GRILL CONCEPTS

GRILL CONCEPTS, INC.

A Delaware Corporation

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Woodland Hills, CA 91367
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QUARTERLY REPORT

For the Quarterly and Year to Date Period Ended September 26, 2010

Except as otherwise indicated, all information herein is dated, and current, as of November 10, 2010

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GRILL CONCEPTS, INC.

QUARTERLY REPORT
For the Quarterly Period Ended September 26, 2010

Item 1 Exact name of the issuer and the address of its principal executive offices.

Grill Concepts, Inc. (the "Company")
6300 Canoga Avenue, Suite 600
Woodland Hills, CA 91367

Phone: (818) 251-7000
Fax: (818) 999-4745
Website: www.grillconcepts.com

Investor Relations Contact:

PondelWilkinson, Inc.
1880 Century Park East, Suite 700
Los Angeles, CA 90067
(310) 279-5980
investor@pondel.com

Item 2 Shares outstanding.

	September 26, 2010
Common Stock	
Shares authorized	90,000,000
Shares outstanding	8,918,083
Public float	7,193,156
Number of beneficial holders	1070
Number of record holders	192
Preferred Stock	
Shares authorized	1,000,000
Shares outstanding	500
Series C Preferred Stock:	
Shares designated	10,000
Shares outstanding	5,000
Public float	--
Number of beneficial holders	1
Number of record holders	1
Series D Preferred Stock:	
Shares designated	1,500
Shares outstanding	1,500
Public float	--
Number of beneficial holders	17
Number of record holders	17
10% Convertible Debentures	
Amount authorized ($)	14,850,000
Amount outstanding ($)	14,850,000
Public float	--
Number of beneficial holders	17
Number of record holders	17

Item 3 **Interim consolidation financial statements.**

GRILL CONCEPTS, INC. AND SUBSIDIARIES
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GRILL CONCEPTS, INC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of September 26, 2010 and December 27, 2009
(in thousands, except share data)

ASSETS	2010 (Unaudited)	2009
Current Assets:		
Cash	$ 2,211	$ 8,230
Short-term Investments	3,939	-
Inventories	1,067	1,140
Receivables, net of reserve ($164 and $116 in 2010 and 2009, respectively)	1,664	1,695
Reimburseable costs receivable	-	1,329
Other receivables	126	76
Notes receivable, current portion	6	38
Prepaid expenses and other current assets	1,294	1,040
Total current asets	10,307	13,548
Furniture, equipment and improvements, net	23,067	24,869
Restricted cash	148	524
Notes receivable	-	27
Liquor licenses	509	787
Goodwill, net	720	720
Other assets	521	578
Total assets	$ 35,272	$ 41,053
LIABILITIES, CONTROLLING INTEREST AND STOCKHOLDERS' DEFICIT		
Current Liabilities:		
Accounts payable	$ 3,529	$ 3,288
Accrued expenses	7,078	6,543
Accrued managed outlet operating expenses	-	1,329
Long-term debt, current portion	402	545
Total current liabilities	11,009	11,705
Long-term debt, net of current portion	93	559
Other long term liabilities	11,840	11,562
Mandatorily redeemable Series C convertible preferred stock, $.001 par value; 10,000 shares authorized, 5,000 shares issued and outstanding, net of $520 and $600 assigned to warrants in 2010 and 2009, respectively	4,480	4,400
10% secured convertible debentures	14,850	14,850
Total liabilities	42,272	43,076
Stockholders' equity:		
Preferred stock, $.001 par value; 1,000,000 shares authorized, 500 issued and outstanding in 2010 and 2009, 996,935 shares undesignated in 2010 and 2009	-	-
Series D convertible preferred stock, $.001 par value; 1,500 shares issued and outstanding	150	150
Common stock, $.00004 par value; 90,000,000 and 15,000,000 shares authorized in 2010 and 2009, respectively, 8,918,083 issued and outstanding in both 2010 and 2009	-	-
Additional paid-in capital	35,815	35,666
Accumulated deficit	(43,361)	(38,219)
Total Grill Concepts, Inc. stockholders' deficit	(7,396)	(2,403)
Noncontrolling interests	396	380
Total stockholders' deficit	(7,000)	(2,023)
Total liabilities and stockholders' deficit	$ 35,272	$ 41,053

GRILL CONCEPTS, INC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

For the three months ended September 26, 2010 and September 27, 2009

(in thousands, except per share data)

(Unaudited)

		2010		2009
Revenues:				
Sales	$	15,709	$	14,330
Management and license fees		536		556
Total revenues		16,245		14,886
Operating expenses:				
Cost of sales		4,588		4,169
Restaurant payroll and related		6,233		5,909
Restaurant operating		2,923		2,395
Occupancy		1,438		1,479
General and administrative		1,602		1,427
Depreciation and amortization		958		1,037
Pre-opening costs		-		-
Abandoned projects		24		-
Loss on investment in joint venture		-		66
Total operating expenses		17,766		16,482
Loss from operations		(1,521)		(1,596)
Interest, net		(412)		(544)
Loss before income taxes		(1,933)		(2,140)
Provision for income taxes		(52)		(48)
Net loss		(1,985)		(2,188)
Net (income) loss attributable to noncontrolling interests		10		(11)
Net loss attributable to Grill Concepts, Inc		(1,975)		(2,199)
Preferred dividends accrued		(105)		(94)
Net loss applicable to common stock	$	(2,080)	$	(2,293)
Net loss per share applicable to common stock:				
Basic	$	(0.23)	$	(0.26)
Diluted	$	(0.23)	$	(0.26)
Weighted-average shares outstanding:				
Basic		8,918		8,794
Diluted		8,918		8,794

GRILL CONCEPTS, INC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
For the nine months ended September 26, 2010 and September 27, 2009
(in thousands, except per share data)
(Unaudited)

	2010	2009
Revenues:		
Sales	$ 49,982	$ 48,274
Management and license fees	1,457	1,506
Total revenues	51,439	49,780
Operating expenses:		
Cost of sales	14,550	13,694
Restaurant payroll and related	19,168	18,914
Restaurant operating	8,847	8,231
Occupancy	4,324	4,659
General and administrative	4,717	4,656
Depreciation and amortization	2,913	3,195
Pre-opening costs	269	10
Abandoned projects	281	-
Loss on investment in joint venture	78	66
Total operating expenses	55,147	53,425
Loss from operations	(3,708)	(3,645)
Interest, net	(1,227)	(1,074)
Loss before income taxes	(4,935)	(4,719)
Provision for income taxes	(147)	(142)
Net loss	(5,082)	(4,861)
Net (income) loss attributable to noncontrolling interests	(60)	92
Net loss attributable to Grill Concepts, Inc	(5,142)	(4,769)
Preferred dividends accrued	(300)	(281)
Net loss applicable to common stock	$ (5,442)	$ (5,050)
Net loss per share applicable to common stock:		
Basic	$ (0.61)	$ (0.57)
Diluted	$ (0.61)	$ (0.57)
Weighted-average shares outstanding:		
Basic	8,918	8,799
Diluted	8,918	8,799

GRILL CONCEPTS, INC AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT
As of September 26, 2010
(in thousands, except share data)
(Unaudited)

	Series D Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Noncontrolling Interest	Total
	Shares	Amount	Shares	Amount				
Balance at December 27, 2009	1,500	$ 150	8,918,083	$ -	$ 35,666	$ (38,219)	$ 380	$ (2,023
Stock based compensation	-	-	-	-	149	-	-	149
Distributions to noncontrolling interests	-	-	-	-	-	-	(44)	(44
Net Loss	-	-	-	-	-	(5,142)	60	(5,082
Balance at Septmember 26, 2010	1,500	$ 150	8,918,083	$ -	$ 35,815	$ (43,361)	$ 396	$ (7,000

GRILL CONCEPTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the nine months ended September 26, 2010 and September 27, 2009
(in thousands)
(Unaudited)

	2010	2009
Cash flows from operating activities:		
Net Loss	$ (5,082)	$ (4,861)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	2,913	3,195
Amortized deferred rent and lease incentives	(882)	(531)
Amortized debt issuance costs	-	409
Accretion of warrants	80	79
Amortization of bond premiums	24	-
Provision for doubtful accounts	48	2
Stock based compensation	149	479
Abandoned projects	257	-
Loss on investment in joint venture	-	66
Changes in operating assets and liabilities:		
Inventories	73	108
Receivables	(17)	(474)
Other receivables	(50)	621
Prepaid expenses and other current assets	(254)	(135)
Other assets	57	(468)
Accounts payable	241	678
Accrued expenses	535	80
Litigation claim settlement	-	(174)
Tenant improvement allowances and deferred rent	1,160	385
Net cash used in operating activities	(748)	(541)
Cash flows from investing activities:		
Restricted cash released	376	44
Purchase of short-term investments	(3,963)	-
Collections on notes receivable	59	360
Sale of liquor license	21	71
Purchase of liquor license	-	(51)
Purchases of furniture, equipment and improvements	(1,111)	(829)
Net cash used in investing activities	(4,618)	(405)
Cash flows from financing activities:		
Net capital (distributions to)/contributions from noncontrolling interests in joint ventures	(44)	172
Payments on line of credit	-	(4,836)
Purchase of common stock	-	(15)
Payments on long-term debt	(609)	(315)
Liability for debt extinguishment	-	(50)
Proceeds from issuance of 10% secured convertible debentures	-	14,850
Proceeds from issuance of Series D convertible preferred stock	-	150
Net cash (used in)/provided by financing activities	(653)	9,956
Change in cash	(6,019)	9,010
Cash, beginning of period	8,230	1,729
Cash, end of period	$ 2,211	$ 10,739
Supplemental cash flows information:		
Cash paid during the period for:		
Interest	$ 192	$ 627
Income taxes	70	93
Non-cash investing and financing activities:		
Line of credit amendment and other fees	$ -	$ 115
Equity costs reclassed to APIC	$ -	$ 328

The accompanying notes are an integral part of these consolidated financial statement

1. Interim Financial Presentation

The interim consolidated financial statements of Grill Concepts, Inc. (the "Company", "we", or "our") for the period ended September 26, 2010 have not been audited by our independent registered public accounting firm. The December 27, 2009 balance sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. The interim consolidated financial statements and notes thereto should be read in conjunction with the financial statements and notes included in our audited consolidated financial statements for the year ended December 27, 2009. In the opinion of management, these interim financial statements reflect all adjustments of a normal recurring nature necessary for a fair presentation of the results for the interim periods presented. The current period results of operations are not necessarily indicative of results that ultimately will be reported for the full year ending December 26, 2010.

Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted from these consolidated financial statements. This includes the costs associated with the managed restaurants that we operate. Such costs are incurred by the company and are generally reimbursed by the owners. These amounts will be reflected in the year end audited condensed financial statements as cost reimbursements and reimbursed costs, respectively, netting to zero in the consolidated statements of operations. They will also be reflected as reimbursable costs receivable and accrued managed outlets operating expenses, respectively, netting to zero in the consolidated balance sheets. The Company believes that the disclosures made are adequate to make the information not misleading.

Subsequent Event Review

We performed a review for subsequent events that occurred after September 26, 2010, through November 10, 2010, the date this Quarterly Report was available for issuance. Except for those items disclosed in Note 16, no other recognized or non-recognized subsequent events were noted.

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

2. Short-term Investments

Our investment policy restricts the investment of our excess cash balances to short-term investment-grade marketable securities, such as U.S. Treasury and direct agency obligations, municipal and bank securities, investment-grade corporate debt securities, and money market funds, none of which shall have a maturity in excess of one year. Investments and marketable securities, which we have the intent and ability to hold until maturity, are classified as held-to-maturity securities. All investments held as of September 26, 2010 are currently classified as held-to-maturity and are reported at amortized cost. Realized gains or losses are determined on the specific identification cost method and recorded as a charge to earnings, when realized.

Investments consist of the following:

(in thousands)		Amortized Cost	Average Maturity
Bank Securities	$	1,500	1.5 months
Corporate Bonds		2,438	5.3 months
Total short-term investments	$	3,938	

3. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets at September 26, 2010 and December 27, 2009 consisted of the following:

(in thousands)	2010	2009
Prepaid rent	$ 466	$ 446
Prepaid insurance	197	95
Prepaid taxes	165	63
Prepaid expenses, other	466	436
Total prepaid expenses and other current assets	$1,294	$1,040

4. Restricted Cash

The restricted cash balance was $148,000 at September 26, 2010 and $524,000 at December 27, 2009. The balances consisted of $72,000 held in escrow for the Daily Grill at Continental Park in El Segundo, California; and $76,000 placed in escrow for establishment of a Texas sales tax bond during the third quarter of 2008. During the first quarter of 2010, $310,000 serving as collateral for a standby letter of credit to support a workers' compensation policy and $66,000 placed in escrow with our insurance claims processor in 2004 for workers' compensation claims became unrestricted as a result of the negotiated buyout of our workers' compensation liability related to potential claims on our previous self funded insurance plan. The Company bought out the remaining liability for $378,000 in cash, resulting in a net credit, after reducing the remaining liability, of $175,000, which was recorded in general and administrative expense in the consolidated statements of operations at December 27, 2009.

5. Long-term Debt

Equipment Lease Financing

Under the Company's equipment lease financing, we have recorded capital leases for purchases of new kitchen equipment as long term debt on the consolidated balance sheets. The leases are collateralized by the related equipment, are based on a 5.5% to 10.0% interest rate and are repaid either monthly or quarterly over three years. At September 26, 2010; $0.4 million remained drawn on the main facility to fund kitchen equipment installed in our Aventura Grill on the Alley and Westlake Grill on the Alley. Other smaller kitchen equipment leases are in place. During May of 2010, the amount owing on the kitchen equipment in our Boston Daily Grill was repaid as part of the closure of the restaurant. See Note 16.

6. Other Long-Term Liabilities

In connection with certain of our leases, the landlord has provided us with tenant improvement allowances. These lease incentives have been recorded as long-term liabilities and are being amortized over the life of the lease. Additionally, we record deferred rent where lease payments are lower than rental expense, recognized on a straight-line basis.

Other long-term liabilities at September 26, 2010 and December 27, 2009 consisted of the following:

(in thousands)	2010	2009
Lease incentives	$ 9,653	$ 9,293
Deferred rent	1,683	1,866
Deferred rent payments from amended leases	504	403
Total other long-term liabilities	$11,840	$11,562

7. Issuance of Convertible Debentures and Series D Convertible Preferred Stock

In September 2009, we entered into a securities purchase agreement with an entity controlled by a major shareholder ("CNM Grill, LLC") and issued securities consisting of 10% Secured Convertible Debentures ("Debentures") and 1,500 shares of Series D Convertible Preferred Stock ("Series D Preferred Stock") for an aggregate price of $15.0 million. The aggregate funds received were allocated $14.8 million to the Debentures and $0.2 million to the Series D Preferred Stock. Subsequent to the closing of the transaction, CNM Grill, LLC sold $2.0 million of the Debentures and 203 shares of the Series D Preferred Stock to members of the Company's management (the "Co-Investors"). CNM Grill, LLC provided financing to the Co-Investors for the purchase of these interests.

10% Secured Convertible Debentures

The Debentures bear interest at 10% annually, mature on September 24, 2021 and are secured by the assets of the Company. Interest on the Debentures is calculated using the simple interest method and is due and payable on a quarterly basis.

The Debentures are convertible into shares of the Company's Common Stock at a conversion price (the "Conversion Price"), subject to adjustment for stock splits, reverse stock splits and stock dividends, of $0.30 per share. The Debentures may only be converted in tandem with shares of Series D Preferred Stock based on a ratio of one share of Series D Preferred Stock for each $9,900 in principal amount of Debentures converted (the "Tandem Conversion Requirement").

There is no pre-payment penalty, although pre-payment may not be made without prior written approval of the holder of the Debenture.

Series D Convertible Preferred Stock

Dividends The Series D Preferred Stock accrues cumulative dividends at the rate of $10 per share per annum (an effective rate of 10%). Dividends are non-interest bearing and subject to the priority rights of the Series C Convertible Preferred Stock ("Series C Preferred Stock") and are only payable upon declaration by the Company's Board of Directors.

Conversion The Series D Preferred Stock is convertible, at the sole option of the investor and subject to the Tandem Conversion Requirement, into a number of shares of common stock as calculated by dividing $100 by the Conversion Price.

Redemption On or after September 24, 2021 and subject to the priority rights of the Series C Preferred Stock, the Company may redeem, out of funds legally available therefore, some or all the then outstanding Series D Preferred Stock for an amount (the "Redemption Amount") equal to (x) the purchase price of $100 multiplied by the number of Series D Preferred Stock to be redeemed, plus (y) accrued and unpaid dividends thereon.

Voting The Series D Preferred Stock is entitled to 100 votes for each share of common stock into which the Series D Preferred Stock is convertible on all matters submitted to a vote of the holders of the Company's Common Stock.

Liquidation The Series D Preferred Stock is entitled to a preference upon liquidation of $100 per share plus all accrued and unpaid dividends, subject to the priority rights of the Series C Preferred Stock.

8. Stockholders' Equity

In conjunction with, and as a condition of, the sale and issuance of Debentures and Series D Preferred Stock during 2009, we amended the Certificate of Designation governing our outstanding Series C Convertible Preferred Stock to decrease the conversion price of the Series C Convertible Preferred Stock from $4.00 per share to $0.30 per share.

At September 26, 2010, we had issued and outstanding 8,918,083 shares of common stock and options, warrants and other convertible securities (collectively, "Derivative Securities") that, upon exercise or conversion, would result in the issuance of up to 68,874,602 additional shares of common stock. Assuming exercise or conversion of all Derivative Securities (including, Series C Preferred Stock, Debentures and Series D Preferred Stock), we would have issued and outstanding a total of 77,792,685 shares of common stock. Of this total, 90% of the outstanding common stock would be held by CNM Grill, LLC and affiliates and the Co-Investors.

Outstanding derivative securities at September 26, 2010 consisted of the following:

Stock Options Employee, director and consultant stock options to purchase 872,935 shares of common stock at a weighted average exercise price of $3.59 and with a weighted average remaining life of 4.6 years. See Note 11.

Series C Warrants In September 2008, we issued warrants to purchase 600,000 shares of common stock, as part of the issuance of the Series C Preferred Shares. The Warrants entitle the investor to purchase shares of common stock at any time prior to September 2, 2015 at an exercise price equal to $4.00 per share, subject to adjustment upon certain corporate events, including stock dividends, distributions and reclassifications.

Series C Convertible Preferred Stock 5,000 shares of Series C convertible preferred stock, convertible at $0.30 per share into an aggregate of 16,666,667 shares of common stock.

Series D Convertible Preferred Stock 1,500 shares of Series D convertible preferred stock convertible at $0.30 per share into an aggregate of 500,000 shares of common stock.

Convertible Debentures $14.8 million in principal amount of Debentures convertible at $0.30 per share into an aggregate of 49,500,000 shares of common stock.

2007 Private Placement of Stock and Warrants In July 2007, we sold 2,000,000 Shares of common stock and warrants to purchase up to an aggregate of 735,000 shares of common stock for aggregate gross proceeds of $14.1 million.

The warrants entitle the holders to purchase one share of common stock for each warrant held for a term of up to five years at an exercise price equal to $8.05 per share, subject to adjustment upon certain corporate events, including stock dividends, distributions and reclassifications. The warrant exercise price is also subject to adjustment upon certain issuances of shares at prices below the exercise price of the warrant, provided, however, that the exercise price shall in no event be reduced to less than $7.00 (subject to adjustment in the event of splits, reverse splits, stock dividends and similar transactions).

Pursuant to the terms of the warrants issued, as a result of the sale of the Series C preferred shares, in September 2008, the exercise price of the 2007 private placement warrants was automatically reduced from $8.05 per share to the floor price of $7.00 per share. For their services in the Offering, we paid to the placement agents commissions totaling $0.8 million, or 6.5% of gross funds received (excluding funds received from affiliates of existing shareholders), and issued placement agent warrants to purchase up to 85,164 shares of common stock, representing an aggregate of five percent of the shares of common stock sold in the Offering (excluding shares sold to affiliates of existing shareholders), for a term of up to three years at an exercise price equal to $8.75 per share, subject to adjustment only upon certain corporate events, including stock dividends, distributions and reclassifications. These warrants expired in July 2010.

9. Income Taxes

At September 26, 2010, we had available federal and state net operating loss carryforwards of $15.2 million and $11.8 million, respectively that may be utilized to offset future federal and state taxable earnings. The federal and state net operating losses begin expiring in 2028 and 2016 respectively. At September 26, 2010, we had available federal general business credit carryforwards of $2.3 million that may be utilized to offset future federal tax liabilities. These credits expire beginning in 2015 through 2027.

The Company accounts for uncertain tax positions under Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109" ("FIN No. 48"), now codified as ASC 740-10. ASC 740-10 addresses the determination of how tax benefits claimed, or expected to be claimed; on a tax return should be recorded in the financial statements. Under ASC 740-10, we must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. We did not recognize any additional liabilities, subsequent to adoption, for uncertain tax positions as a result of the implementation of ASC 740-10. We had no unrecognized tax benefits as of the date of adoption or as of September 26, 2010.

Realization of deferred tax assets is principally dependent upon the achievement of future taxable income, the estimation of which requires significant management judgment. The Company's judgments regarding future profitability may change due to many factors, including future market conditions and the Company's ability to successfully execute its business plans and/or tax planning strategies. These changes, if any, may require material adjustments to these deferred tax asset balances. Due primarily to the fact that the Company has incurred losses in recent quarters and uncertainties surrounding the realization of the Company's cumulative net operating losses and other factors, the Company believes it is more likely than not that the deferred tax assets will not be fully realizable and has, accordingly, recorded a full valuation allowance against its net deferred tax assets. At September 26, 2010, the valuation allowance had a balance of $16.8 million. The Company has not recorded a tax benefit for the reported net loss for the three months ended September 26, 2010, as this would simply result in the related deferred tax asset being fully allowed for in the valuation allowance. The true expected tax benefit/liability will be determined at year end and recorded in the Company's annual audited 2010 consolidated financial statements. However, the Company recorded a minor tax provision for statutory franchise taxes.

Our uncertain tax positions are related to tax years that remain subject to examination by the relevant tax authorities. During the third quarter of 2010, the Internal Revenue Service completed their audit of the tax years ended 2006 and 2007. This audit was completed with insignificant and immaterial findings. The Company and its subsidiaries' state income tax returns are also open to audit under the California statute of limitations for the tax years ended 2004 - 2008.

We accrue interest on unrecognized tax benefits as a component of interest expense. Penalties, if incurred, would be recognized as a component of income tax expense. We had no such accrued interest or penalties associated with unrecognized tax benefits included in accrued liabilities as of September 26, 2010.

Pursuant to Internal Revenue Code Sections 382 and 383, the annual use of our net operating loss and general business credit carryforwards may be limited should a greater than a 50% cumulative change in ownership occur. Such limitation may cause a portion of the carryforwards to expire unused. The Company has had several equity changes in recent years and is still determining if an ownership change pursuant to Internal Revenue Code Sections 382 and 383 did occur and related limitations, if any.

10. Per Share Data

Pursuant to Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share", now codified as ASC 260-10, basic net loss per share is computed by dividing the net loss attributable to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing the net loss 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 stock using the treasury stock method. A reconciliation of earnings available to common stockholders and diluted earnings available to common stockholders and the related weighted-average shares for the three and nine months ended September 26, 2010 and September 27, 2009 follows:

Three months (in thousands)	2010		2009	
	Earnings	Shares	Earnings	Shares
Net loss	$ (1,976)		$ (2,199)	
Less: preferred dividends accrued	105		94	
Basic net loss applicable to common stock	$ (2,081)	8,918	$ (2,293)	8,794
Dilutive securities [1]				
Dilutive stock options	—	—	—	—
Warrants	—	—	—	—
Convertible preferred stock	—	—	—	—
Diluted net loss applicable to common stockholders	$ (2,081)	8,918	$ (1,487)	8,794

(1) For the three months ended September 26, 2010: 66,666,667 common stock equivalents related to the convertible debentures and Series C and Series D convertible preferred stock, 872,935 options and 1,335,000 warrants were excluded from the calculation because they were anti-dilutive. For the three months ended September 27, 2009: 16,667,667 common stock equivalents related to the Series C convertible preferred stock, 998,185 options and 1,446,726 warrants were excluded from the calculation because they were anti-dilutive.

Nine months (in thousands)	2010		2009	
	Earnings	Shares	Earnings	Shares
Net loss	$ (5,143)		$ (4,769)	
Less: preferred dividends accrued	300		281	
Basic net loss applicable to common stock	$ (5,443)	8,918	$ (5,050)	8,799
Dilutive securities [2]				
Dilutive stock options	—	—	—	—
Warrants	—	—	—	—
Convertible preferred stock	—	—	—	—
Diluted net loss applicable to common stockholders	$ (5,443)	8,918	$ (5,050)	8,799

(2) For the nine months ended September 26, 2010: 66,666,667 common stock equivalents related to the convertible debentures and Series C and Series D convertible preferred stock, 872,935 options and 1,335,000 warrants were excluded

from the calculation because they were anti-dilutive. For the nine months ended September 27, 2009: 16,667,667 common stock equivalents related to the Series C convertible preferred stock, 998,185 options and 1,446,726 warrants were excluded from the calculation because they were anti-dilutive.

11. Stock Options and Stock Based Compensation

We maintain performance incentive plans under which incentive stock options and non-qualified stock options may be granted to employees, consultants and non-employee directors. To date, we have granted both qualified and non-qualified stock options under these plans. Stock options are granted at the market price on the date of grant, generally vest at 20% per year, and generally expire ten years from the date of grant. We issue new shares of common stock upon exercise of stock options.

Our Board of Directors adopted the Grill Concepts, Inc. 1998 Stock Option Plan (the "1998 Plan") and the 2006 Equity Incentive Plan (the "2006 Plan"). The Plans were approved at the respective 1998 and 2006 annual stockholders' meetings. These Plans provide for options to be issued to team members 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.

In accordance with SFAS No. 123R, "Share-Based Payment", now codified as ASC 718-10, compensation expense is recognized only for those options expected to vest, with forfeitures estimated based on our historical experience and future expectations. We utilize the Black-Scholes option pricing model for estimating our stock-based compensation cost.

The expected stock price volatility is based on the historical volatility of our stock. The risk-free interest rate is based on the U.S. Treasury yield in effect at the time of grant with an equivalent remaining term. We have not paid dividends in the past and do not currently plan to pay any dividends in the near future.

Stock options activity during the nine months ended September 26, 2010 was as follows:

	Number of Shares	Weighted-Average Option Exercise Price	Weighted Average Remaining Contractual Life (in years)
Outstanding at December 27, 2009	991,885	$ 3.57	
Granted	-	-	
Exercised	-	-	
Cancelled	(118,950)	3.60	
Outstanding at September 26, 2010	872,935	$ 3.59	4.6
Exercisable at September 26, 2010	752,340	$ 3.53	5.4

No stock options were granted or exercised during the nine months ended September 26, 2010. As of September 26, 2010, total unrecognized stock-based compensation expense related to non-vested stock options was $0.4 million, which is expected to be recognized over a weighted-average period of approximately 1.2 years. As of September 26, 2010 there were 773,191 shares of common stock available, under all available stock option plans, for issuance pursuant to future stock option grants.

The following table reflects share-based compensation recorded for the three and nine months ended September 26, 2010 and September 27, 2009:

	Three Months Ended		Nine Months Ended	
(in thousands, except per share amounts)	September 26, 2010	September 27, 2009	September 26, 2010	September 27, 2009
Share based compensation expense	$ 64	$ 166	$ 149	$ 479
Basic earnings per share effect of share based compensation expense	$ (0.01)	$ (0.02)	$ (0.02)	$ (0.05)

Executive Salary Reduction Plan

During October 2008, the Company implemented a temporary plan (the "Plan") pursuant to which each officer at the vice president level and higher agreed to accept equity in the Company in lieu of cash in an amount equal to 10% of their salary and each non-employee director agreed to accept equity in the Company in lieu of cash in an amount equal to 100% of their compensation (the "Salary Reduction Amount").

In lieu of payment of the Salary Reduction Amount in cash, each participant in the Plan agreed to accept Restricted Stock Units ("RSUs") under the Company's 2006 Equity Incentive Plan. RSUs were to be issued to each participant at the end of each quarter, based on the average closing price of the Company's common stock over the three trading days ended on the date of issuance, subject to a $2.26 floor. All RSUs were subject to vesting provisions pursuant to which the RSUs and underlying shares of common stock would be subject to restrictions on transfer, and forfeiture, for a period of one year from issuance of each applicable RSU; provided, however, that vesting of the RSUs and underlying shares of common stock would be accelerated and the forfeiture requirement would lapse (1) in the case of termination of employment or services prior to full vesting, other than termination for gross misconduct or grave moral turpitude, one twelfth per month for each full month of continued service during the vesting period, and (2) in the case of sale or change of control of the Company or the death or permanent disability of the participant, in full on such event. Common stock certificates were to be issued in settlement of the RSUs on the vesting date of each RSU.

The Plan was terminated on closing of the sale of the Debentures and Series D Preferred Stock in September 2009, at which time all previously issued RSUs vested in full and were settled through the issuance of 123,621 shares of common stock. Following termination of the Plan, no additional RSUs will be issued. The Company recognized $0 in expense related to the Plan during the nine months ended September 26, 2010 and $224,000 during the nine months ended September 27, 2009.

12. Distribution of Capital and Preferred Returns

During the nine months ended September 26, 2010 and September 27, 2009, the following distributions from, contributions to, changes in unreturned capital from and changes in accrued but unpaid preferred returns of the various LLC's (the "LLCs") in which we hold less than 100% interest, occurred:

San Jose Grill: Distributions of profits from the San Jose Grill during the nine months ended September 26, 2010 totaled $44,000 to us and $44,000 to the other members. Distributions of profits from the San Jose Grill during the nine months ended September 27, 2009 totaled $33,000 to us and $33,000 to the other members.

Except for the foregoing, there were no other distributions of profits from any of the LLCs and the unreturned capital contributions balances and accrued but unpaid preferred return balances were unchanged from December 27, 2009.

13. Recent Accounting Pronouncements

In July 2010, the FASB issued ASU 2010-20, which requires additional disclosures about the credit quality of financing receivables, including credit card receivables, and the allowance for doubtful accounts. We are required to adopt the provisions of this ASU in the fourth quarter of 2010. We believe the adoption will result in increased notes receivable disclosure, but will not have any impact on our consolidated financial statements.

In February 2010, the FASB issued ASU 2009-17, *Consolidations (Topic 810) - Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities, which codifies FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R)*. ASU 2009-17 represents a revision to former FASB Interpretation No. 46 (Revised December 2003), *Consolidation of Variable Interest Entities*, and changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. ASU 2009-17 also requires a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. A reporting entity will be required to disclose how its involvement with a variable interest entity affects the reporting entity's financial statements. ASU 2009-17 is effective at the start of a reporting entity's first fiscal year beginning after November 15, 2009, or January 1, 2010, for a calendar year-end entity. Early application is not permitted. The adoption of ASU 2009-17 did not have a material impact on the Company's results of operations or financial condition.

In October 2009, the Financial Accounting Standards Board issued guidance on revenue arrangements with multiple deliverables effective for us in fiscal 2011, although early adoption is permitted. The guidance revises the criteria for measuring and allocating consideration to each component of a multiple element arrangement. The guidance requires companies to allocate revenue using the relative selling price of each deliverable, which must be estimated if the company does not have either a history of selling the deliverable on a stand alone basis or third-party evidence of selling price. For our company, this guidance will only impact the pattern of revenue recognition for our marketing programs that include multiple elements. As the timing and content of future promotions is not determinable at this time, we are unable to estimate the impact of this guidance on our financial statements.

In August 2009, the FASB issued ASU 2009-05 (ASC 820-10) to provide clarification on measuring liabilities at fair value when a quoted price in an active market is not available. In particular, ASU 2009-05 specifies that a valuation technique should be applied that uses either the quote of the liability when traded as an asset, the quoted prices for similar liabilities when traded as assets, or another valuation technique consistent with existing fair value measurement guidance. ASU 2009-05 (ASC 820-10) is prospectively effective for financial statements issued for interim or annual periods ending after October 1, 2009. The adoption of ASU 2009-05 (ASC 820-10) did not have a material impact on the Company's results of operations or financial condition.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* ("SFAS 168 (ASC 105-10)"). SFAS 168 (ASC 105-10) establishes the Codification as the sole source of authoritative accounting principles recognized by the FASB to be applied by all nongovernmental entities in the preparation of financial statements in conformity with GAAP. SFAS 168 (ASC 105-10) was prospectively effective for financial statements issued for fiscal years ending on or after December 15, 2009, and interim periods within those fiscal years. The adoption of SFAS 168 (ASC 105-10) on July 1, 2009 did not impact the Company's results of operations or financial condition. The Codification did not change GAAP; however, it did change the way GAAP is organized and presented. As a result, these changes impact how companies reference GAAP in their financial statements and in their significant accounting policies. The Company implemented the codification in this report by providing references to the codification topics alongside references to the corresponding standards.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*, now codified as ASC 855-10, *Subsequent Events*, which provides guidance on management's assessment of subsequent events. Historically, management had relied on U.S. auditing literature for guidance on assessing and disclosing subsequent events. ASC 855-10 represents the inclusion of guidance on subsequent events in the accounting literature and is directed specifically to management, since management is responsible for preparing an entity's financial statements. ASC 855-10 clarifies that management must evaluate, as of each reporting period, events or transactions that occur after the balance sheet date through the date that the financial statements are issued. ASC 855-10 is effective prospectively for interim and annual financial periods ending after June 15, 2009. The Company has adopted the provisions of ASC 855-10 effective with its reporting period ending June 30, 2009. The adoption of ASC 855-10 did not have a material impact on the Company's financial condition or results of operations.

The Company adopted the provisions of ASC 815-40-15 (formerly EITF Issue No. 07-5, *Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock* effective December 29, 2008. ASC815-40-15 requires that the Company evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock by evaluating the instrument's contingent exercise provisions, and if needed, evaluate the instrument's settlement provisions to determine whether the instrument is a free-standing derivative, an embedded feature or a derivative-like instrument. The adoption of ASC 815-40-15 did not have a material impact on the Company's consolidated financial statements.

14. Commitments and Contingencies

Legal Matters

We are involved from time to time in routine legal matters incidental to our business. In the opinion of management, resolution of such matters will not have a material effect on our financial position or results of operations.

In June 2004, a former hourly restaurant employee filed a class action lawsuit against us in the Superior Court of California of Orange County. We requested, and were granted, a motion to move the suit from Orange County to Los Angeles County. The lawsuit was then filed in the Superior Court of California of Los Angeles in December 2004. The plaintiffs alleged violations of California labor laws with respect to providing meal and rest breaks. The lawsuit sought unspecified amounts of penalties and other monetary payments on behalf of the plaintiffs and other purported class members. We believe that all of our employees were provided with the opportunity to take all required meal and rest breaks.

In April 2007, the California Supreme Court unanimously held that payments for missed meal or rest periods are considered wages or premium pay, not penalties. As a result, claims for missed meal and rest breaks under the California Labor Code (the "Labor Code") will be governed by a three or four-year statute of limitations for the payments required under the Labor Code, rather than a one-year statute. The case was placed in a stay status pending mediation in the summer of 2008.

A new class action lawsuit of the same nature was filed on April 4, 2008 in the Supreme Court for the County of Los Angeles. We requested, and were granted, that the case be combined with the original class action lawsuit.

In July 2008, through non-binding mediation, we reached an agreement in principle to settle the ongoing class action lawsuit relating to employee meal and rest breaks, originally filed against us in June 2004. The settlement required payment of attorney's fees, administrative costs and plaintiff incentive awards. Based on the terms of the settlement and the historically low rate of claims made in these types of cases, we recorded total costs of $1.1 million, of which $0.2 million was accrued in previous years. The balance, or $0.9 million, was recorded in the 2008 consolidated financial statements.

A memorandum of understanding was executed in December 2008 and the court granted approval in 2009. The settlement was paid during the fourth quarter of fiscal 2009.

Operating Leases and Contractual Obligations

At September 26, 2010, we were obligated under twenty-two leases covering the premises in which our Daily Grill, Grill on the Alley and In Short Order-Daily Grill restaurants are located as well as a lease on our corporate offices. Such restaurant leases and the corporate offices lease contain minimum rent provisions. 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. Lease escalation clauses based on changes in the consumer price index are accounted for as contingent rentals.

The following table details our contractual obligations as of September 26, 2010:

	Payment due by period						
(in thousands)	Total	2010	2011	2012	2013	2014	Thereafter
Long-term debt[1]	$ 55	$ 15	$ 40	$ -	$ -	$ -	$ -
Capital lease obligations	440	85	262	90	3	-	-
Operating lease commitments[2]	29,826	1,297	4,671	4,237	3,834	3,478	12,309
10% Convertible Debentures	14,850	-	-	-	-	-	14,850
Total	$ 45,171	$ 1,397	$ 4,973	$ 4,327	$ 3,837	$ 3,478	$ 27,159

(1) Excludes other long-term liabilities of $11.8 million at September 26, 2010, consisting of (a) lease incentives and deferred rents, each of which is amortized over the life of the respective leases, and (b) accrued interest of $1.5 million annually on $14.8 million of 10% secured convertible debentures, which interest is only payable as approved by the board of directors provided that interest in an amount not less than available cash flow (as defined) is payable quarterly. No interest has yet been paid on the Debentures, but all interest has been accrued in accrued expenses on the consolidated balance sheets as of September 26, 2010 and December 27, 2009.

(2) Includes $3.1 million in total payments related to a lease that we are intending to terminate as part of the Company's restructuring effort. The Company anticipates that this lease will be terminated and we will incur an estimated cost of one year's rent and common area costs.

Rent expense, relating to base rent amounts, was $0.9 million and $2.6 million for the three and nine months ended September 26, 2010, respectively, compared to $0.9 million and $2.8 million for the three and nine months ended September 27, 2009, respectively. Contingent rentals, which are payable on the basis of a percentage of sales in excess of base rent amounts, were $0.2 million and $0.5 million for the three and nine months ended September 26, 2010, respectively, compared to $0.2 million and $0.6 million for the three and nine months ended September 27, 2009, respectively.

Other Commitments

We have three suppliers which account for a majority of our purchases. We have a policy of strengthening our supplier relationships by concentrating our purchases over a limited number of suppliers in order to maintain quality, consistency, and cost controls and to increase the suppliers' commitment to us. We rely upon, and expect to continue to rely upon, several single source suppliers.

15. Related Parties

Pursuant to the Debenture and Series D Preferred Stock transaction, CNM Grill, LLC entered into agreements to sell, and finance the sale, to the Co-Investors, a portion of the Debentures and Series D Preferred Stock. As a result, the Co-Investors hold 13% of the Debentures and Series D Preferred Stock. Assuming exercise or conversion of all Derivative Securities (including, Series C Preferred Stock, Debentures and Series D Preferred Stock), 90% of the outstanding common stock would be held by CNM Grill, LLC and affiliates and the Co-Investors.

16. Subsequent Events

In connection with the related parties transaction described in note 15, CNM Grill has advised management of the Company that it intends to offer to repurchase the Debentures and Series D Preferred Stock described therein from the Co-Investors, who are currently serving as officers or key employees of the Company, at the original purchase price by means of cancellation of the purchase money promissory notes. As a result of the proposed elimination of equity holdings by such officers and key employees arising from the proposed sale of the subject securities to CNM Grill, management has recommended that stock option grants be made to current officers and key employees in order to provide equity incentive to them on terms substantially mirroring the equity positions represented by the subject securities being reconveyed to CNM Grill. At the Company's Board Meeting on November 10, 2010 resolutions in support of those recommendations were approved.

17. Current Year Developments

Restaurant Opening

In April 2010, the Company opened the 100% owned Daily Grill on Century restaurant in the Westin Hotel in Los Angeles, California, near the Los Angeles International Airport.

Restaurant Closures

During March 2010, the Company, per previous agreement with its partner in The Daily Grill at Continental Park, LLC, closed the Daily Grill at Continental Park restaurant in El Segundo, California. In addition to the closure of the restaurant, the partnership will subsequently be terminated. The book value of the equipment and improvements at the restaurant were written off during fiscal year 2009 and 2008 and recorded as impairment of furniture, equipment and improvements in the consolidated statements of operations. The majority of the team members will remain with the Company as employees at the Daily Grill on Century restaurant in Los Angeles, California, which opened in April 2010.

During May 2010, the Company closed its Boston Daily Grill. The net cost to the Company of closing this location was $0.3 million, consisting of a termination penalty, impairment of the liquor license, employee severance and other costs, partially offset by deferred rent credits. These costs are recorded as abandoned project costs in the consolidated statements of operations.

Executive Management Change

During June 2010, Robert Spivak, who co-founded the company in 1984, served as President and Chief Executive Officer of the company from 1995 until his retirement in 2006 and has served as a Director since inception and as Co-Chairman of the Board since 2007, was re-appointed to the President and Chief Executive Officer positions. Mr. Spivak who served as a consultant to the company from the time of his retirement in 2006, will receive a salary and will cease to receive consulting fees.

During the second quarter of 2010, a severance was paid, which was recorded as general and administrative expense in the consolidated statements of operations.

GRILL CONCEPTS, INC. AND SUBSIDIARIES
SUPPLEMENTAL INFORMATION
RECONCILIATION OF NET LOSS TO MODIFIED EBITDA
For the nine months ended September 26, 2010 and September 27, 2009
(in thousands)
(unaudited)

		2010		2009
Net loss attributable to Grill Concepts, Inc	$	(5,142)	$	(4,769)
Adjustments:				
Interest, net		1,227		1,074
Provision for income taxes		147		142
Depreciation and amortization		2,913		3,195
Stock based compensation		149		479
Pre-opening costs		269		10
Abandoned projects		281		-
Loss on investment in joint venture		78		66
Net income (loss) attributable to noncontrolling interests		60		(92)
Other non-recurring costs		273		(257)
Modified EBITDA	$	255	$	(152)

Non-GAAP reconciliation of the Company's net loss to modified EBITDA

Item 4 Management's discussion and analysis.

In addition to historical information, this discussion contains forward-looking statements which involve a number of risks and uncertainties that could cause our actual results to differ materially from those reflected in the forward-looking statements. Forward-looking statements can be identified by use of the words "expect," "project," "may," "might," potential," and similar terms. Readers are cautioned that any forward-looking information is not a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking information. Forward-looking statements involve a number of risks, uncertainties or other factors beyond our control. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements.

General

Grill Concepts, Inc., and its subsidiaries, develops, owns, operates, manages and licenses full-service upscale casual dining restaurants under the name "Daily Grill" and fine dining restaurants under the name "The Grill on the Alley."

At September 26, 2010, we operated and/or licensed a total of twenty-nine restaurants (twenty-one Daily Grills, seven Grill on the Alley restaurants and one In Short Order – Daily Grill), of which eighteen were owned 100%, three were owned in partnerships, seven were managed restaurants and one was licensed. During the nine months ended September 26, 2010, we closed one company owned Daily Grill and one Daily Grill owned via partnership and opened one company owned Daily Grill.

At September 27, 2009, we operated and/or licensed a total of thirty-two restaurants (twenty-four Daily Grills, seven Grill on the Alley restaurants and one In Short Order – Daily Grill), of which eighteen were owned 100%, five were owned in partnerships, seven were managed restaurants and one was licensed. During the nine months ended September 27, 2009, we closed one managed Daily Grill and one Daily Grill owned via joint venture.

During the nine months ended September 26, 2010, we also were engaged in efforts to terminate, a lease on one planned restaurant.

Our revenues are derived from sales at company-owned restaurants and management and license fees from restaurants managed or licensed by us.

Sales revenues are derived from sales of food, beer, wine, liquor and non-alcoholic beverages. 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.

Management and license fees revenues are derived from individually negotiated arrangements by which we manage restaurants on behalf of third parties or license to third parties the right to operate Daily Grill restaurants. Management and license fees are primarily influenced by the number of management and license arrangements in place, the negotiated management or license fee and the revenues of the managed or licensed restaurants. Management and license fees typically range from five to eight percent of net sales of the subject restaurants. Management and license fees revenues also include incentive fees we receive which are based on a percentage of net operating income.

Expenses are comprised primarily of cost of food and beverages; restaurant operating expenses, including payroll, rent and occupancy costs. Our largest expenses are payroll and the cost of food and beverages, which is primarily a function of the price of the various ingredients utilized in preparing the menu items offered at our restaurants. Restaurant operating expenses consist primarily of marketing, utilities, insurance and taxes. We typically analyze these costs as a percentage of sales.
In addition to restaurant operating expenses, we pay certain general and administrative expenses that relate primarily to operation of our home office. Home office general and administrative expenses consist primarily of salaries of officers, management personnel and clerical personnel, rent, legal and accounting costs, travel, insurance and office expenses.

Current Year Developments

During the nine months ended September 26, 2010, our operations and financial condition were materially affected by the following developments:

Restaurant Opening

In April 2010, we opened the 100% owned Daily Grill on Century restaurant in the Westin Hotel in Los Angeles, California, near the Los Angeles International Airport.

Restaurant Closures

During March 2010, per previous agreement with our partner in The Daily Grill at Continental Park, LLC, we closed the Daily Grill at Continental Park restaurant in El Segundo, California. In addition to the closure of the restaurant, the partnership will subsequently be terminated. The book value of the equipment and improvements at the restaurant were written off during fiscal year 2009 and 2008 and recorded as impairment of furniture, equipment and improvements in the consolidated statements of operations. The majority of the team members will remain with our company as employees at the Daily Grill on Century restaurant in Los Angeles, California, which opened in April 2010.

During May 2010, we closed our Boston Daily Grill. The net cost of closing this location was $0.3 million, consisting of a termination penalty, impairment of the liquor license, employee severance and other costs, partially offset by deferred rent credits. These costs are recorded as abandoned project costs in the consolidated statements of operations.

Executive Management Change

During June 2010, Robert Spivak, who co-founded the company in 1984, served as President and Chief Executive Officer of the company from 1995 until his retirement in 2006 and has served as a Director since inception and as Co-Chairman of the Board since 2007, was re-appointed to the President and Chief Executive Officer positions. Mr. Spivak who served as a consultant to the company from the time of his retirement in 2006, will receive a salary and will cease to receive consulting fees.

During the second quarter of 2010, a severance was paid, which was recorded as general and administrative expense in the consolidated statements of operations.

Results of Operations

The following table sets forth, for the periods indicated, information derived from our consolidated statements of operations expressed as a percentage of sales. We typically analyze our operating expenses as a percentage of sales revenues, not total revenues:

	Three months ended		Nine months ended	
	September 26, 2010	September 27, 2009	September 26, 2010	September 27, 2009
Revenues:				
Sales	100.0%	100.0%	100.0%	100%
Management and license fees	3.4	3.9	2.9	3.1
Total revenues	103.4	103.9	102.9	103.1
Operating expenses:				
Cost of sales	29.2	29.1	29.1	28.4
Restaurant payroll and related	39.7	41.2	38.3	39.2
Restaurant operating	18.6	16.7	17.7	17.1
Occupancy	9.2	10.3	8.7	9.7
General and administrative	10.2	10.0	9.4	9.6
Depreciation and amortization	6.1	7.2	5.8	6.6
Pre-opening costs	-	-	0.5	0.0
Abandoned projects	0.2	-	0.6	-
Loss on disposal of furniture, equipment and improvements	-	-	-	-
Loss on investment in joint venture	-	0.5	0.2	0.1
Total operating expenses	113.1	115.0	110.3	110.7
Loss from operations	(9.7)	(11.1)	(7.4)	(7.6
Interest, net	(2.6)	(3.8)	(2.5)	(2.2
Loss before income taxes	(12.3)	(14.9)	(9.9)	(9.8
Provision for income taxes	(0.3)	(0.3)	(0.3)	(0.3
Net loss	(12.6)	(15.3)	(10.2)	(10.1
Net (income) loss attributable to noncontrolling interests	0.1	(0.1)	(0.1)	0.2
Net loss attributable to Grill Concepts, Inc	(12.6)	(15.3)	(10.3)	(9.9

Fiscal Three Months Ended September 26, 2010 Compared to September 27, 2009

Revenues

Total revenues consisted of (i) sales revenues of $15.7 million for the 2010 three month period, up 9.6%, as compared to $14.3 million for the 2009 three month period and (ii) management and license fees of $0.5 million for the 2010 three month period, down 3.6%, compared to $0.6 million for the 2009 three month period.

The change in sales revenue for the 2010 three month period compared to the 2009 period was attributable primarily to increased guest counts and guest check averages accompanying improvements in the macro economic factors impacting the economy as a whole, offset slightly by the net closure of two owned restaurants during the last half of 2009 and first half of 2010.

The change in management and license fees for the 2010 three month period compared to the 2009 period was attributable to reduced incentive fees, based on managed restaurants' net operating results, as well as the closure of one managed restaurant during the last half of 2009.

Operating Expenses

Operating expenses totaled $17.8 million during the 2010 three month period as compared to $16.5 million during the 2009 three month period and consisted of: (i) cost of sales of $4.6 million for the 2010 three month period as compared to $4.2 million for the 2009 three month period; (ii) restaurant payroll and related expenses of $6.2 million for the 2010 three month period compared to $5.9 million for the 2009 three month period; (iii) restaurant operating expenses of $2.9 million for the 2010 three month period compared to $2.4 million for the 2009 three month period; (iv) occupancy costs of $1.4 million for the 2010 three month period compared to $1.5 million for the 2009 three month period; (v) general and administrative expense of $1.6 million for the 2010 three month period compared to $1.4 million for the 2009 three month period; (vi) depreciation and amortization of $1.0 million for the 2010 three month period compared to $1.0 million for the 2009 three month period; (vi) abandoned project costs of $24,000 in the three month 2010 period compared to zero in the three month 2009 period and (vii) loss on disposal of furniture, equipment and improvements of zero in the three month 2010 period compared to $66,000 in the three month 2009 period.

The changes in operating expenses were attributable primarily to the following factors:

Cost of Sales Increased sales during the three months ended September 26, 2010 resulted in an increase in cost of sales of $0.4 million, or 10.1%. Cost of sales as a percentage of sales was 29.2% for the 2010 three month period compared to 29.1% for the 2009 three month period. The increase in cost of sales as a percentage of sales was primarily due to the change in the menu mix and more guests ordering off the *prix fixe* menu, containing more protein items, and thus a higher food cost.

Restaurant Payroll and Related Increased traffic at the restaurants resulted in increased staffing requirements. Costs associated with increased staffing requirements were offset slightly by the continued management payroll cost containment measures implemented during the first quarter of 2009. The net result of these factors was an increase in restaurant payroll and related costs of $0.3 million, or 5.5%. Payroll as a percentage of sales was 39.7% for the three months ended September 26, 2010 compared to 41.2% for the 2009 three month period.

Restaurant Operating Restaurant operating costs increased $0.5 million, or 22.1% from the third quarter of 2009, due to the insurance reimbursement in 2009 related to the fire at the Grill on the Alley in Westlake Village, California. This amount was recorded as a credit to restaurant operating expenses in the statement of operations during the third quarter of 2009. Restaurant operating expense as a percentage of sales was 18.6% for the three months ended September 26, 2010 compared to 16.7% for the 2009 three month period.

Occupancy The closure of one restaurant during the second half of 2009 and two during the first half of 2010 resulted in a decrease in occupancy cost of $41,000, or 2.8%. Occupancy as a percentage of sales was 9.2% for the three months ended September 26, 2010 compared to 10.3% for the 2009 three month period.

General and Administrative Expense Compensation related costs, including severance payments to former employees, resulted in an increase in general and administrative expenses of $0.2 million, or 12.3%. General and administrative expense as a percentage of sales was 10.2% for the three months ended September 26, 2010 compared to 10.0% for the 2009 three month period. General and administrative expense as a percentage of total revenues, inclusive of managed location sales was 6.9% for the three months ended September 26, 2010 compared to 6.6% for the 2009 three month period.

Depreciation and Amortization A significant number of assets became fully depreciated during the third quarter of 2010 which resulted in a decrease in depreciation and amortization expense of $79,000, or 7.6%. Depreciation and amortization as a percentage of sales was 6.1% for the three months ended September 26, 2010 compared to 7.2% for the 2009 three month period.

Preopening Costs There were no preopening costs during either of the three months ended September 26, 2010 or September 27, 2009.

Abandoned Projects During the three months ended September 26, 2010, we recorded net costs totaling $24,000 as a result of the closure of the Boston Daily Grill, earlier in 2010. There were no abandoned project costs recorded during the three months ended September 27, 2009.

Loss on Investment in Joint Venture During the three months ended September 27, 2009, we recorded additional costs totaling $66,000 as a result of the agreed upon closure of The City Walk Daily Grill and subsequent termination of the joint venture. There was no loss on investment in joint venture recorded during the three months ended September 26, 2010.

Interest Expense, Net

Interest expense, net, totaled $0.4 million for the 2010 three month period as compared to $0.5 million for the 2009 three month period. The decrease in interest expense was attributable to the elimination of interest on the line of credit with Diamond Creek, which was paid off in full in September 2009. Interest expense as a percentage of sales was 2.6% for the three months ended September 26, 2010 compared to 3.8% for the 2009 three month period.

Income Tax Expense

Income tax expense was $52,000 for the 2010 three month period compared to $48,000 for the 2009 three month period. The increase related to timing of recording state income taxes in 2009.

Noncontrolling Interest

We reported a noncontrolling interest loss of $10,000 for the 2010 three month period compared to a noncontrolling interest in the profit of consolidated subsidiaries totaling $11,000 for the 2009 three month period. The $21,000 increase in noncontrolling interest loss for the quarter was attributable to lower profits of the partnership restaurants.

Fiscal Nine months Ended September 26, 2010 Compared to September 27, 2009

Revenues

Total revenues consisted of (i) sales revenues of $50.0 million for the 2010 nine month period, up 3.5%, as compared to $48.3 million for the 2009 nine month period and (ii) management and license fees of $1.5 million for the 2010 nine month period, down 3.3%, compared to $1.5 million for the 2009 nine month period.

The change in sales revenue for the 2010 nine month period compared to the 2009 period was attributable primarily to increased guest counts and guest check averages accompanying improvements in the macro economic factors impacting the economy as a whole, offset slightly by the net closure of two restaurants during the last half of 2009 and first half of 2010.

The change in management and license fees for the 2010 nine month period compared to the 2009 period was attributable to the closure of one managed restaurant during the last half of 2009 partially offset by increased guest counts accompanying improvements in the macro economic factors impacting the economy as a whole.

Operating Expenses

Operating expenses totaled $55.1 million during the 2010 nine month period as compared to $53.4 million during the 2009 nine month period and consisted of: (i) cost of sales of $14.6 million for the 2010 nine month period as compared to $13.7 million for the 2009 nine month period; (ii) restaurant payroll and related expenses of $19.2 million for the 2010 nine month period compared to $18.9 million for the 2009 nine month period; (iii) restaurant operating expenses of $8.8 million for the 2010 nine month period compared to $8.2 million for the 2009 nine month period; (iv) occupancy costs of $4.3 million for the 2010 nine month period compared to $4.7 million for the 2009 nine month period; (v) general and administrative expense of $4.7 million for the 2010 nine month period compared to $4.7 million for the 2009 nine month period; (vi) depreciation and amortization of $2.9 million for the 2010 nine month period compared to $3.2 million for the 2009 nine month period; (vi) preopening costs of $0.3 million for the 2010 nine month period as compared to $10,000 for the 2009 nine month period; (vii) abandoned project costs of $0.3 million in the nine month 2010 period compared to none in the nine month 2009 period and (viii) loss on investment in joint venture of $78,000 in the nine month 2010 period compared to $66,000 in the nine month 2009 period.

The changes in operating expenses were attributable primarily to the following factors:

Cost of Sales Increased sales during the nine months ended September 26, 2010 resulted in an increase in cost of sales of $0.8 million, or 6.3%. Cost of sales as a percentage of sales was 29.1% for the 2010 nine month period compared to 28.4% for the 2009 nine month period. The increase in cost of sales as a percentage of sales was primarily due to the change in the menu mix and more guests ordering off the prefix menu, containing more protein items, and thus a higher food cost.

Restaurant Payroll and Related Increased traffic at the restaurants resulted in increased staffing requirements. These factors resulted in an increase in restaurant payroll and related costs of $0.3 million, or 1.3%. Payroll as a percentage of sales was 38.3% for the nine months ended September 26, 2010 compared to 39.2% for the 2009 nine month period.

Restaurant Operating Restaurant operating costs increased $0.6 million, or 7.5% from the nine months ended September 27, 2009, due to the insurance reimbursement in 2009 related to the fire at the Grill on the Alley in Westlake Village, California. These amounts were recorded as credits to restaurant operating expenses in the statement of operations during the third quarter of 2009. Restaurant operating expense as a percentage of sales was 17.7% for the nine months ended September 26, 2010 compared to 17.1% for the 2009 nine month period.

Occupancy The closure of one restaurant during the second half of 2009 and two during the first half of 2010 resulted in a decrease in occupancy cost of $0.3 million, or 7.2%. Occupancy as a percentage of sales was 8.7% for the nine months ended September 26, 2010 compared to 9.7% for the 2009 nine month period.

General and Administrative Expense Specific cost containment measures including reductions in management salaries and administrative headcount and a reduction in public company expenses after the completion of the company's going dark transaction in March 2009, were offset by higher compensation costs, including severance payments to former employees,, resulting in an increase in general and administrative expenses of $0.1 million, or 1.3%. General and administrative expense as a percentage of sales was 9.1% for the nine months ended September 26, 2010 compared to 9.5% for the 2009 nine month period. General and administrative expense as a percentage of sales, inclusive of managed location sales was 6.5% for the nine months ended September 26, 2010 compared to 6.7% for the 2009 nine month period.

Depreciation and Amortization The recording of a non-cash asset impairment charge in December 2009, partially offset by the capitalization of assets related to the newly opened Daily Grill on Century restaurant resulted in a decrease in depreciation and amortization expense of $0.3 million, or 8.8%. Depreciation and amortization as a percentage of sales was 5.8% for the nine months ended September 26, 2010 compared to 6.6% for the 2009 nine month period.

Preopening Costs The April 2010 opening of the new Daily Grill on Century restaurant in Los Angeles, California caused a $0.3 million increase in pre-opening costs. There were no specific restaurant openings during the nine months ended September 27, 2009. Preopening costs as a percentage of sales were 0.5% for the nine months ended September 26, 2010 compared to 0.0% for the 2009 nine month period.

Abandoned Projects During the nine months ended September 26, 2010, we recorded net costs totaling $0.3 million as a result of the closure of the Boston Daily Grill. There were no abandoned project costs recorded during the nine months ended September 27, 2009.

Loss on Investment in Joint Venture During the nine months ended September 26, 2010, we recorded costs totaling $78,000 as a result of the agreed upon termination of The Daily Grill at Continental Park, LLC and subsequent closure on March 28, 2010 of the "Daily Grill at Continental Park" restaurant in El Segundo, California. During the nine months ended September 27, 2009, we recognized $66,000 in costs related to the agreed upon closure of The City Walk Daily Grill and subsequent termination of the joint venture. .

Interest Expense, Net

Interest expense, net, totaled $1.2 million for the 2010 nine month period as compared to $1.1 million for the 2009 nine month period. The increase in interest expense was attributable to the interest on the debentures issued during 2009, mostly offset by the elimination of interest on the line of credit with Diamond Creek, which was paid off in full in September 2009. Interest expense as a percentage of sales was 2.5% for the nine months ended September 26, 2010 compared to 2.2% for the 2009 nine month period.

Income Tax Expense

Income tax expense was $0.1 million for the 2010 nine month period compared to $0.1 million for the 2009 nine month period, related to various state income taxes.

Noncontrolling Interest

We reported a noncontrolling interest in the profit of consolidated subsidiaries of $0.1 million for the 2010 nine month period compared to a noncontrolling interest loss of $0.1 million for the 2009 nine month period. The $0.2 million increase in noncontrolling interest profit for the period was attributable to improved financial performance of the partnership restaurants as well as the 2009 closure of the CityWalk Daily Grill, which was owned via joint venture.

Financial Condition

At September 26, 2010, we had negative working capital of $0.7 million and a cash balance of $2.2 million as compared to working capital of $1.8 million and a cash balance of $8.2 million at December 27, 2009.

The decrease in our cash position for the nine month periods reflects the following cash flows:

(in thousands)	September 26, 2010	September 27, 2009
Net cash used in operating activities	$ (748)	$ (541)
Net cash used in investing activities	(4,618)	(405)
Net cash (used in)/provided by financing activities	(653)	9,956
Net change in cash	$ (6,019)	$ 10,739

The increase in cash used in operating activites related principally to payments of prepaid unsecured property taxes during the 2010 third quarter. Included in cash flows use in operating activities during 2010 was a net $0.6 million in tenant improvement allowances.

The increase in cash used in investing activities related principally to the initiation of a cash management program wherein approximately $4.0 million of cash reserves were invested in short-term marketable securities. Also included in cash flows used in investing activities during 2010 were capital expenditures of $0.6 million related to the construction of the Daily Grill on Century restaurant in Los Angeles, California and expenditures for replacements and refurbishment of existing restaurants of $0.5 million, offset by the release of $0.4 million in restricted cash.

Cash flows used in financing activities were attributable to payments on long-term debt mainly relating to capital leases for restaurant equipment.

Our principal capital requirements are to support our day-to-day operations, future restaurant openings and servicing our debt evidenced by our Debentures in the principal amount of $14.8 million, which mature in 2021 and provide for quarterly installments of interest only. Annual interest accruing on the Debentures totals $1.5 million and the amount of such interest payable each quarter is subject to approval by the board of directors, provided that not less than an amount equal to available cash flow (as defined) be paid toward accrued interest. No interest has yet been paid on the Debentures, but all interest has been accrued in accrued expenses on the consolidated balance sheets. Accrued interest payable totaled $1.5 million and $0.4 million as of September 26, 2010 and December 27, 2009, respectively.

At September 26, 2010, we believe our available cash on hand was adequate to meet our capital requirements for the next twelve months and the foreseeable future.

Financing Facilities

At September 26, 2010, our principal financing source was cash on hand and short-term investments totaling $6.2 million and, generally, represents remaining proceeds from our 2009 sale of $14.8 million of Debentures.

The Debentures are secured by a first lien on substantially all of our assets, mature in September 2021 and accrue interest at 10% per annum. Interest, as computed for the most recently completed fiscal quarter, is payable on April 15, May 15, August 15 and November 15 of each year in an amount determined by our board of directors, up to the full accrued interest for such quarter but not less than the "Available Cash Flow." Available Cash Flow for any fiscal quarter consists of fifty percent (50%) of (x) Earnings Before Interest, Taxes, Depreciation and Amortization, less (y) cash expenditures during the fiscal quarter for (i) payment of principal and interest on borrowed funds (excluding interest paid on Debentures), (ii) all taxes, and (iii) all capital expenditures.

The Debentures are convertible, at the sole option of the holder, into shares of common stock at a conversion price equal to $0.30 per share, or an aggregate of 49,500,000 shares of common stock based on $14.8 million in principal amount of Debentures issued, subject to adjustment for stock splits, reverse stock splits and stock dividends; provided, however, that Debentures may only be converted in tandem with conversion of Series D Preferred Shares at the rate of 1 Series D Preferred Share for each $9,900 in principal amount of Debentures converted.

We also enter into periodic financing transactions in the nature of equipment leases and landlord loans and advances. At September 26, 2010, we owed $55,000 under equipment lease financing transactions.

In March 2008, we entered into a new equipment lease financing facility under which we have an available line of credit of $1.4 million for new kitchen construction financing. At September 26, 2010, the balance owing of the facility totaled $0.4 million.

During 2008, we issued, and at September 26, 2010 have outstanding, 5,000 shares of Series C Convertible Preferred Stock with a liquidation preference of $1,000 per share.

The Series C Preferred Shares are entitled to cumulative dividends at the rate of 7.5% per annum (based on the liquidation preference of $1,000 per share) payable quarterly in cash or, at the sole option of the holder, in shares of Common Stock; provided, however, that (1) the investor may, at its sole option, defer receipt of dividends until conversion or redemption of the Series C Preferred Shares, and (2) all dividends accruing through March 31, 2011 shall either be payable solely in common stock or deferred until after March 31, 2011.

On or after the earlier of (i) August 31, 2013 or (ii) an uncured default in the payment of dividends or in the payment of certain indebtedness, the holder of the Series C Preferred Stock may, at his sole option and upon the giving of a written notice and delivery of the certificate(s) evidencing the Series C Preferred Shares to be so redeemed, require that we redeem, out of funds legally available therefor, some or all then outstanding Series C Preferred Shares for an amount equal to (x) the Series C Liquidation Preference multiplied by the number of Series C Preferred Shares to be redeemed, plus (y) accrued and unpaid dividends thereon, and we shall, not later than five (5) business days following receipt of the redemption notice and the redeemed share certificates, redeem the shares covered by the redemption notice by paying to the investor, in cash, the applicable redemption amount.

Series C Preferred Shares not previously converted or redeemed and then outstanding shall, on August 31, 2015, is required to be redeemed out of funds lawfully available at a price equal to the redemption amount.

Operating Leases and Contractual Obligations

During the nine months ended September 26, 2010, other than the elimination of two restaurant leases for the closed Daily Grill at Continental Park and the Boston Daily Grill, there were no material changes in our operating leases and contractual obligations, as compared to those in existence at December 27, 2009

Capital Commitments Relating to Managed Restaurants and LLCs

During the nine months ended September 26, 2010, we agreed to the termination of The Daily Grill at Continental Park, LLC and subsequent closure, on March 28, 2010, of the Daily Grill at Continental Park restaurant. This resulted in a reduction in potential capital contributions to the LLC. There were no other material changes in our capital commitments relating to managed restaurants and LLCs as compared to those in existence at December 27, 2009.

Capital Expenditures

Capital expenditures were $1.1 million during the nine months ended September 26, 2010, net of $0.2 million in tenant improvement allowances received related to the construction of one new restaurant, and capital improvements or equipment purchases for existing restaurants. At September 26, 2010, we had no existing capital expenditure commitments other than general commitments with respect to capital replacements and refurbishing or remodeling existing restaurants.

Known Trends

During the nine months ended September 26, 2010 and since the end of the quarter, industry data and our operations indicate that consumer discretionary spending and, in particular, restaurant head counts, ticket averages and restaurant sales have stabilized and begun to turn positive after extended declines experienced during 2008 and 2009. Otherwise, we have not observed any other material known trends affecting our business.

Off-Balance Sheet Arrangements

None

Item 5 **Legal proceedings.**

None

Item 6 **Defaults upon senior securities.**

None

Item 7 **Other information.**

None

Item 8 **Exhibits.**

None

Item 9 Certifications.

I, Robert Spivak, certify that:

1. I have reviewed this Quarterly Report of Grill Concepts, Inc. for the quarter ended September 26, 2010;

2. Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this Quarterly Report.

Date: November 10, 2010

Robert Spivak
Chief Executive Officer

I, John Bayley, certify that:

1. I have reviewed this Quarterly Report of Grill Concepts, Inc. for the quarter ended September 26, 2010;

2. Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this Quarterly Report.

Date: November 10, 2010

John Bayley
Chief Financial Officer