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# GRILL CONCEPTS

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## GRILL CONCEPTS, INC.

A Nevada Corporation

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### QUARTERLY REPORT

For the Quarterly Period Ended March 25, 2012

Except as otherwise indicated, all information herein is dated, and current, as of March 25, 2012

**DAILY GRILL**

*The*GRILL  
ON - THE - ALLEY

*In Short Order*  
DAILY GRILL

PUBLIC 612 SCHOOL.

GRILL CONCEPTS, INC.

## TABLE OF CONTENTS

	<u>Page</u>	
Item 1	Exact name of the issuer and the address of its principal executive offices	1
Item 2	Shares outstanding	1
Item 3	Interim consolidated financial statements	2
Item 4	Management's discussion and analysis	10
Item 5	Legal proceedings	14
Item 6	Defaults upon senior securities	15
Item 7	Other information	15
Item 8	Exhibits	15
Item 9	Certifications	16

**GRILL CONCEPTS, INC.**  
**QUARTERLY REPORT**  
**For the Quarterly Period Ended March 25, 2012**

**Item 1 Name of issuer and address of its principal executive offices.**

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

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Fax: (818) 999-4745  
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**Item 2 Shares Outstanding.**

	<b>March 25, 2012</b>
<b>Common Stock</b>	
Shares authorized	90,000,000
Shares outstanding	8,918,083
Public float	6,784,003
Number of beneficial holders	530
Number of record holders	205
<b>Preferred Stock</b>	
Shares authorized	1,000,000
<b>Series C Preferred Stock:</b>	
Shares designated	10,000
Shares outstanding	5,000
Public float	--
Number of beneficial holders	1
Number of record holders	1
<b>Series D Preferred Stock:</b>	
Shares designated	1,500
Shares outstanding	1,500
Public float	--
Number of beneficial holders	1
Number of record holders	1
<b>10% Convertible Debentures</b>	
Amount authorized (\$)	14,850,000
Amount outstanding (\$)	14,850,000
Public float	--
Number of beneficial holders	1
Number of record holders	1

**Item 3 Interim consolidation financial statements.**

**GRILL CONCEPTS, INC. AND SUBSIDIARIES  
TABLE OF CONTENTS**

	<u>Page</u>
Consolidated Balance Sheets	3
Consolidated Statements of Operations	4
Consolidated Statement of Stockholders' Deficit	5
Consolidated Statements of Cash Flows	6
Notes To Consolidated Financial Statements	7-9

**GRILL CONCEPTS, INC AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
As of March 25, 2012 and December 25, 2011  
(in thousands, except share information)

ASSETS	2012 (Unaudited)	2011
Current Assets:		
Cash	\$ 6,310	\$ 5,934
Inventories	1,101	1,139
Receivables, net of reserve (\$45 and \$222 in 2011 and 2010, respectively)	1,916	1,814
Reimbursable costs receivable	-	1,434
Notes receivable, current portion	15	15
Prepaid expenses and other current assets	1,101	564
Total current assets	<u>10,443</u>	<u>10,900</u>
Furniture, equipment and improvements, net	18,361	19,164
Liquor licenses	519	519
Goodwill, net	205	205
Other assets	620	618
Total assets	<u>\$ 30,148</u>	<u>\$ 31,406</u>
<b>LIABILITIES, CONTROLLING INTEREST AND STOCKHOLDERS' DEFICIT</b>		
Current Liabilities:		
Accounts payable	\$ 1,997	\$ 1,641
Accrued expenses	9,482	9,581
Accrued managed outlet operating expenses	-	1,434
Total current liabilities	<u>11,479</u>	<u>12,656</u>
Other long term liabilities	10,281	10,609
Mandatorily redeemable Series C convertible preferred stock, \$.001 par value; 10,000 share authorized, 5,000 shares issued and outstanding, net of \$362 assigned to warrants in 2012	4,638	4,612
10% secured convertible debentures	14,850	14,850
Total liabilities	<u>41,248</u>	<u>42,727</u>
Stockholders' equity:		
Preferred stock, \$.001 par value; 1,000,000 shares authorized, none issued and outstanding in 2012 and 2011, 985,435 shares undesignated in 2012 and 2011	-	-
Series D convertible preferred stock, \$.001 par value; 1,500 shares issued and outstanding	150	150
Common stock, \$.00004 par value; 90,000,000 shares authorized in both 2012 and 2011, 8,918,083 issued and outstanding in both 2012 and 2011	-	-
Additional paid-in capital	36,440	36,372
Accumulated deficit	(47,919)	(48,122)
Total Grill Concepts, Inc. stockholders' deficit	<u>(11,329)</u>	<u>(11,600)</u>
Noncontrolling interests	229	279
Total stockholders' deficit	<u>(11,100)</u>	<u>(11,321)</u>
Total liabilities and stockholders' deficit	<u>\$ 30,148</u>	<u>\$ 31,406</u>

**GRILL CONCEPTS, INC AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**For the three months ended March 25, 2012 and March 27, 2011**  
**(in thousands)**

	<u>2012</u>	<u>2011</u>
	(unaudited)	(unaudited)
Revenues:		
Sales	\$ 19,004	\$ 18,476
Management and license fees	600	495
Total revenues	<u>19,604</u>	<u>18,971</u>
Operating expenses:		
Cost of sales	5,323	5,208
Restaurant payroll and related	6,667	6,899
Restaurant operating	3,030	2,997
Occupancy	1,656	1,504
General and administrative	1,471	1,512
Depreciation and amortization	868	930
Pre-opening costs	-	87
Abandoned projects	(1)	2
Total operating expenses	<u>19,014</u>	<u>19,139</u>
Income (Loss) from operations	590	(168)
Interest, net	(397)	(402)
Income (Loss) before income taxes	193	(570)
Provision for income taxes	(40)	(45)
Net income (loss)	153	(615)
Plus net loss attributable to noncontrolling interests	50	20
Net income (loss) attributable to Grill Concepts, Inc	<u>\$ 203</u>	<u>\$ (595)</u>

GRILL CONCEPTS, INC AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT  
As of March 25, 2012 and December 25, 2011  
(in thousands, except share data)

	Series D Convertible Preferred Stock		Common Stock		Additional Paid-In Capital		Accumulated Deficit		Noncontrolling Interest		Total Stockholders' Equity (Deficit)	
	Shares	Amount	Shares	Amount								
Balance at December 26, 2010	1,500	\$ 150	8,918,083	\$ -	\$ 36,019	\$ (45,468)	\$ 358	\$ (8,941)				
Stock based compensation	-	-	-	-	353			353				
Distributions to noncontrolling interests	-	-	-	-			(264)	(264)				
Net Income (Loss)	-	-	-	-			185	(2,469)				
Balance at December 25, 2011	1,500	\$ 150	8,918,083	\$ -	\$ 36,372	\$ (48,122)	\$ 279	\$ (11,321)				
Stock based compensation	-	-	-	-	68			68				
Distributions to noncontrolling interests	-	-	-	-			-	-				
Net Income (Loss)	-	-	-	-			(50)	203	153			
Balance at March 25, 2012 (unaudited)	1,500	\$ 150	8,918,083	\$ -	\$ 36,440	\$ (47,919)	\$ 229	\$ (11,100)				

**GRILL CONCEPTS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the three months ended March 25, 2012 and March 27, 2011**  
**(in thousands)**

	<u>2012</u>	<u>2011</u>
	(unaudited)	(unaudited)
Cash flows from operating activities:		
Net income (loss)	\$ 153	\$ (615)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	868	930
Amortized deferred rent and lease incentives	(161)	(306)
Accretion of warrants	26	27
Amortization of bond premium	-	17
Stock based compensation	68	87
Changes in operating assets and liabilities:		
Inventories	38	26
Receivables	(102)	54
Other receivables	-	(27)
Prepaid expenses and other current assets	(119)	(297)
Other assets	(2)	8
Accounts payable	(62)	(109)
Accrued expenses	(264)	341
	<u>443</u>	<u>136</u>
Cash flows from investing activities:		
Redemption of short-term investments	-	2,395
Purchases of furniture, equipment and improvements	(67)	(461)
	<u>(67)</u>	<u>1,934</u>
Net cash provided by (used in) investing activities		
Cash flows from financing activities:		
Payments on long-term debt	-	(100)
	<u>-</u>	<u>(100)</u>
Net cash used in financing activities		
Change in cash	376	1,971
Cash, beginning of period	5,934	3,217
Cash, end of period	<u>\$ 6,310</u>	<u>\$ 5,188</u>
Supplemental cash flows information:		
Cash paid during the period for:		
Interest	\$ 377	\$ 7
Income taxes	31	22
Non-cash investing and financing activities:		
Construction in progress included in accrued liabilities	\$ (1)	\$ 17

## 1. Basis of Presentation and Significant Accounting Policies

The interim consolidated financial statements of Grill Concepts, Inc. (the “Company” or “GCI”) for the period ended March 25, 2012 have not been audited by our independent registered public accounting firm. The December 25, 2011 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 the audited consolidated financial statements for the year ended December 25, 2011. 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 30, 2012.

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 the Company operates. 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.

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

**Recent Accounting Pronouncements** In September 2011, the FASB issued ASU 2011-08, “Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment”. ASU 2011-08 allows the Company to first assess qualitatively whether it is necessary to perform step one of the two-step annual goodwill impairment test. The Company is required to perform step one and calculate the fair value of its reporting units only if the Company concludes that it is more likely than not that a reporting unit’s fair value is less than its carrying value (that is, a likelihood of more than 50 percent). ASU 2011-08 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. Early adoption is permitted, but was not considered for fiscal year 2011. The adoption of ASU 2011-08 is not expected to have a material impact on the Company’s results of operations or financial condition.

## 2. Other Long-Term Liabilities

In connection with certain of the Company’s leases, the landlord has provided GCI 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, GCI records deferred rent where lease payments are lower than rental expense, recognized on a straight-line basis.

Other long-term liabilities at March 25, 2012 and December 25, 2011 consisted of the following:

(in thousands)	March 25, 2012	December 25, 2011
Lease incentives	\$ 8,073	\$ 8,271
Deferred rent	1,811	1,941
Deferred rent payments from amended leases	397	397
Total other long-term liabilities	<u>\$ 10,281</u>	<u>\$ 10,609</u>

## 3. Stock Options and Stock Based Compensation

The Company maintains 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, the Company has 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. The Company issues new shares of common stock upon exercise of stock options.

The Company's 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 historical experience and future expectations. The Company utilizes the Black-Scholes option pricing model for estimating stock-based compensation cost.

The expected stock price volatility is based on the historical volatility of GCI's 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. GCI has not paid dividends in the past and does not currently plan to pay any dividends in the near future.

Stock options activity during the three months ended March 25, 2012 was as follows:

	Number of Shares	Weighted- Average Option Exercise Price	Weighted Average Remaining Contractual Life (in years)
Outstanding at December 25, 2011 .....	4,329,201	\$ 0.62	8.6
Granted .....	800,000	\$ 0.30	
Exercised .....	-		
Cancelled .....	(62,333)	\$ 1.92	
Outstanding at March 25, 2012 .....	5,066,868	\$ 0.56	8.1
Exercisable at March 25, 2012 .....	1,747,260	\$ 0.98	7.8

The following table reflects share-based compensation recorded for the three months ended March 25, 2012 and March 27, 2011:

	Three Months Ended	
	March 25, 2012	March 27, 2011
(in thousands)		
Share based compensation expense.....	\$ 68	\$ 87

## 5. Distribution of Capital and Preferred Returns

During the three months ended March 25, 2012, there were no distributions from, contributions to, changes in unreturned capital from and changes in accrued but unpaid preferred returns of the various LLC's in which GCI holds less than 100% interest.

## 6. Commitments and Contingencies

### *Legal Matters*

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

On August 15, 2011 Grill Concepts Management, Inc. (GCM) was served with two related lawsuits that were filed in the District Court of Canadian County in the State of Oklahoma (*Gladys Erbar and Tom Erbar v. A Aguirre LLC et al.* and *John Truel et al. suing individually and on behalf of other persons similarly situated v. A Aguirre LLC et al.*) under which over 750 defendants were named. Plaintiffs in these lawsuits allege wrongful tax collection practices. On October 24, 2011 GCM and hundreds of other defendants filed motions to dismiss these lawsuits citing numerous reasons why the lawsuits cannot stand. A hearing for both matters was set for January 25, 2012, at which these motions were denied. GCM believes the claims asserted in the lawsuits are meritless and will continue to vigorously defend itself.

### *Operating Leases and Contractual Obligations*

At March 25, 2012, GCI was obligated under twenty-two leases covering the premises in which Daily Grill, Grill on the Alley and In Short Order-Daily Grill restaurants are located as well as a lease on the 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.

On March 17, 2012, the Company closed its company-operated restaurant in McLean, Virginia. As this lease was month to month and assets were previously fully impaired, there were no material charges associated with this closure.

Rent expense, relating to base rent amounts, was \$1,048,000 for the three months ended March 25, 2012, compared to \$889,000 for the three months ended March 27, 2011. Contingent rentals, which are payable on the basis of a percentage of sales in excess of base rent amounts, were \$238,000 for the three months ended March 25, 2012, compared to \$218,000 for the three months ended March 27, 2011.

### *Other Commitments*

GCI has three suppliers which account for a majority of purchases. The Company has a policy of strengthening supplier relationships by concentrating purchases over a limited number of suppliers in order to maintain quality, consistency, and cost controls and to increase the suppliers' commitment to GCI. GCI relies upon, and expects to continue to rely upon, several single source suppliers.

#### **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 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 those 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 GCI's control. The Company undertakes 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."

During the three months ended March 25, 2012, GCI operated and/or licensed a total of 29 restaurants (21 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 three months ended March 25, 2012, GCI closed one company owned Daily Grill.

During the three months ended March 27, 2011, GCI operated and/or licensed a total of 29 restaurants (21 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.

Revenues are derived from sales at company-owned restaurants and management or license fees from restaurants managed or licensed by the Company.

Sales revenues are derived from sales of food, beer, wine, liquor and non-alcoholic beverages and 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 the Company manages 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 the Company receives which are based on a percentage of net operating income.

Operating expenses are comprised primarily of cost of food and beverages; restaurant operating expenses, including payroll, rent and occupancy costs. The Company's 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 the restaurants. Restaurant operating expenses consist primarily of marketing, utilities, insurance and taxes. GCI typically analyzes these costs as a percentage of sales. In addition to restaurant operating expenses, GCI incurs certain general and administrative expenses that are primarily related to operating the home office. Home office general and administrative expenses consist primarily of officer salaries, management and clerical personnel, rent, legal and accounting services, travel, insurance and office expenses.

##### **Current Year Developments**

During the quarter ended March 25, 2012, the Company's operations and financial condition were materially affected by the following developments:

##### ***Economic and Financial Market Disruptions***

The modest sales improvements that the Company experienced in 2011 continued in the quarter ended March 25, 2012. This improvement combined with efforts to control costs resulted in improved operating margins in the quarter ended March 25, 2012 as compared with the quarter ended March 27, 2011. Although the Company is encouraged by these signs, GCI continues to see pressure on sales and on commodity and labor costs. There is uncertainty that the results reported in the

current quarter will continue in light of the broader weak economic climate that continues to linger, especially in California where there are 12 Company restaurants, two managed and one licensed restaurant.

**Restaurant Closure**

During March 2012, the Company closed its company-operated restaurant in McLean, Virginia.

**Restaurant Opening**

On March 8, 2011, the Company opened Public School 612, a Micro Brew expansion to its Downtown Los Angeles Daily Grill restaurant.

**Results of Operations**

The following table sets forth, for the periods indicated, information derived from the consolidated statements of operations expressed as a percentage of sales:

	Three months ended	
	March 25, 2012	March 27, 2011
Revenues:		
Sales	100.0%	100.0%
Management and license fees	3.2	2.7
Total revenues	103.2	102.7
Operating expenses:		
Cost of sales	28.0	28.2
Restaurant payroll and related	35.1	37.3
Restaurant operating	15.9	16.2
Occupancy	8.7	8.1
General and administrative	7.8	8.2
Depreciation and amortization	4.6	5.0
Pre-opening costs	-	0.5
Total operating expenses	100.1	103.6
Income (Loss) from operations	3.1	(0.9)
Interest, net	(2.1)	(2.2)
Income (Loss) before income taxes	1.0	(3.1)
Provision for income taxes	(0.2)	(0.2)
Net income (loss)	0.8	(3.3)
Plus net loss attributable to noncontrolling interests	0.3	0.1
Net income (loss) attributable to Grill Concepts, Inc	1.1	(3.2)

## ***Fiscal Three Months Ended March 25, 2012 Compared to March 27, 2011***

### ***Revenues***

Total revenues consisted of (i) restaurant sales of \$19.0 million for the quarter ended March 25, 2012 as compared to \$18.5 million for the 2011 period and (ii) management and license fees of \$600,000 for the quarter ended March 25, 2012 compared to \$495,000 for the 2011 period.

The increase in revenues for the 2012 three month period compared to the 2011 period was attributable primarily to a 2.5% increase in same restaurant sales for company owned restaurants and to the refinement of the new Public School 612 operations, a Micro Brew expansion of the Downtown, Los Angeles restaurant, which officially opened for business on March 8, 2011. There was an increase in management and license fees resulting from underlying sales increases at the managed and licensed locations.

### ***Operating Expenses***

Operating expenses totaled \$19.0 million during the 2012 three month period as compared to \$19.1 million during the 2011 three month period and consisted of: (i) cost of sales of \$5.3 million for the 2012 three month period as compared to \$5.2 million for the 2011 three month period; (ii) restaurant payroll and related expenses of \$6.7 million for the 2012 three month period compared to \$6.9 million for the 2011 three month period; (iii) restaurant operating expenses of \$3.0 million for both the 2012 and 2011 three month periods; (iv) occupancy costs of \$1.7 million for the 2012 three month period and \$1.5 million for the 2011 three month period; (v) general and administrative expense of \$1.5 million for both the 2012 and 2011 three month period; (vi) depreciation and amortization of \$0.9 million for both the 2012 and 2011 three month periods; and (vi) preopening costs of \$87,000 for the 2011 three month period as compared to none for the 2012 three month period.

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

***Cost of Sales*** Increased sales during the three months ended March 25, 2012 resulted in a corresponding increase in cost of sales of \$115,000 or 2.2%. Cost of sales as a percentage of sales decreased to 28.0% for the 2012 three month period compared to 28.2% for the 2011 three month period due primarily to lowered beverage costs resulting from revised beverage programs, revised beverage pricing structure for select locations, and reduced sales from promotions.

***Restaurant Payroll and Related*** Management's continued cost containment measures and higher sales volumes that leverage the fixed component of labor resulted in a decrease in restaurant payroll and related costs of \$232,000 or 3.4%. Payroll as a percentage of sales dropped to 35.1% for the three months ended March 25, 2012 compared to 37.3% for the 2011 three month period.

***Restaurant Operating*** Increased sales during the three months ended March 25, 2012 resulted in a corresponding increase in restaurant operating costs of \$32,000 or 1.1%. Restaurant operating expense as a percentage of sales was 15.9% for the three months ended March 25, 2012 compared to 16.2% for the 2011 three month period. This improvement is due to reduced fees from renegotiation of various restaurant service contracts.

***Occupancy*** Total occupancy costs increased \$152,000 due to lease option renewals that resulted in increased straight-line rent recording from the extended lease terms. Occupancy as a percentage of sales was 8.7% for the three months ended March 25, 2012 compared to 8.1% for the 2011 three month period.

***General and Administrative Expense*** General and administrative expense decreased \$41,000 to \$1.5 million for the quarter ended March 25, 2012 as compared to the 2011 period. General and administrative expense as a percentage of sales was 7.8% for the three months ended March 25, 2012 compared to 8.2% for the 2011 three month period. General and administrative expense as a percentage of sales, inclusive of managed location sales was 5.4% for the three months ended March 25, 2012 and was 5.8% for the three months ended March 27, 2011. The company continues to closely monitor general and administrative expenses.

***Depreciation and Amortization*** Depreciation and amortization expense was \$868,000 for the quarter ended March 25, 2012 compared to \$930,000 for the 2011 period, a decrease of \$62,000. Depreciation and amortization as a percentage of sales was 4.6% for the three months ended March 25, 2012 compared to 5.0% for the 2011 three month period reflecting the leverage benefit of increased sales volumes.

**Preopening Costs** The March 2011 opening of the Public School 612 expansion of the Downtown Daily Grill resulted in \$87,000 in preopening expense in the quarter ended March 27, 2011 as compared to no preopening costs in the three months ended March 25, 2012. Preopening costs as a percentage of sales for the three months ended March 27, 2011 were 0.5%.

**Interest Expense, Net** Net Interest expense was \$397,000 for the 2012 three month period and \$402,000 for the 2011 three month period. Net interest expense as a percentage of sales was 2.1% for the three months ended March 25, 2012 compared to 2.2% for the 2011 three month period.

**Income Tax Expense** Income tax expense was \$40,000 for the 2012 three month period compared to \$45,000 for the 2011 three month period. The \$5,000 decrease related to the amounts owed to various state and local tax authorities.

**Noncontrolling Interest** GCI reported a noncontrolling interest in the net loss of consolidated subsidiaries of \$50,000 for the quarter ended March 25, 2012 compared to \$20,000 for the 2011 three month period. The current quarter includes controlling interest in the loss of The Grill on Hollywood, LLC of \$25,000 and a controlling interest in the loss of San Jose Grill, LLC of \$25,000.

## Financial Condition

At March 25, 2012, the Company had a working capital deficit of \$1.0 million and a cash balance of \$6.3 million as compared to a working capital deficit of \$1.8 million and a cash balance of \$5.9 million at December 25, 2011.

The change in cash position for the three month periods ending as described reflects the following cash flows:

(in thousands)	March 25, 2012	March 27, 2011
Net cash provided by operating activities.....	\$ 443	\$ 136
Net cash provided by (used in) investing activities.....	(67)	1,934
Net cash used in financing activities .....	-	(100)
Net change in cash .....	<u>\$ 376</u>	<u>\$ 1,971</u>

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included in cash flows provided by investing activities during 2012 was \$67,000 in capital expenditures relating to ordinary replacements and refurbishment of existing restaurants. In 2011 there was the redemption of short term investments of \$2.4 million partially offset by \$461,000 in capital expenditures related to the Public School 612 expansion of the Downtown Los Angeles, California restaurant and to ordinary replacements and refurbishment of existing restaurants.

Cash flows used in financing activities were related to payments on the Company's long-term debt mainly relating to capital leases for restaurant equipment that were fully paid by the end of 2011.

The principal capital requirements are for supporting day-to-day restaurant operations, future restaurant openings and servicing debt evidenced by 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. In November 2011, GCI commenced making interest payments beginning with the payment related to Q2 2011 and continuing for all subsequent quarters. All interest prior to Q2 2011 has been accrued in accrued expenses on the consolidated balance sheets as of March 25, 2012 and December 25, 2011.

At March 25, 2012, GCI believes available cash on hand and expected cash provided by operating activities will be adequate to meet capital requirements for the next twelve months and the foreseeable future.

## Financing Facilities

At March 25, 2012, the principal financing source was the remaining proceeds from the sale of \$14.8 million of Debentures in September 2009.

The Debentures are secured by a first lien on substantially all of the Company's 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 the 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.

From time to time, the Company also enters into financing transactions such as equipment leases and landlord loans and advances. At March 25, 2012, GCI owed \$476,000 under loans/advances from two landlords.

#### *Operating Leases and Contractual Obligations*

During the quarter ended March 25, 2012, there were no material changes in operating leases and contractual obligations, as compared to those in existence at December 25, 2011.

#### *Capital Commitments Relating to Managed Restaurants and LLCs*

During the quarter ended March 25, 2012, there were no material changes in capital commitments relating to managed restaurants and LLCs as compared to those in existence at December 25, 2011.

#### *Capital Expenditures*

Capital expenditures were \$67,000 during the quarter ended March 25, 2012 related to capital improvements or equipment purchases for existing restaurants. At March 25, 2012, there was one capital expenditure commitment in the amount of \$750,000 for the acquisition of a restaurant property in southern California in addition to general commitments with respect to capital replacements and refurbishing or remodeling existing restaurants. The Company expects to be able to fund these and potential additional commitments out of its current cash balances as well as cash provided by operating activities.

#### **Known Trends**

During the quarter ended March 25, 2012 and since the end of the quarter, industry data and operations indicate continued modest improvement in consumer discretionary spending. Restaurant industry traffic, ticket averages and sales have continued to grow after the extended declines experienced during 2008 and 2009, although the growth rate has not yet consistently returned to pre-recession levels. Otherwise, the Company has not observed any other material known trends affecting business.

#### **Off-Balance Sheet Arrangements**

Refer to the annual audited financial report for a detailed discussion of the various Variable Interest Entities ("VIE's") in which the Company is involved.

#### **Item 5 Legal proceedings.**

The company is involved from time to time in routine legal matters incidental to the Company's business. In the opinion of management, resolution of such matters will not have a material effect on the Company's financial position or results of operations.

On August 15, 2011 Grill Concepts Management, Inc. (GCM) was served with two related lawsuits that were filed in the District Court of Canadian County in the State of Oklahoma (*Gladys Erbar and Tom Erbar v. A Aguirre LLC et al.* and *John Truel et al. suing individually and on behalf of other persons similarly situated v. A Aguirre LLC et al.*) under which over 750 defendants were named. Plaintiffs in these lawsuits allege wrongful tax collection practices. On October 24, 2011 GCM and hundreds of other defendants filed motions to dismiss these lawsuits citing numerous reasons why the lawsuits cannot stand. A hearing for both matters was set for January 25, 2012, at which these motions were denied. GCM believes the claims asserted in the lawsuits are meritless and will continue to vigorously defend itself.

**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 March 25, 2012;
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.

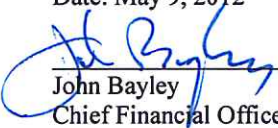
Date: May 9, 2012

  
\_\_\_\_\_  
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 March 25, 2012;
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: May 9, 2012

  
\_\_\_\_\_  
John Bayley  
Chief Financial Officer