KONA GRILL INC
Form 10-Q
August 01, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

S QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2011
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 001-34082

Kona Grill, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	20-0216690
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

7150 East Camelback Road, Suite 220
Scottsdale, Arizona 85251
(480) 922-8100
(Address, including zip code, and telephone number, including area code, of principal executive offices)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes S No £

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer £		Accelerated filer £
Non-accelerated filer £	(Do not check if a smaller reporting company)	Smaller reporting company S

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes £ No S

As of July 29, 2011, there were 9,218,546 shares of the registrant's common stock outstanding.

KONA GRILL, INC.

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PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

KONA GRILL, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	June 30, 2011 (Unaudited)	December 31, 2010 (Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	$4,295	$2,555
Investments	175	174
Receivables	14	10
Other current assets	1,372	1,212
Total current assets	5,856	3,951
Other assets	700	650
Property and equipment, net	35,123	37,459
Total assets	$41,679	$42,060
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$1,796	$2,279
Accrued expenses	5,879	6,046
Current portion of notes payable	335	504
Total current liabilities	8,010	8,829
Notes payable	—	132
Deferred rent	15,721	16,110
Total liabilities	23,731	25,071
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, $0.01 par value, 2,000,000 shares authorized, none issued	—	—
Common stock, $0.01 par value, 15,000,000 shares authorized, 9,333,496 shares issued and 9,217,296 shares outstanding at June 30, 2011; 9,302,995 shares issued and 9,186,795 shares outstanding at December 31, 2010	93	93
Additional paid-in capital	58,500	58,232
Accumulated deficit	(39,645)	(40,336)
Treasury stock, at cost, 116,200 shares at June 30, 2011 and December 31, 2010	(1,000)	(1,000)
Total stockholders' equity	17,948	16,989
Total liabilities and stockholders' equity	$41,679	$42,060

See accompanying notes to the unaudited consolidated financial statements.

KONA GRILL, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Restaurant sales	$25,767	$22,686	$49,399	$43,738
Costs and expenses:				
Cost of sales	7,052	6,014	13,709	11,589
Labor	8,551	7,782	16,644	15,365
Occupancy	1,872	1,769	3,663	3,550
Restaurant operating expenses	3,856	3,418	7,645	6,874
General and administrative	2,149	1,873	4,031	4,010
Preopening expense	—	119	—	127
Depreciation and amortization	1,482	1,395	2,972	2,794
Total costs and expenses	24,962	22,370	48,664	44,309
Income (loss) from operations	805	316	735	(571)
Nonoperating income (expense):				
Interest income and other, net	2	29	2	51
Interest expense	(9)	(73)	(21)	(115)
Income (loss) before provision for income taxes	798	272	716	(635)
Provision for income taxes	15	10	25	10
Net income (loss)	$783	$262	$691	$(645)
Net income (loss) per share:				
Basic	$0.08	$0.03	$0.07	$(0.07)
Diluted	$0.08	$0.03	$0.07	$(0.07)
Weighted average shares used in computation:				
Basic	9,214	9,165	9,208	9,160
Diluted	9,392	9,265	9,377	9,160

See accompanying notes to the unaudited consolidated financial statements.

KONA GRILL, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Six Months Ended June 30, 2011	2010
Operating activities		
Net income (loss)	$691	$ (645)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,972	2,794
Stock-based compensation expense	180	208
Loss on disposal of assets	22	—
Change in operating assets and liabilities:		
Receivables	(4)	(44)
Other current assets	(160)	165
Accounts payable	(219)	(418)
Accrued expenses	(167)	112
Deferred rent	(389)	107
Net cash provided by operating activities	2,926	2,279
Investing activities		
Purchase of property and equipment	(922)	(1,559)
(Increase) decrease in other assets	(50)	13
Net purchases and sales of investments	(1)	6,108
Net cash (used in) provided by investing activities	(973)	4,562
Financing activities		
Repayments on line of credit	—	(5,800)
Repayments of notes payable	(301)	(380)
Proceeds from issuance of common stock under the Employee Stock Purchase Plan and exercise of stock options	88	50
Net cash used in financing activities	(213)	(6,130)
Net increase in cash and cash equivalents	1,740	711
Cash and cash equivalents at the beginning of the period	2,555	2,404
Cash and cash equivalents at the end of the period	$4,295	$ 3,115
Supplemental disclosure of cash flow information		
Cash paid for interest, net of capitalization	$21	$ 75
Noncash investing activities		
Decrease in accounts payable related to property and equipment	$(264)	$ (167)

See accompanying notes to the unaudited consolidated financial statements.

KONA GRILL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

Kona Grill, Inc. (referred to herein as the “Company” or “we,” “us,” and “our”) develops, owns and operates upscale casual dining restaurants under the name “Kona Grill.” Our restaurants feature a diverse selection of mainstream American dishes and award-winning sushi that are prepared fresh daily. As of August 1, 2011, we own and operate 24 restaurants in 16 states throughout the United States.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In our opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

The consolidated balance sheet at December 31, 2010 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. Accordingly, these financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2010.

2. Fair Value Measurements

We held investments in certificates of deposit totaling $175,000 at June 30, 2011, which are currently classified as available-for-sale securities. These securities are valued at the original purchase price plus accrued interest and are held with a major financial institution. We have not experienced any losses on these investments to date, and we believe that we are not exposed to significant risk of loss on these investments.

3. Net Income (Loss) Per Share

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income per share includes the dilutive effect of potential stock option and warrant exercises, calculated using the treasury stock method.

The following table sets forth the computation of basic and diluted net income (loss) per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands, except per share data)			
Numerator:				
Net income (loss)	$ 783	$ 262	$ 691	$ (645)
Denominator:				
Weighted average shares — Basic	9,214	9,165	9,208	9,160
Effect of dilutive stock options and warrants	178	100	169	—
Weighted average shares — Diluted	9,392	9,265	9,377	9,160

Net income (loss) per share:								
Basic	$	0.08	$	0.03	$	0.07	$	(0.07)
Diluted	$	0.08	$	0.03	$	0.07	$	(0.07)

For the six months ended June 30, 2010, there were 1,015,000 stock options and warrants outstanding that were not included in the dilutive earnings per share calculation because the effect would have been anti-dilutive.

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4. Accrued Expenses

Accrued expenses consisted of the following (in thousands):

	June 30, 2011	December 31, 2010
Accrued payroll	$ 2,167	$ 2,129
Gift cards	844	1,140
Sales taxes	825	816
Business and income taxes	599	711
Accrued occupancy	281	233
Other	1,163	1,017
	$ 5,879	$ 6,046

5. Notes Payable

Equipment Loans

As of June 30, 2011, we had three equipment term loans with a lender. The aggregate outstanding principal balance of these loans was $335,000 at June 30, 2011. The loans bear interest at rates ranging from 7.9% to 8.5% and require monthly principal and interest payments aggregating approximately $41,000. The loans mature between October 2011 and June 2012. The loans also require us to maintain certain financial covenants, including a Fixed Charge Coverage Ratio of 1.25:1.00 calculated at the end of each calendar year. We were in compliance with all such financial covenants as of December 31, 2010.

6. Stock-Based Compensation

We maintain stock award plans under which we may issue incentive stock options, non-qualified stock options, restricted stock, and other types of awards to employees, directors, and consultants. Upon effectiveness of the 2005 Stock Award Plan, the 2002 Stock Award Plan was closed for purposes of new grants and the remaining available shares for grant, including those shares related to option awards forfeited or terminated without exercise, accrue to the 2005 Stock Award Plan. We typically grant non-qualified stock options with an exercise price at the fair market value of the underlying common stock on the date of grant and such options expire five years from the date of grant. Employee stock options generally vest 25% each year over a four-year period, while annual recurring awards for non-employee director options vest 25% each quarter over a one-year period. A total of 1,450,000 shares of common stock have been reserved for issuance under our plans of which 280,621 shares were available for grant as of June 30, 2011.

The fair value of stock options granted during the six months ended June 30, 2011 and 2010 was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Six Months Ended June 30,	
	2011	2010
Expected volatility	60.1 %	64.3 %
Risk-free interest rate	1.5 %	1.7 %
Expected option life (in years)	3.5	3.7
Dividend yield	0.0 %	0.0 %
Weighted average fair value per option granted	$ 2.21	$ 1.64

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The following table summarizes activity under our stock award plans for the six months ended June 30, 2011:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding options at December 31, 2010	884,806	$ 6.28		
Granted	235,750	5.08		
Forfeited	(212,150)	7.51		
Exercised	(26,750)	2.58		
Outstanding options at June 30, 2011	881,656	$ 5.77	2.7 years	$ 1,263,000
Exercisable at June 30, 2011	518,114	$ 6.60	1.9 years	$ 765,000

We recognized stock-based compensation expense of $89,000 and $107,000 during the three months ended June 30, 2011 and 2010, respectively, and $180,000 and $208,000 for the six months ended June 30, 2011 and 2010, respectively. As of June 30, 2011, there was $556,000 of unrecognized stock-based compensation expense related to unvested stock-based compensation awards, which is expected to be recognized over a weighted average period of 2.7 years.

7. Commitments and Contingencies

We are engaged in various legal actions, which arise in the ordinary course of our business. Although there can be no assurance as to the ultimate disposition of these matters, it is the opinion of our management, based upon the information available at this time, that the expected outcome of these matters, individually or in the aggregate, will not have a material adverse effect on the results of operations or financial condition of our company.

Stockholder Derivative Action

On February 6, 2009, Samuel Beren ("Beren" or "plaintiff"), as trustee for the Samuel Beren Trust, served a demand on us pursuant to Section 220 of Delaware's General Corporation Law (the "DGCL"), which requested that we make available for inspection certain books and records. During April 2009, Beren, as trustee for the Samuel Beren Trust, commenced a purported stockholder derivative action in the Court of Chancery of the State of Delaware. The derivative action purportedly was brought on behalf of us against our directors and the purchasers of our promissory notes issued during March 2009, for alleged breaches of fiduciary duties by our directors, and for aiding and abetting such breaches by the purchasers of our promissory notes. We also were named as a nominal defendant in the derivative action. The derivative action sought unspecified damages, interest, reasonable attorneys' fees, expert witness fees, and other costs.

During June 2009, the director defendants filed a motion to dismiss the derivative action. Separately, during October 2009, plaintiff served a demand on us pursuant to Section 220 of the DGCL, which requested that we make available for inspection certain books and records. During January 2010, we produced books and records in response to the October 26, 2009 demand. Two days later, plaintiff commenced a separate action against us, which sought the production of the books and records requested in plaintiff's February 6, 2009 and October 26, 2009 demand letters. During March 2010, the court granted a stay in the derivative action until the books and records action was resolved. During July 2010, we produced books and records in response to the February 6, 2009 demand, which production was covered by a confidentiality agreement executed between us and Beren. On February 18, 2011, the court dismissed the books and records action with prejudice.

On February 22, 2011, the plaintiff filed an amended complaint including a claim for corporate waste. On March 14, 2011, the director defendants filed a motion to dismiss the amended complaint. During June 2011, the plaintiff informed us that he did not want to pursue this matter any longer and requested a voluntary dismissal with prejudice. On July 6, 2011, the Court of Chancery of the State of Delaware granted the dismissal with prejudice as to the named plaintiff.

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8. Subsequent Event

In July 2011 we entered into an amendment with the landlord for our West Palm Beach restaurant that provides for the early termination of the lease on July 31, 2011. The decision to enter into this amendment and close the restaurant was based on the restaurant’s past and present operating performance and projected future results. Under the amendment, we will pay an early termination fee and agree not to remove certain restaurant equipment from the premises.

As a result of the closure, all historical operating results as well as lease termination, severance, and other exit charges related to this restaurant will be reflected within discontinued operations in the consolidated financial statements for our September 30, 2011 Form 10-Q. We previously recognized non-cash asset impairment charges of $3,539,000 related to the write-down of the carrying value of long-lived assets associated with this restaurant during 2009.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the unaudited consolidated financial statements and notes thereto included in Item 1 of Part I of this Form 10-Q and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2010 contained in our 2010 Annual Report on Form 10-K.

Certain information included in this discussion contains forward-looking statements that involve known and unknown risks and uncertainties, such as statements relating to our future economic performance, plans and objectives for future operations, expectations, intentions and other financial items that are based on our beliefs as well as assumptions made by and information currently available to us. Factors that could cause actual events or results to differ materially from those indicated by these forward-looking statements may include the matters under Item 1A, "Risk Factors" in this report, our Annual Report on Form 10-K for the year ended December 31, 2010 and other reports filed from time to time with the SEC.

Overview

As of August 1, 2011, we own and operate 24 restaurants located in 16 states. We offer freshly prepared food, attentive service, and a contemporary ambiance that create a satisfying yet affordable dining experience that we believe exceeds many traditional casual dining restaurants with which we compete. Our high-volume upscale casual restaurants feature a diverse selection of mainstream American favorites as well as a variety of appetizers and entrees with an international influence, including an extensive selection of sushi items. Our menu items are freshly prepared and incorporate over 40 signature sauces and dressings that we make from scratch, creating broad-based appeal for the lifestyle and taste trends of a diverse group of guests. We believe that our diverse menu and generous portions, combined with an average check of approximately $24 per guest, offers our guests an attractive price-value proposition.

Over the last five years, we funded development of new restaurants primarily from the proceeds of our initial public offering, a private offering of common stock completed during November 2007, a rights offering completed during June 2009, and cash flows from operations. We opened our newest restaurant in Baltimore, Maryland on October 5, 2010 and opened four restaurants during 2009 in Richmond, Virginia; Woodbridge, New Jersey; Eden Prairie, Minnesota; and Tampa, Florida. We are pursuing additional leases for new restaurant openings in 2012 and beyond.

The restaurant industry is significantly affected by changes in economic conditions, discretionary spending patterns, consumer confidence, and other factors. Customer traffic and sales patterns have shown improvement throughout 2010 and into 2011 as evidenced by the sequential improvement in our comparable restaurant sales for the past seven quarters. For the quarter ended June 30, 2011, our comparable restaurant sales increased 9.1% from the prior year period. We believe improvement in the job market, coupled with improvement in consumer confidence and spending in general, will be important and necessary catalysts to drive guest traffic and higher guest check averages in casual dining restaurants in general and our restaurants in particular.

We target our restaurants to achieve an average annual unit volume of $4.5 million following 24 months of operations. Certain of our recent openings are trending lower than our targeted volume during the current economic environment. Our typical new restaurants experience gradually increasing unit volumes as guests discover our concept and we generate market awareness.

We experience various patterns in our operating cost structure. Cost of sales, labor, and other operating expenses for our restaurants open at least 12 months generally trend consistent with restaurant sales, and we analyze those costs as a percentage of restaurant sales. We anticipate that our new restaurants will take approximately six months to achieve

operating efficiencies as a result of challenges typically associated with opening new restaurants, including lack of market recognition and the need to hire and sufficiently train employees, as well as other factors. We expect cost of sales and labor expenses as a percentage of restaurant sales to be higher when we open a new restaurant, but to decrease as a percentage of restaurant sales as the restaurant matures and as the restaurant management and employees become more efficient in operating that unit. Occupancy and a portion of restaurant operating expenses are fixed. As a result, the volume and timing of newly opened restaurants has had, and is expected to continue to have, an impact on cost of sales, labor, occupancy, and restaurant operating expenses measured as a percentage of restaurant sales. The majority of our general and administrative costs are fixed costs. We expect our general and administrative spending to decrease as a percentage of restaurant sales as we leverage these investments and realize the benefits of higher sales volumes.

Key Measures We Use to Evaluate Our Company

Key measures we use to evaluate and assess our business include the following:

Number of Restaurant Openings. Number of restaurant openings reflects the number of restaurants opened during a particular reporting period.

Same-Store Sales Percentage Change. Same-store sales percentage change reflects the periodic change in restaurant sales for the comparable restaurant base. In calculating the percentage change in same-store sales, we include a restaurant in the comparable restaurant base after it has been in operation for more than 18 months. Same-store sales growth can be generated by an increase in guest traffic counts or by increases in the per person average check amount. Menu price changes and the mix of menu items sold can affect the per person average check amount.

Average Weekly Sales. Average weekly sales represents the average of restaurant sales measured over consecutive Monday through Sunday time periods.

Average Unit Volume. Average unit volume represents the average restaurant sales for the comparable restaurant base.

Sales Per Square Foot. Sales per square foot represents the restaurant sales for our comparable restaurant base, divided by the total leasable square feet for such restaurants.

Restaurant Operating Profit. Restaurant operating profit is defined as restaurant sales minus cost of sales, labor, occupancy, and restaurant operating expenses. Restaurant operating profit does not include general and administrative expenses, depreciation and amortization, or preopening expenses. We believe restaurant operating profit is an important component of financial results because it is a widely used metric within the restaurant industry to evaluate restaurant-level productivity, efficiency, and performance prior to application of corporate overhead. We use restaurant operating profit as a percentage of restaurant sales as a key metric to evaluate our restaurants' financial performance compared with our competitors. This measure provides useful information regarding our financial condition and results of operations and allows investors to more easily determine future financial results driven by growth and allows investors to more easily compare restaurant level profitability.

Key Financial Definitions

Restaurant Sales. Restaurant sales include gross food and beverage sales, net of promotions and discounts.

Cost of Sales. Cost of sales consists of food and beverage costs.

Labor. Labor includes all direct and indirect labor costs incurred in operations.

Occupancy. Occupancy includes all rent payments associated with the leasing of real estate, including base, percentage and straight-line rent, property taxes, and common area maintenance expense. We record tenant improvement allowances as a reduction of occupancy expense over the initial term of the lease.

Restaurant Operating Expenses. Restaurant operating expenses consist of all other restaurant-level operating costs, the major components of which are utilities, credit card fees, advertising, supplies, marketing, repair and maintenance, and other expenses. Other operating expenses contain both variable and fixed components.

General and Administrative. General and administrative includes all corporate and administrative functions that support operations and provide infrastructure to facilitate our future growth. Components of this category include management and staff salaries, bonuses, stock-based compensation and related employee benefits, travel, information systems, human resources, training, corporate rent, professional and consulting fees, and corporate insurance costs.

Preopening Expense. Preopening expense consists of costs incurred prior to opening a new restaurant and is comprised principally of manager salaries and relocation, payroll and related training costs for new employees, including food and beverage costs associated with practice and rehearsal of service activities, and rent expense incurred from the date we obtain possession of the property until opening. We expense restaurant preopening expenses as incurred, and we expect preopening expenses to be similar for each new restaurant opening, which typically commence six to eight months prior to a restaurant opening. Our preopening costs will fluctuate from period to period depending upon the number of restaurants opened, the timing of new restaurant openings, the location of the restaurants, and the complexity of the staff hiring and training process.

Depreciation and Amortization. Depreciation and amortization expense consists of the depreciation of property and equipment.

Interest Income and Other, Net. Interest income and other, net consists of interest earned on our cash and investments and any gains or losses on our investments.

Interest Expense. Interest expense includes the cost of servicing our debt obligations, net of capitalized interest.

Financial Performance Overview

The following table sets forth certain information regarding our financial performance for the three and six months ended June 30, 2011 and 2010.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Restaurant sales growth	13.6 %	5.7 %	12.9 %	6.9 %
Same-store sales percentage change (1)	9.1 %	(0.3) %	8.4 %	(1.4) %
Average weekly sales – comparable restaurant base (2)	$ 80,143	$ 73,451	$ 76,717	$ 70,772
Average weekly sales – non-comparable restaurant base (3)	$ 68,554	$ 58,801	$ 69,627	$ 59,725
Average unit volume (in thousands) (2)	$ 1,045	$ 1,010	$ 2,000	$ 1,922
Sales per square foot (2)	$ 148	$ 143	$ 284	$ 273
Restaurant operating profit (in thousands) (4)	$ 4,436	$ 3,703	$ 7,738	$ 6,360
Restaurant operating profit as a percentage of sales (4)	17.2 %	16.3 %	15.7 %	14.6 %

(1) Same-store sales percentage change reflects the periodic change in restaurant sales for the comparable restaurant base. In calculating the percentage change for same-store sales, we include a restaurant in the comparable restaurant base after it has been in operation for more than 18 months.

(2)Includes only those restaurants in the comparable restaurant base.

(3)Includes only those restaurants that are not in the comparable restaurant base that were open for the entire period.

(4) Restaurant operating profit is not a financial measurement determined in accordance with U.S. generally accepted accounting principles and should not be considered in isolation or as an alternative to loss from operations. Restaurant operating profit may not be comparable to the same or similarly titled measures computed by other companies. We believe restaurant operating profit is an important component of financial results because it is a widely used metric within the restaurant industry to evaluate restaurant-level productivity, efficiency, and performance. We use restaurant operating profit as a percentage of restaurant sales as a key metric to evaluate our restaurants' financial performance compared with our competitors.

The following tables set forth our calculation of restaurant operating profit and reconciliation to income (loss) from operations, the most comparable GAAP measure.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Restaurant sales	$25,767	$22,686	$49,399	$43,738
Costs and expenses:				
Cost of sales	7,052	6,014	13,709	11,589
Labor	8,551	7,782	16,644	15,365
Occupancy	1,872	1,769	3,663	3,550
Restaurant operating expenses	3,856	3,418	7,645	6,874
Restaurant operating profit	4,436	3,703	7,738	6,360
Deduct – other costs and expenses				
General and administrative	2,149	1,873	4,031	4,010
Preopening expense	—	119	—	127
Depreciation and amortization	1,482	1,395	2,972	2,794
Income (loss) from operations	$805	$316	$735	$(571)

	Percentage of Restaurant Sales Three Months Ended June 30,		Percentage of Restaurant Sales Six Months Ended June 30,	
	2011	2010	2011	2010
Restaurant sales	100.0 %	100.0 %	100.0 %	100.0 %
Costs and expenses:				
Cost of sales	27.4	26.5	27.8	26.5
Labor	33.2	34.3	33.7	35.1
Occupancy	7.3	7.8	7.4	8.1
Restaurant operating expenses	15.0	15.1	15.5	15.7
Restaurant operating profit	17.2	16.3	15.7	14.6
Deduct – other costs and expenses				
General and administrative	8.3	8.3	8.2	9.2
Preopening expense	0.0	0.5	0.0	0.3
Depreciation and amortization	5.8	6.1	6.0	6.4
Income (loss) from operations	3.1 %	1.4 %	1.5 %	(1.3)%

Certain percentage amounts do not sum to total due to rounding.

The following table sets forth changes in the number of restaurants opened for the periods indicated:

	Six Months Ended June 30, 2011	Year Ended December 31, 2010

Beginning of period	25	24
Openings	—	1
Closings	—	—
End of period	25	25

Results of Operations

The following table sets forth, for the periods indicated, the percentage of restaurant sales of certain items in our financial statements:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Restaurant sales	100.0 %	100.0 %	100.0 %	100.0 %
Costs and expenses:				
Cost of sales	27.4	26.5	27.8	26.5
Labor	33.2	34.3	33.7	35.1
Occupancy	7.3	7.8	7.4	8.1
Restaurant operating expenses	15.0	15.1	15.5	15.7
General and administrative	8.3	8.3	8.2	9.2
Preopening expense	0.0	0.5	0.0	0.3
Depreciation and amortization	5.8	6.1	6.0	6.4
Total costs and expenses	96.9	98.6	98.5	101.3
Income (loss) from operations	3.1	1.4	1.5	(1.3)
Nonoperating income (expense):				
Interest income and other, net	0.0	0.1	0.0	0.1
Interest expense	0.0	(0.3)	0.0	(0.3)
Income (loss) before provision for income taxes	3.1	1.2	1.5	(1.5)
Provision for income taxes	0.1	—	0.1	—
Net income (loss)	3.0 %	1.2 %	1.4 %	(1.5)%

Certain percentage amounts do not sum to total due to rounding.

Three Months Ended June 30, 2011 Compared with Three Months Ended June 30, 2010

Restaurant Sales. Restaurant sales increased $3.1 million, or 13.6% to $25.8 million during the second quarter of 2011 from $22.7 million during the second quarter of 2010. The $3.1 million increase in sales is primarily attributable to a 9.1% increase in comparable restaurant sales and sales generated by our Baltimore, Maryland restaurant which opened in October 2010. The increase in comparable restaurant sales resulted from a 3% increase in guest traffic, higher average check per guest aided by new menu offerings, and an estimated effective menu price increase of approximately 2.2%.

Cost of Sales. Cost of sales increased $1.0 million, or 17.3% to $7.0 million during the second quarter of 2011 from $6.0 million during the prior year period. Cost of sales as a percentage of restaurant sales increased 0.9% to 27.4% during the second quarter of 2011 from 26.5% during the second quarter of 2010. The increase in cost of sales during the second quarter of 2011 primarily reflects higher year-over-year pricing for seafood, dry goods, and produce and cost of sales associated with the new Baltimore restaurant opened in October 2010. The increase in cost of sales as a percentage of restaurant sales is also attributable to upgrades in certain ingredients as part of our menu evolution project. We initiated this project in the summer of 2010 with the intention of increasing sales at our restaurants by introducing new menu items and improving the flavor profile and presentation of certain menu items.

Labor. Labor costs for our restaurants increased $0.8 million, or 9.9% to $8.6 million during the second quarter of 2011 from $7.8 million during the second quarter of 2010. The increase was primarily the result of the opening of the

new Baltimore restaurant in October 2010. Labor expenses as a percentage of restaurant sales decreased 1.1% to 33.2% during the second quarter of 2011 from 34.3% during the prior year period. The decrease in labor costs as a percentage of restaurant sales was primarily due to our ability to leverage fixed management wages and hourly labor expenses resulting from the 9.1% increase in comparable restaurant sales.

Occupancy. Occupancy expenses increased $0.1 million, or 5.9% to $1.9 million during the second quarter of 2011 from $1.8 million during the second quarter of 2010. The increase in occupancy expenses is attributable to occupancy expenses associated with the new Baltimore restaurant that opened in October 2010 and an increase in percentage rent charges for certain locations based upon higher sales volumes. Occupancy expenses as a percentage of restaurant sales decreased 0.5% to 7.3% during the second quarter of 2011 from 7.8% during the prior year period. The decrease in occupancy costs as a percentage of sales reflects increased leverage of the fixed portion of these costs from higher average weekly sales.

Restaurant Operating Expenses. Restaurant operating expenses increased $0.4 million, or 12.8% to $3.8 million during the second quarter of 2011 from $3.4 million during the prior year period. The increase in restaurant operating expenses is attributable to the opening of the new Baltimore restaurant in October 2010, coupled with costs incurred to remodel certain restaurants and an increase in the variable portion of operating expenses associated with higher average weekly sales volumes. Restaurant operating expenses as a percentage of restaurant sales decreased 0.1% to 15.0% during the second quarter of 2011, as compared to 15.1% during the second quarter of 2010, reflecting the leverage of fixed operating costs from higher average weekly sales.

General and Administrative. General and administrative expenses increased $0.3 million, or 14.7% to $2.1 million during the second quarter of 2011 compared to $1.8 million during the second quarter of 2010. The increase in general and administrative expenses during the second quarter of 2011 is attributable to $0.3 million in severance and related charges associated with the resignation of our former chief executive officer. General and administrative expenses as a percentage of restaurant sales were flat at 8.3% of restaurant sales during both the second quarter of 2011 and 2010. Excluding the severance and related charges in the second quarter of 2011, general and administrative expenses were 7.3% of restaurant sales compared to 7.6% of restaurant sales in the second quarter of 2010, excluding costs associated with a contested proxy solicitation.

Preopening Expense. We did not incur any preopening expense during the second quarter of 2011, as no new restaurants are currently scheduled to open during 2011. We incurred $0.1 million in preopening expense during the second quarter of 2010 related to our new Baltimore restaurant that opened in October 2010. Preopening expense varies each quarter based upon the number of restaurants opened and the timing of new restaurant openings as the majority of preopening expense is incurred during the two months preceding an opening.

Depreciation and Amortization. Depreciation and amortization expense increased $0.1 million, or 6.3%, to $1.5 million during the second quarter of 2011 from $1.4 million during the prior year period. The increase in depreciation and amortization expense is due to depreciation expense for one restaurant that opened in October 2010. Depreciation and amortization expense as a percentage of restaurant sales decreased 0.3%, to 5.8% during the second quarter of 2011 from 6.1% during the prior year period reflecting leverage of these fixed costs from higher average weekly sales.

Provision for Income Taxes. During the second quarter of 2011, we recorded a provision for income taxes of $15,000, primarily for state taxes.

Six Months Ended June 30, 2011 Compared with Six Months Ended June 30, 2010

Restaurant Sales. Restaurant sales increased by $5.7 million, or 12.9% to $49.4 million during the first half of 2011 from $43.7 million during the prior year period, primarily attributable to an 8.4% increase in comparable restaurant sales and restaurant sales generated from the opening of the new Baltimore restaurant in October 2010. The increase in comparable restaurant sales is due to a 3% increase in guest traffic, higher average guest check aided by new menu offerings, and an estimated effective menu price increase of approximately 2%.

Cost of Sales. Cost of sales increased $2.1 million, or 18.3% to $13.7 million during the first six months of 2011 from $11.6 million during the first six months of 2010. Cost of sales as a percentage of restaurant sales increased 1.3% to 27.8% during the first half of 2011 from 26.5% during the prior year period. The increase in cost of sales during the first half of 2011 reflects a year-over-year cost increase for certain seafood, produce, and dry good ingredients coupled with costs of sales associated with the new Baltimore restaurant opened in October 2010. The increase in cost of sales is also attributable to upgrades of certain food ingredients as part of our menu evolution project and increased discounts for free products offered as part of our KonavoreTM loyalty and other marketing programs. The food and beverage portion of these marketing programs is recorded in cost of sales.

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Labor. Labor costs for our restaurants increased $1.3 million, or 8.3% to $16.6 million during the first half of 2011 from $15.3 million during the prior year period. The increase was primarily due to the opening of the new Baltimore restaurant in October 2010 and incremental labor costs to support the 8.4% growth in comparable restaurant sales. As a percentage of restaurant sales, labor costs decreased 1.4% to 33.7% during the first half of 2011 from 35.1% during the first half of 2010. The decrease in labor costs as a percentage of restaurant sales was primarily due to our ability to leverage fixed management wages and hourly labor expenses resulting from the 8.4% increase in comparable restaurant sales.

Occupancy. Occupancy expense increased $0.1 million, or 3.2% to $3.7 million during the first six months of 2011 from $3.6 million during the prior year period. The increase in occupancy expenses is attributable to occupancy expenses associated with the new Baltimore restaurant that opened in October 2010 and an increase in percentage rent charges for certain locations based upon higher sales volumes. Occupancy expenses as a percentage of restaurant sales decreased 0.7% to 7.4% during the first half of 2011 from 8.1% during the first half of 2010. The decrease in occupancy costs as a percentage of sales reflects increased leverage of the fixed portion of these costs from higher average weekly sales.

Restaurant Operating Expenses. Restaurant operating expenses increased by $0.8 million, or 11.2% to $7.6 million during the first half of 2011 from $6.8 million during the prior year period. The increase in restaurant operating expenses is attributable to the opening of the new Baltimore restaurant in October 2010, coupled with an increase in the variable portion of operating expenses associated with higher average weekly sales volumes. Restaurant operating expenses as a percentage of restaurant sales decreased 0.2% to 15.5% during the first half of 2011 from 15.7% during the prior year period. The reduction in restaurant operating expenses as a percentage of sales is attributable to increased leverage of fixed operating costs resulting from higher average weekly sales.

General and Administrative. General and administrative expenses were essentially flat at $4.0 million for both the first half of 2011 and 2010. During the first half of 2011, we recorded $0.3 million in severance and related charges associated with the resignation of our former CEO, compared to the first half of 2010, when we incurred $0.5 million for legal and professional fees associated with a contested proxy solicitation and ongoing derivative suit. General and administrative expenses as a percentage of restaurant sales decreased 1.0% to 8.2% of restaurant sales during the first six months of 2011 compared to 9.2% of restaurant sales during the prior year period.

Preopening Expense. We did not incur any preopening expense during the first six months of 2011 as no new restaurants are currently scheduled to open during 2011. We incurred $0.1 million in preopening expense during the first half of 2010 related to the new Baltimore restaurant that opened in October 2010.

Depreciation and Amortization. Depreciation and amortization expense increased $0.2 million, or 6.4% to $3.0 million during the first six months of 2011 from $2.8 million during the prior year period. The increase in depreciation and amortization expense is due to depreciation expense for one restaurant that opened in October 2010. Depreciation and amortization expense as a percentage of restaurant sales decreased 0.4%, to 6.0% during the first half of 2011 from 6.4% during the prior year period, reflecting leverage of these fixed costs from higher average weekly sales.

Provision for Income Taxes. During the first half of 2011, we recorded a $25,000 provision for income taxes compared to $10,000 during the prior year period. The provision for the first six months of 2011 primarily reflects income taxes for certain states in which we operate that do not calculate tax based upon net income. The provision for the first half of 2010 reflected the benefit of an anticipated refund of prior year taxes due to a change in tax legislation regarding net operating loss carrybacks, partially offset by state taxes.

Potential Fluctuations in Quarterly Results and Seasonality

Our quarterly operating results may fluctuate significantly as a result of a variety of factors, including the following:

- timing of new restaurant openings and related expenses;
- fluctuations in commodity and food protein prices;
- restaurant operating costs and preopening costs for our newly-opened restaurants, which are often materially greater during the first several months of operation than thereafter;
- labor availability and costs for hourly and management personnel;
- profitability of our restaurants, especially in new markets;
- increases and decreases in comparable restaurant sales;
- impairment of long-lived assets and any loss on restaurant closures;
- changes in borrowings and interest rates;
- general economic conditions;
- weather conditions or natural disasters;
- timing of certain holidays;
- changes in government regulations;
- outside shareholder activities;
- settlements, damages and legal costs associated with litigation;
- new or revised regulatory requirements and accounting pronouncements; and
- changes in consumer preferences and competitive conditions.

Our business is also subject to seasonal fluctuations. Historically, sales in most of our restaurants have been higher during the spring and summer months and winter holiday season. Consequently, our quarterly and annual operating results and comparable restaurant sales may fluctuate significantly as a result of seasonality and the factors discussed above. Accordingly, results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for any year and comparable restaurant sales for any particular future period may decrease. In the future, operating results may fall below the expectations of our investors. In that event, the price of our common stock would likely decrease.

Liquidity and Capital Resources

Our primary capital requirements are for new restaurant development and remodeling of existing restaurants. Similar to many restaurant chains, we utilize operating lease arrangements for all of our restaurant locations. We believe that our operating lease arrangements provide appropriate leverage for our capital structure in a financially efficient manner. We are typically required to expend cash to perform site-related work and to construct and equip each restaurant. The average investment cost for our restaurants depends upon the type of lease entered into, the amount of tenant improvement allowance we receive from landlords, and whether we assume responsibility for the construction of the building. We expect the cash investment cost of our typical restaurant to be approximately $2.5 million, net of landlord tenant improvement allowances of between $0.7 million and $1.2 million, and excluding cash preopening expenses of approximately $0.4 million. We expect these costs will vary from one market to another based on real estate values, zoning regulations, permitting requirements, labor markets and other variables. Restaurants that are subject to ground leases and do not receive landlord tenant improvement allowances typically require a significantly higher cash investment. We also require capital resources to maintain our existing base of restaurants and to further expand and strengthen the capabilities of our corporate and information technology infrastructures.

The following tables set forth, for the periods indicated, a summary of our key liquidity measurements (amounts in thousands):

	June 30, 2011	December 31, 2010
Cash and short-term investments	$ 4,470	$ 2,729
Net working capital (deficit)(1)	(2,154)	(4,878)

(1) The working capital deficits at June 30, 2011 and December 31, 2010, are primarily attributable to accruals for payroll and professional fees.

	Six Months Ended June 30,	
	2011	2010
Cash provided by operating activities	$2,926	$2,279
Capital expenditures	922	1,559

Future Capital Requirements

Our capital requirements, including development costs related to the opening of new restaurants, have historically been significant. Over the last several years, we funded development of new restaurants primarily from the proceeds of equity financing and cash flows from operations. Our future cash requirements and the adequacy of available funds will depend on many factors, including the operating performance of our restaurants, the pace of expansion, real estate markets, site locations, the nature of the arrangements negotiated with landlords and the credit market environment.

Our current operations generate sufficient cash flow to fund operations and general and administrative costs. We believe existing cash and short-term investments of $4.5 million in addition to cash flow from operations is sufficient to fund planned remodels of existing restaurants, moderate new restaurant development and lease termination costs on certain underperforming restaurants. Any reduction of our cash flow from operations may cause a delay or cancellation of future restaurant development or remodels of existing restaurants. As of June 30, 2011, we had a working capital deficit of $2.2 million, a decrease of $2.7 million from December 31, 2010, as a result of cash flows generated from operations during the first six months of 2011. We plan to reduce this deficit further through cost containment efforts and cash flow from operations. Financing to construct new restaurants may not be available on acceptable terms, or at all, and our failure to raise capital when needed could impact our growth plans, financial condition, and results of operations. Additional equity financing may result in dilution to current stockholders and debt financing, if available, may involve significant cash payment obligations or financial covenants and ratios that may restrict our ability to operate our business.

Equipment Loans

As of June 30, 2011, we had three equipment term loans with a lender. The aggregate outstanding principal balance of these loans was $335,000 at June 30, 2011. The loans bear interest at rates ranging from 7.9% to 8.5% and require monthly principal and interest payments aggregating approximately $41,000. The loans mature between October 2011 and June 2012. The loans also require us to maintain certain financial covenants, including a Fixed Charge Coverage Ratio of 1.25:1.00 calculated at the end of each calendar year. We were in compliance with all such financial covenants as of December 31, 2010.

Cash Flows

The following table summarizes our primary sources and uses of cash during the periods presented (in thousands).

	Six Months Ended June 30,	
	2011	2010
Net cash provided by (used in):		
Operating activities	$2,926	$2,279
Investing activities	(973)	4,562
Financing activities	(213)	(6,130)
Net increase in cash and cash equivalents	$1,740	$711

Operating Activities. Our cash flows from operating activities, as detailed in the Unaudited Consolidated Statements of Cash Flows, provided $2.9 million of net cash during the first six months of 2011. The net increase in cash from operating activities for the first half of 2011 in comparison to the first half of 2010, is primarily the result of higher net income partially offset by a reduction in accounts payable, accrued expenses and deferred rent.

Investing Activities. Our capital expenditures for the six months ended June 30, 2011 were $0.9 million and were primarily attributable to contractor payments for our Baltimore, Maryland restaurant that opened during October 2010 and remodeling costs for existing restaurants. Investing activities for the six months ended June 30, 2010 reflect contractor payments for the new Baltimore restaurant that opened in October 2010 and two restaurants that opened during the second half of 2009, as well as proceeds from the sale of $5.8 million in auction rate securities and $0.3 million in other investments.

Financing Activities. Net cash used in financing activities was $0.2 million for the six months ended June 30, 2011, reflecting $0.3 million in principal payments on equipment loans offset by $0.1 million in proceeds from stock issued as part of our stock option and employee stock purchase plans. Net cash used in financing activities for the first half of 2010 was $6.1 million, reflecting the repayment of $5.8 million under our line of credit and $0.4 million in principal payments on equipment loans.

Critical Accounting Policies

Critical accounting policies are those that we believe ae most important to the portrayal of our financial condition and results of operations and also require our most difficult, subjective, or complex judgments. Judgments or uncertainties regarding the application of these policies may result in materially different amounts being reported under various conditions or using different assumptions. There have been no material changes to the critical accounting policies previously reported in our Annual Report on Form 10-K for the year ended December 31, 2010.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The following discussion of market risks contains forward-looking statements. Actual results may differ materially from the following discussion based on general conditions in the commodity markets.

Primary Market Risk Exposures

Our primary market risk exposure is commodity costs. Many of the food products purchased by us can be subject to volatility due to changes in weather, production, availability, seasonality, international demand, and other factors outside our control. Substantially all of our food and supplies are available from several sources, which helps to diversify our overall commodity cost risk. We also believe that we have the ability to increase certain menu prices in

response to food commodity price increases.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We have evaluated, with the participation of our interim Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on this evaluation, our interim Chief Executive Officer and Chief Financial Officer have each concluded that our disclosure controls and procedures are effective to ensure that we record, process, summarize, and report information required to be disclosed by us in our quarterly reports filed under the Exchange Act within the time periods specified by the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our interim Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

During the quarterly period covered by this report, there have not been any changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Stockholder Derivative Action

On February 6, 2009, Samuel Beren ("Beren" or "plaintiff"), as trustee for the Samuel Beren Trust, served a demand on us pursuant to Section 220 of Delaware's General Corporation Law (the "DGCL"), which requested that we make available for inspection certain books and records. During April 2009, Beren, as trustee for the Samuel Beren Trust, commenced a purported stockholder derivative action in the Court of Chancery of the State of Delaware. The derivative action purportedly was brought on behalf of us against our directors and the purchasers of our promissory notes issued during March 2009, for alleged breaches of fiduciary duties by our directors, and for aiding and abetting such breaches by the purchasers of our promissory notes. We also were named as a nominal defendant in the derivative action. The derivative action sought unspecified damages, interest, reasonable attorneys' fees, expert witness fees, and other costs.

During June 2009, the director defendants filed a motion to dismiss the derivative action. Separately, during October 2009, plaintiff served a demand on us pursuant to Section 220 of the DGCL, which requested that we make available for inspection certain books and records. During January 2010, we produced books and records in response to the October 26, 2009 demand. Two days later, plaintiff commenced a separate action against us, which sought the production of the books and records requested in plaintiff's February 6, 2009 and October 26, 2009 demand letters. During March 2010, the court granted a stay in the derivative action until the books and records action was resolved. During July 2010, we produced books and records in response to the February 6, 2009 demand, which production was covered by a confidentiality agreement executed between us and Beren. On February 18, 2011, the court dismissed the books and records action with prejudice.

On February 22, 2011, the plaintiff filed an amended complaint including a claim for corporate waste. On March 14, 2011, the director defendants filed a motion to dismiss the amended complaint. During June 2011, the plaintiff informed us that he did not want to pursue this matter any longer and requested a voluntary dismissal with prejudice.

On July 6, 2011, the Court of Chancery of the State of Delaware granted the dismissal with prejudice as to the named plaintiff.

Item 1A. Risk Factors

A description of the risk factors associated with our business is contained in Part I, Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2010. These cautionary statements are to be used as a reference in connection with any forward-looking statements. The factors, risks, and uncertainties identified in these cautionary statements are in addition to those contained in any other cautionary statements, written or oral, which may be made or otherwise addressed in connection with a forward-looking statement or contained in any of our subsequent filings with the SEC.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. (Removed and Reserved).

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibit Number	Exhibit
10.28	Separation Agreement dated as of June 3, 2011 between the Company and Marc A. Buehler. (1)
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive data files pursuant to Rule 405 of Regulation S-T (i) the Consolidated Balance Sheets as of June 30, 2011 and December 31, 2010, (ii) the Unaudited Consolidated Statements of Operations for the three and six months ended June 30, 2011 and 2010, (iii) the Unaudited Consolidated Statements of Cash Flows for the six months ended June 30, 2011 and 2010 and (iv) the notes to the Unaudited Consolidated Financial Statements.

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(1) Incorporated by reference to the Registrant's Form 8-K filed on June 9, 2011.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Kona Grill, Inc.

/s/ Michael A. Nahkunst
Michael A. Nahkunst
Interim President and Chief Executive Officer (Principal Executive Officer)

/s/ Mark S. Robinow
Mark S. Robinow
Executive Vice President, Chief Financial Officer, and Secretary (Principal Accounting and Financial Officer)

Date: August 1, 2011