proxy soliciting materials, is included with this Proxy Statement.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The table below shows the number of our shares of common stock beneficially owned as of April 20, 2007 by:

each person or group known by us to beneficially own more than 5% of our outstanding common stock;

each director and nominee for director;

each executive officer named in the Summary Compensation Table under the heading **Executive Compensation** below; and

all of our current directors and executive officers of the company as a group.

The number of shares beneficially owned by each 5% holder, director or executive officer is determined by the rules of the SEC, and the information does not necessarily indicate beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares over which the person or entity has sole or shared voting power or investment power and also any shares that the person or entity can acquire within 60 days of April 20, 2007 through the exercise of any stock option or other right. For purposes of computing the percentage of outstanding shares of common stock held by each person or entity, any shares that the person or entity has the right to acquire within 60 days after April 20, 2007 are deemed to be outstanding with respect to such person or entity but are not deemed to be outstanding for the purpose of computing the percentage of ownership of any other person or entity. Unless otherwise indicated, each person or entity has sole investment and voting power (or shares such power with his or her spouse) over the shares set forth in the following table. The inclusion in the table below of any shares deemed beneficially owned does not constitute an admission of beneficial ownership of those shares. As of April 20, 2007, there were 6,422,916 shares of common stock issued and outstanding.

Name and Address of Beneficial Owner	Shares of Common Stock Beneficially Owned	Percentage of Common Stock Outstanding
Eaterna LLC (1)	923,873(1)	14.4%
Robert Spivak* (2)	551,091(3)	8.4%
Michael Weinstock* (2)	514,565(4)	8.0%
Keith Wolff (5)	361,005(6)	5.6%
Lewis Wolff (5)	330,790(7)	5.1%
Aaron Ferrer (8)	410,024	6.4%
Mackenzie Financial Corp (9)	349,377(10)	5.4%
Stephen Ross*	184,204(11)	2.9%
Philip Gay*	21,400(12)	
Glenn Golenberg*	63,375(13)	
John Sola	57,934(14)	
Louie Feinstein	13,186(15)	
Bruce Schwartz*	19,250(16)	
Richard Dantas*	6,250(17)	
Wayne Lipschitz	0	0
Robert Fell (18)	0	0
All directors and executive officers as a group (10 persons)	1,431,255(19)	21.3%

* Director of our company

Less than 1% of the shares of total common stock outstanding as of April 20, 2007.

(1)

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Address is 8635 Kittyhawk Avenue, Los Angeles, CA 90045. Based upon information regarding Grill Concepts, Inc. holdings reported on a Schedule 13D filed with the SEC on March 15, 2007 by Eaterna LLC,

Eaturna Holdings LLC, Good Tasting LLC, Lori A. Milken and Michael R. Milken. All shares are held of record by Eaturna LLC. Eaturna Holdings LLC and Good Tasting LLC have the power to elect a majority of the board of directors of Eaturna LLC. Lori A. Milken may be deemed the controlling person of Eaturna Holdings LLC, Good Tasting LLC and Eaturna LLC. Michael R. Milken is the spouse of Lori A. Milken and, as such, may be deemed to share the power to vote and dispose of the shares over which Mrs. Milken is deemed to hold control. Mr. Milken disclaims any beneficial interest in the shares.

Eaturna LLC acquired the shares indicated from Starwood Hotels and Resorts Worldwide, Inc. on March 6, 2007 pursuant to the terms of a Subscription Agreement under which Starwood contributed the shares plus cash in exchange for 6,085 Preferred B Units of Eaturna. Under the terms of the Subscription Agreement, Starwood also transferred to Eaturna LLC certain rights under a Development Agreement and various other agreements between Starwood and Grill Concepts pursuant to which certain warrants to purchase Grill Concepts common stock may be issued from time to time in the future.

The Subscription Agreement provides that in the event Eaturna is deemed to have become the owner of 15% or more of our outstanding voting stock without having first obtained the approval of our Board of Directors, Starwood will, upon the request of Eaturna, immediately purchase such number of the securities, or accept a reassignment of some or all of the ancillary rights as is necessary to cause Eaturna to own less than 15% of our outstanding voting stock. The Subscription Agreement further provides that if Eaturna proposes to sell all or substantially all of its assets, which includes the shares acquired from Starwood, to certain designated parties, Starwood has the first right to purchase the offered assets upon the terms of the sale proposed by Eaturna. The Subscription Agreement further provides that if, within a year of the execution of the Subscription Agreement, one of the Company's liquidity events, as designated therein, occurs or is announced, Eaturna will issue additional Preferred B Units to Starwood if other specified conditions are met.

- (2) Address is 11661 San Vicente Blvd., Suite 404, Los Angeles, California 90049.
- (3) Excludes certain shares held by Mr. Spivak's spouse, children and certain trusts for the benefit of family members. Mr. Spivak disclaims any beneficial interest in such shares. Includes 125,000 stock options that may be exercised within 60 days of April 20, 2007.
- (4) Excludes certain shares held by Mr. Weinstock's spouse, children and certain trusts for the benefit of family members. Mr. Weinstock disclaims any beneficial interest in such shares.
- (5) Address is 11828 La Grange Avenue, Los Angeles, California 90025.
- (6) Includes (a) 234,875 shares of common stock held by Keith Wolff, as Trustee of The Keith M. Wolff 2000 Irrevocable Trust, and (b) 126,130 shares of common stock held by KMWGEN Partners, of which Mr. Wolff is the general partner. Mr. Wolff has the sole power to vote or to direct the vote, and the sole power to dispose or to direct the disposition of, the securities beneficially owned by Mr. Wolff, other than the securities owned by KMWGEN Partners, as to which Mr. Wolff shares power with his father, Lewis Wolff. The information set forth herein is based, in part, on Amendment No. 1 to the Schedule 13D dated July 27, 2001 filed by Mr. Wolff with the Securities and Exchange Commission, in part, on information contained in the company's transfer records, and, in part, information reflected in Schedule 13D described in note (7) below.
- (7) Includes (a) 79,660 shares of common stock held directly, (b) 126,130 shares of common stock held by KMWGEN Partners, and (c) 125,000 shares issuable upon conversion of 500 shares of Series II Convertible Preferred Stock, held by KMWGEN Partners. The Series II Convertible Preferred Stock is convertible commencing June 24, 1998 into a number of shares determined by dividing \$1,000 per share by the greater of \$4.00 or 75% of the average closing price of the company's Common Stock over the five trading days immediately preceding conversion, but not higher than \$10.00. For purposes hereof, the number of shares shown as being issuable upon conversion of the Series Convertible Preferred Stock is based on a conversion price of \$4.00, the minimum conversion price of the Series II convertible Preferred Stock. Mr. Wolff, as Trustee of the Wolff Revocable Trust of 1993, may be deemed to be the beneficial owner of all such

securities. Mr. Wolff has the sole power to vote or to direct the vote, and the sole power to dispose or to direct the disposition of, all the shares beneficially owned by Mr. Wolff, other than 126,130 shares beneficially owned by KMWGEN Partners, of which Mr. Wolff and his son, Keith M. Wolff, are the general partners. The information set forth herein is based, in part, on Amendment No. 5 to the Schedule 13D dated March 1, 2003 filed by Mr. Wolff with the Securities and Exchange Commission on April 9, 2003 and, in part, on information contained in the company's transfer records.

- (8) Address is 1 Homs Court, Hillsborough, California 94010.
- (9) Address is 150 Bloor Street West, Suite M111, Toronto, Ontario M5S 3B5.
- (10) The information set forth herein is based on the Schedule 13G filed by Mackenzie Financial Corp with the Securities and Exchange Commission on February 14, 2007.
- (11) Includes (a) 138,167 shares of common stock held by Stephen Ross and Rachel Ross as co-trustees of the Ross Family Trust, (b) 11,037 shares of common stock held by the Mazel Trust of which Stephen Ross is the co-trustee, and (c) 35,000 stock options that may be exercised by Mr. Ross within 60 days of April 20, 2007.
- (12) Includes 21,400 stock options that may be exercised by Mr. Gay within 60 days of April 20, 2007.
- (13) Includes 41,500 stock options that may be exercised by Mr. Golenberg within 60 days of April 20, 2007.
- (14) Includes 49,750 stock options that may be exercised by Mr. Sola within 60 days of April 20, 2007.
- (15) Includes 12,800 stock options that may be exercised by Mr. Feinstein within 60 days of April 20, 2007.
- (16) Includes 19,250 stock options that may be exercised by Mr. Schwartz within 60 days of April 20, 2007.
- (17) Includes 6,250 stock options that may be exercised by Mr. Dantas within 60 days of April 20, 2007.
- (18) Mr. Fell is a nominee for election as a director. Mr. Fell serves as Chairman of Eaterna LLC. Mr. Fell disclaims beneficial ownership of any shares held by Eaterna and all such shares are excluded from the shares indicated as owned by Mr. Fell.
- (19) Includes 310,950 stock options that may be exercised by directors and executive officers, as a group, within 60 days of April 20, 2007.

PROPOSAL I

ELECTION OF DIRECTORS

The first proposal to be voted on is the election of seven directors. The Board's nominees are Robert Spivak, Michael Weinstock, Philip Gay, Glenn Golenberg, Stephen Ross, Robert Fell and Bruce Schwartz. Each of the nominees, except Mr. Fell, is currently serving as a director of the company. If elected, each of the nominees will serve a one-year term and will be subject to reelection next year along with the other directors.

Biographical information about each of the nominees is included below. There are no family relationships among any of our directors, nominees for director and executive officers.

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The Board of Directors has no reason to believe that any nominee will be unable to serve or decline to serve as a director if elected. If a nominee becomes unable or unwilling to accept nomination or election, the Board will either select a substitute nominee or will reduce the size of the Board. If you have submitted a proxy and a substitute nominee is selected, your shares will be voted for the election of the substitute nominee.

In accordance with the company's bylaws, directors are elected by a plurality vote of shares represented and entitled to vote at the meeting. That means the seven nominees will be elected if they receive more affirmative

votes than any other nominees. In accordance with applicable law, in electing directors, stockholders may cumulate their votes and give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of shares held by the stockholder as of the record date, or distribute such stockholder's votes on the same principle among as many candidates as the stockholder may select, provided that votes cannot be cast for more than the number of directors to be elected. However, no stockholder shall be entitled to cumulate votes unless the candidate's name has been placed in nomination prior to the voting and the stockholder, or any other stockholder, has given notice at the meeting prior to the voting of the intention to cumulate the stockholder's votes.

Director Nominees

Robert Fell

Mr. Fell has served as Chairman of Eaterna LLC, a natural foods company, since November 2005. Previously, Mr. Fell has been both a venture capitalist and entrepreneur. From 1995 to 1998, Mr. Fell served as Chairman and CEO of Archon Communications, Inc. From 1998 to 2002, Mr. Fell served as Chairman and CEO of Youbet.com.

Age: 64

Nominee

Philip Gay

Mr. Gay has served as our President and Chief Executive Officer, and as a director, since July 2006. Previously, Mr. Gay served as Executive Vice President and Chief Financial Officer from July 2004 until his promotion in 2006. From March 2000 until he joined Grill Concepts in July 2004, Mr. Gay served as Managing Director of Triple Enterprises, a business advisory firm that assisted mid-cap sized companies with financing, mergers and acquisitions, franchising and strategic planning. From March 2000 to November 2001, Mr. Gay served as an independent consultant with El Paso Energy. Previously he served as Chief Financial Officer for California Pizza Kitchen (1987 to 1994), Chief Financial Officer and Interim Chief Executive Officer for Wolfgang Puck Food Company (1994 to 1996), Chief Executive Officer for Color Me Mine and held various Chief Operating Officer and Chief Executive Officer positions with Diversified Food Group from 1996 to 2000. Mr. Gay is also on the Board of Motor Car Parts of America, a publicly traded company that remanufactures starters and alternators, and on the Board of The California Restaurant Association. He is a Certified Public Accountant, a former audit manager at Laventhol and Horwath and a graduate of the London School of Economics.

Age: 49

Director since 2006

Glenn Golenberg

Mr. Golenberg is a Managing Director of Golenberg & Company, formed in 1978, and The Bellwether Group, LLC, merchant banking firms that invest in and provide consulting and financial advisory services to a broad range of businesses. Prior to forming Golenberg & Company, Mr. Golenberg served in various research and management positions in the investment banking industry from 1966 to 1978. Previously, Mr. Golenberg was a CPA with Arthur Andersen & Co.

Age: 66

Director since 1995

Stephen Ross

Mr. Ross is a consultant to the entertainment and related industries. From 1989 to 2001, Mr. Ross served as Executive Vice President Special Projects for Warner Bros. Previously, Mr. Ross served as Senior Vice President and General Counsel for Lorimar Telepictures Corporation, and its predecessors, from 1981 to 1989.

Age: 58

Director since 2001

Bruce Schwartz

Mr. Schwartz served, from 1989 until his retirement in 2003, in various executive capacities with Sysco Food Services of Los Angeles, Inc., a major food services company and subsidiary of NYSE traded Sysco Corporation. From 1989 to 1996, Mr. Schwartz served as President and Chief Operating Officer of Sysco Food Services and, from 1996 to 2003, Mr. Schwartz served as Chairman of the Board and Chief Executive Officer of Sysco Food Services.

Age: 67

Director since 2004

Robert Spivak

Age: 63

Director since 1995

Mr. Spivak served as President and Chief Executive Officer of the Company from 1995 until his retirement in 2006. Mr. Spivak was a co-founder of the company's predecessor (GCI) and served as President, Chief Executive Officer and a director of GCI from inception in 1988 until 1995. Prior to forming GCI, Mr. Spivak co-founded, and operated, The Grill on the Alley restaurant in Beverly Hills in 1984. Mr. Spivak is a founder and past president of the Beverly Hills Restaurant Association. Mr. Spivak also chairs the executive advisory board of the Collins School of Hotel and Restaurant Management at California State Polytechnic University at Pomona, is Director Emeritus of the California Restaurant Association and is a member of the Board of Directors of DiRoNA Distinguished Restaurants of North America.

Michael Weinstock

Age: 64

Director since 1995

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

OUR BOARD UNANIMOUSLY RECOMMENDS A VOTE FOR EACH OF THE NOMINEES TO THE BOARD OF DIRECTORS SET FORTH IN THIS PROPOSAL I.

In considering your vote with respect to the election of directors pursuant to Proposal I, you should consider the discussions of Executive Compensation and Corporate Governance and the other discussions contained in this Proxy Statement.

PROPOSAL II

RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Our board, on the recommendation of the audit committee, has selected the firm of Moss Adams LLP as our registered public accounting firm for fiscal 2007. Moss Adams LLP has served as our registered public accounting firm since 2004. Although stockholder approval of the board's selection of Moss Adams LLP is not required by law, the board believes that it is advisable to give stockholders an opportunity to ratify this selection. If this proposal is not approved at the annual meeting, the board will reconsider its selection of Moss Adams LLP.

Representatives of Moss Adams LLP are expected to be present at the annual meeting. They will have the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions from stockholders.

OUR BOARD RECOMMENDS A VOTE FOR THE APPROVAL OF MOSS ADAMS LLP AS OUR REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 30, 2007.

In considering your vote with respect to the ratification of our selection of Moss Adams LLP as our registered public accounting firm pursuant to Proposal II, you should consider the discussion of Relationship with Independent Registered Public Accounting Firm and the other discussions contained in this Proxy Statement.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Objectives of Compensation Program

Our compensation program is designed to attract and retain key employees, motivating them to achieve and rewarding them for superior performance. Additionally, the stock option component of our compensation program is designed to promote an ownership mentality among management, key employees and our Board of Directors. Finally, we seek to ensure that our compensation program is fundamentally fair for all stakeholders in the company, including stockholders, management and non-management employees.

What Our Compensation Program is Designed to Reward

In general, our compensation program is designed to reward overall company performance with recognition of individual contributions to that performance. Except with respect to executive officers serving under employment agreements, our compensation committee conducts an annual review of all elements of each executive officer's compensation and adjusts each element of compensation, in particular base salary and stock option grants, to reflect experience, expertise and responsibilities of each executive officer.

All of our executive officers participate in a cash bonus program pursuant to which a bonus pool is established based on financial performance of the company relative to budgeted profitability targets and other performance criteria established by the compensation committee annually. The bonus pool is split among the executive team based on a combination of predetermined maximum bonuses for each officer stated as a percentage of base salary and compensation committee discretion to allocate portions of the bonus pool to reflect individual contributions to overall company performance.

Stock price performance has not been a factor in determining annual compensation because the price of the company's common stock is subject to a variety of factors outside of management's control. Stock price performance is, however, reflected in compensation through selected annual grants of stock options to executive officers.

Elements of our Compensation Plan and Why We Chose the Character and Amount of Each

Elements of compensation for our executives presently include salary, participation in our executive bonus pool and periodic stock option grants as well as participation in broad based benefit plans available to all employees, including health, disability and life insurance.

It is the compensation committee's intention to set base salaries of our executive officers sufficiently high so as to attract and retain a strong motivated leadership team but not so high as to create excessive wealth to the detriment of the company or other stakeholders. The compensation committee reviews executive officer salaries annually at its regularly scheduled annual meeting, typically held in June of each year. At this meeting, our compensation committee will make adjustments to base salary, as it deems appropriate, for the upcoming fiscal year to reflect the evolving nature, scope and size of our enterprise. In reviewing and adjusting base salary, the compensation committee may review compensation data for comparable companies to establish ranges of compensation suitable to retain the company's executive officers but does not benchmark salaries to place executive officers within a specific segment of compensation among its competitors.

In conjunction with the hiring of the company's CEO and CFO, the compensation committee fixed the base salaries of both the CEO and CFO in accordance with the practices described above and in accordance with the terms of a written offer of employment to our CFO and a formal negotiated employment agreement with our CEO.

At the annual meeting, the compensation committee will also review and approve and adopt, as appropriate, management incentive plans for the coming year and grant stock options selectively to executive officers and other eligible employees.

It has been the compensation committee's intent to use participation in the company's executive bonus plan as the principal means of rewarding superior company financial performance and to use periodic grants of stock options as the principal means of creating wealth accumulation opportunities and an equity ownership mentality for company executives. As among the executive officers, the compensation committee takes into account the anticipated contributions to the company's success and corresponding responsibilities of each executive officer in fixing the maximum percentage bonus each executive officer is eligible to receive under the executive bonus plan. With regard to grants of stock options, the compensation committee takes into account the then current stock and option holdings of each executive officer in determining appropriate levels of options to be granted to create both wealth accumulation opportunities and ownership mentality. In particular, new hires to senior positions are believed to merit larger stock option grants to provide strong incentives for their efforts to grow the company. On the other hand, certain long-time officers of the company, such as the company's Chairman and Executive Vice President, are already major stockholders of the company and, as such, the compensation committee may elect to decrease or eliminate stock option grants. All employees of the company are eligible to participate in the company's stock option plan and the compensation committee has historically made stock option grants to all, or substantially all, employees having management responsibilities on hiring and periodically thereafter as the committee deems appropriate to create continual incentives through equity based wealth accumulation opportunities.

Compensation Practices and Procedures

We choose to pay each element of compensation, including compensation under our executive bonus plan, in order to attract and retain the necessary executive talent, reward annual performance and provide incentive for their balanced focus on long-term strategic goals as well as short-term performance. The amount of each element of compensation is determined by or under the direction of our compensation committee. The compensation committee receives recommendations from the company's CEO regarding compensation of various executives but the CEO does not participate in any deliberations of the compensation committee and the committee may choose to follow or ignore the recommendations of the CEO. The compensation committee uses the following factors to determine the amount of salary and other benefits to pay each executive:

performance against corporate and individual objectives for the previous year;

difficulty of achieving desired results in the coming year;

value of their unique skills and capabilities to support long-term performance of the company;

performance of their general management responsibilities; and

contribution as a member of the executive management team.

These elements fit into our overall compensation objectives by helping to secure the future potential of our operations, facilitating our development of new restaurant properties, providing proper compliance and regulatory guidance, and helping to create a cohesive team.

Our policy for allocating between long-term and currently paid compensation is to ensure adequate base compensation to attract and retain personnel, while providing incentives to maximize long-term value for our company and our stockholders. Likewise, we provide cash compensation in the form of base salary to meet competitive salary norms. We provide participation in the executive bonus plan to reward superior short-term financial performance and individual contributions to that performance. We also provide non-cash stock based compensation in the form of stock option grants to reward the creation of long-term value.

While, historically, we have not specifically sought to establish specific ranges of allocations as among cash and non-cash and fixed and variable compensation, the compensation committee will consider the relative allocations generally with an emphasis being placed on non-cash and variable compensation being a substantial element of overall compensation. In establishing such targeted allocations, and in establishing levels and terms of option grants, the compensation committee takes into account existing stock holdings, historic stock option grants and accumulated gains on stock option grants. Where holdings, past grants and accumulated gains are deemed to create sufficient levels of equity incentive and wealth growth potential, the compensation committee will consider reducing or foregoing future stock option grants to subject executives. Moreover, in establishing the amounts, types and allocation among types of compensation of executive officers, the compensation committee will take into account the various stakeholders of the company, including stockholders and non-executive employees, with a view to creating an environment of mutual interests among all stakeholders.

With respect to the timing of stock option grants, the compensation committee typically only makes such grants on the initial hiring of employees and in conjunction with the compensation committee's annual review of compensation. The compensation committee has adopted as a policy a specific prohibition of timing stock option grants, and has made no stock option grants, to coordinate with the release of material non-public information in any manner designed to affect the value of executive compensation.

In addition to salary, participation in the executive bonus plan and periodic stock option grants, the company provides certain benefits designed to attract and retain executive officers and other employees, including life, health and disability insurance and participation in a 401K plan. Except as otherwise provided for in employment agreements, such benefits are broadly available to all employees on substantially identical terms. The company may make matching contributions to the 401K plan.

Section 162(m) of the Internal Revenue Code of 1986, as amended, or the code, generally disallows a tax deduction to public companies for compensation in excess of \$1 million paid to the corporation's chief executive officer and four other most highly paid executive officers. Qualifying performance-based compensation will not be subject to the deduction limitation if certain requirements are met. Our compensation committee will periodically review the potential consequences of Section 162(m) and may structure future performance-based executive compensation to comply with certain exemptions in Section 162(m). However, we reserve the right to use our judgment to authorize compensation payments that do not comply with the exemptions in Section 162(m) when we believe that such payments are appropriate and in the best interests of the stockholders, after taking into consideration changing business conditions or the officer's performance.

Compensation Consultant

We did not utilize the services of a compensation consultant during 2006. In conjunction with the transition of senior management away from founding shareholders, we have retained Vivient Consulting, a compensation consultant, to review existing compensation of management and to make recommendations to the compensation committee in order to attract, motivate and properly compensate senior management.

Report of Compensation Committee

The compensation committee is responsible for discharging the responsibilities of the board with respect to the compensation of our executive officers. The compensation committee sets performance goals and objectives for the chief executive officer and the other executive officers, evaluates their performance with respect to those goals and sets their compensation based upon the evaluation of their performance. In evaluating executive officer pay, the compensation committee may retain the services of a compensation consultant and consider recommendations from the chief executive officer with respect to goals and compensation of the other executive officers. The compensation committee assesses the information it receives in accordance with its business judgment. The compensation committee also periodically reviews director compensation. All decisions with

respect to executive and director compensation are approved by the compensation committee and recommended to the full board for ratification.

The compensation committee is responsible for administering all of our equity-based plans. The committee may, however, authorize the chair of the compensation committee to grant individual stock awards upon the hiring of new employees between scheduled meetings of the compensation committee. The compensation committee also periodically reviews compensation and equity-based plans and makes its recommendations to the board with respect to these areas.

The compensation committee has reviewed and discussed the Compensation Discussion and Analysis (the CD&A) for the year ended December 31, 2006 with management. In reliance on the reviews and discussions referred to above, the compensation committee recommended to the board, and the board has approved, that the CD&A be included in the proxy statement for the year ended December 31, 2006 for filing with the SEC.

By the Compensation Committee of the Board of Directors:

Stephen Ross, Compensation Committee Chair

Glenn Golenberg, Compensation Committee Member

Bruce Schwartz, Compensation Committee Member

Summary Compensation Table

The following table includes information concerning compensation for the year ended December 31, 2006 for our CEO and our CFO, and the three most highly compensated executive officers (other than the CEO and CFO) during the year:

Name and Title	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards \$(4)	Non-Equity Incentive Plan Compensation (\$)	Change in	All Other Compensation (\$)	Total (\$)
							Pension		
Philip Gay, CEO (1)	2006	261,101	55,173		36,792			13,757(5)	366,823
Robert Spivak, CEO (2)	2006	305,000	135,000		14,425			71,740(6)	526,165
Wayne Lipschitz, CFO, VP Finance (3)	2006	86,154			4,069			4,000(8)	94,223
John Sola, Senior VP Culinary	2006	174,203	41,990		11,731			13,850(7)	241,774
Michael Weinstock, Executive VP and Chairman	2006	168,950	39,465					8,000(8)	216,415
Louie Feinstein, VP Operations	2006	154,346	36,040		9,506			8,000(8)	207,892

(1) Philip Gay served as CFO and Executive Vice President until June 2006 when he assumed the positions of President and CEO.

(2) Robert Spivak served as President and CEO until June 2006 and retired December 31, 2006.

(3) Wayne