FAMOUS DAVES OF AMERICA INC
Form DEF 14A
March 23, 2011

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ
Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

Famous Dave's of America, Inc.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

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FAMOUS DAVE S OF AMERICA, INC.
12701 Whitewater Drive, Suite 200
Minnetonka, Minnesota 55343

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD MAY 3, 2011

TO THE SHAREHOLDERS OF FAMOUS DAVE S OF AMERICA, INC.:

Please take notice that the annual meeting of shareholders of Famous Dave s of America, Inc. (the Annual Meeting) will be held, pursuant to due call by the Board of Directors of the Company, at the Company s office at 12701 Whitewater Drive, Minnetonka, Minnesota, on Tuesday, May 3, 2011, at 3:00 p.m., or at any adjournment or adjournments thereof, for the purpose of considering and taking appropriate action with respect to the following:

1. To elect six directors;

2. To approve an amendment to the Company s Amended and Restated 2005 Stock Incentive Plan to increase the number of shares of common stock reserved for issuance thereunder from 950,000 shares to 1,400,000 shares;

3. To ratify the appointment of Grant Thornton LLP as the independent registered public accounting firm of the Company for fiscal 2011; and

4. To transact any other business as may properly come before the Annual Meeting or any adjournments thereof.

Pursuant to due action of the Board of Directors, shareholders of record on March 7, 2011 will be entitled to vote at the Annual Meeting or any adjournments thereof.

Important Notice Regarding the Availability of Proxy Materials for the
Annual Meeting to be Held May 3, 2011.

The proxy statement for the Annual Meeting and the Annual Report to Shareholders for the fiscal year ended January 2, 2011, each of which is included with this Notice, are also available to you on the Internet. We encourage you to review all of the important information contained in the proxy materials before voting. To view the proxy statement and Annual Report to Shareholders on the Internet, visit www.famousdaves.com/proxymaterials.

By Order of the Board of Directors

Diana G. Purcel
Secretary

March 23, 2011

FAMOUS DAVE S OF AMERICA, INC.
12701 Whitewater Drive, Suite 200
Minnetonka, Minnesota 55343

PROXY STATEMENT

Annual Meeting of Shareholders to be Held
May 3, 2011

VOTING AND REVOCATION OF PROXY

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Famous Dave s of America, Inc. (periodically referred to herein as Famous Dave s and the Company) to be used at the annual meeting of shareholders of the Company (the Annual Meeting) to be held on Tuesday, May 3, 2011, at 3:00 p.m., at the Company s office at 12701 Whitewater Drive, Minnetonka, Minnesota, for the purpose of considering and taking appropriate action with respect to the following:

1. To elect six directors;
2. To approve an amendment to the Company s Amended and Restated 2005 Stock Incentive Plan to increase the number of shares of common stock reserved for issuance thereunder from 950,000 shares to 1,400,000 shares;
3. To ratify the appointment of Grant Thornton LLP as the independent registered public accounting firm of the Company for fiscal 2011; and
4. To transact any other business as may properly come before the meeting or any adjournments thereof.

The approximate date on which this Proxy Statement and the accompanying proxy were first sent or provided to shareholders was March 23, 2011. Each shareholder who grants a proxy in the manner indicated in this Proxy Statement may revoke the same at any time prior to its use by giving notice of such revocation to the Company in writing, in open meeting or by executing and delivering a new proxy to the Secretary of the Company. Unless so revoked, the shares represented by each proxy will be voted at the Annual Meeting and at any adjournments thereof. Presence at the Annual Meeting of a shareholder who has signed a proxy does not alone revoke that proxy.

PROXIES AND VOTING

Registered shareholders may vote in one of three ways: By completing and returning the enclosed proxy card via regular mail or by voting via the Internet or telephone. Specific instructions for using these methods are set forth on the enclosed proxy card. The Internet and telephone procedures are designed to authenticate the shareholder s identity and to allow shareholders to vote their shares and confirm that their instructions have been properly recorded.

The Board of Directors has set the close of business on March 7, 2011 as the Record Date for the Annual Meeting. Only holders of the Company s common stock as of the Record Date, or their duly appointed proxies, are entitled to notice of and will be entitled to vote at the Annual Meeting or any adjournments thereof. On the Record Date, there were 8,113,973 shares of the Company s common stock outstanding. Each such share entitles the holder thereof to one vote upon each matter to be presented at the Annual Meeting. A quorum, consisting of a majority of

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the outstanding shares of the Company s common stock entitled to vote at the Annual Meeting, must be present in person or represented by proxy before action may be taken at the Annual Meeting.

Each proxy returned to the Company will be voted in accordance with the instructions indicated thereon. If no direction is given by a shareholder, the shares will be voted as recommended by the Company s Board of Directors. If any nominee for the Board of Directors should withdraw or otherwise become unavailable for reasons not presently known, the proxies that would have otherwise been voted for such nominee will be voted for such substitute nominee as may be selected by the Board of Directors. If a shareholder abstains from voting on any matter, the abstention will be counted for purposes of determining whether a quorum is present at the Annual Meeting for the transaction of business as well as shares entitled to vote on that matter. On matters other than the election of directors, an action of the shareholders generally requires the affirmative vote of a majority of shares present in person or represented by proxy at the meeting and entitled to vote on the matter. Accordingly, an abstention on any matter other than the election of directors will have the same effect as a vote against that matter. A non-vote occurs when a nominee holding shares for a beneficial owner votes on one proposal, but does not vote on another proposal because the nominee does not have discretionary voting power and has not received instructions from the beneficial owner. Broker non-votes on a matter are counted as present for purposes of establishing a quorum for the Annual Meeting, but are not considered entitled to vote on that particular matter. Consequently, non-votes generally do not have the same effect as a negative vote on the matter.

A shareholder giving a proxy may revoke it at any time before it is exercised by (i) giving written notice of revocation to the Secretary of the Company, (ii) delivering a duly executed proxy bearing a later date, or (iii) voting in person at the Annual Meeting. Presence at the Annual Meeting of a shareholder who has signed a proxy does not, alone, revoke that proxy; revocation must be announced by the shareholder at the time of the Annual Meeting.

Under Proposal One, directors will be elected by a plurality of shares of common stock of the Company present in person or represented by proxy at the Annual Meeting. Adoption of Proposals Two and Three require the affirmative vote of the holders of a majority of such shares. **The Board of Directors unanimously recommends that you vote FOR the election of all nominees for the Board of Directors named in this Proxy Statement, FOR the amendment to the Amended and Restated 2005 Stock Incentive Plan and FOR the ratification of Grant Thornton LLP as the independent registered public accounting firm of the Company for fiscal 2011.**

While the Board of Directors knows of no other matters to be presented at the Annual Meeting or any adjournment thereof, all proxies returned to the Company will be voted on any such matter in accordance with the judgment of the proxy holders.

NOTICE TO BENEFICIAL OWNERS OF SHARES HELD IN BROKER ACCOUNTS:

New York Stock Exchange Rule 452 prohibits NYSE member organizations from giving a proxy to vote with respect to an election of directors (Proposal One) or with respect to equity compensation plan authorizations (Proposal Two) without receiving voting instructions from a beneficial owner. Because NYSE Rule 452 applies to <u>all</u> brokers that are members of the NYSE, this prohibition applies to the Annual Meeting even though the Company is not listed on the New York Stock Exchange. Therefore, brokers will not be entitled to vote shares at the Annual Meeting with respect to Proposals ONE or TWO without instructions by the beneficial owner of the shares. **AS A RESULT, BENEFICIAL OWNERS OF SHARES HELD IN BROKER ACCOUNTS ARE ADVISED THAT, IF THEY DO NOT TIMELY PROVIDE INSTRUCTIONS TO THEIR BROKER, THEIR SHARES WILL NOT BE VOTED IN CONNECTION WITH THESE PROPOSALS.**

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ELECTION OF DIRECTORS
(Proposal One)

Our Board of Directors currently consists of the following six (6) directors, each of whom has been nominated for re-election by our Board. If re-elected, each nominee has consented to serve as a director of the Company, to hold office until the next Annual Meeting, or until his or her successor is elected and shall have qualified.

The following paragraphs provide information as of the date of this Proxy Statement about each nominee. The information presented includes information each director has given us about his or her age, all positions he or she holds within the Company, his or her principal occupation and business experience for the past five years, and the names of other publicly-held companies of which he or she currently serves as a director or has served as a director during the past five years. In addition to the information presented below regarding each nominee s specific experience, qualifications, attributes and skills that led our Board to the conclusion that he or she should serve as a director, each of our director nominees has experience in developing and overseeing businesses and implementing near term and long range strategic plans. We also believe that all of our director nominees have a reputation for integrity, honesty and adherence to high ethical standards. They each have demonstrated business acumen and an ability to exercise sound judgment, as well as a commitment of service to our Company and our Board. Although we don t believe that share ownership qualifies any person to serve as a director of our Company, we believe that our Board s ownership in the Company (collectively 11.2% beneficial ownership as of the Record Date) aligns our directors interests with those of our shareholders and drives our Board s focus on maximizing shareholder value.

Name and Age of Director and Nominee	Principal Occupation, Business Experience For the Past Five Years and Directorships of Public Companies	Director Since
Christopher O Donnell Age 51	Christopher O Donnell currently serves as the Company s President and Chief Executive Officer and as a member of the Company s Board of Directors. Mr. O Donnell has served in several capacities since joining the Company in February 1998, including as Vice President of Teaching and Learning from February 1998 to June 2002, as Senior Vice President of Operations from June 2002 to January 2006, as Executive Vice President of Operations from January 2006 to January 2007, and as Chief Operating Officer from January 2007 to September 2008. Mr. O Donnell was promoted to the offices of President and Chief Executive Officer in September 2008. Prior to joining the Company, Mr. O Donnell was Vice President of Product Development for Pencom International, a producer of training products for restaurant and hotel operators. From 1982 to 1987, Mr. O Donnell was the operating partner in Premier Ventures, a high volume restaurant located in Denver, Colorado. Our Board believes that Mr. O Donnell, as President Chief Executive Officer, is the appropriate person to represent management on the Company s Board of Directors given his position as the Company s principal executive officer, his long tenure with the Company, which dates back to February 1998, and the numerous and varied positions within the Company in which he has served. In addition, Mr. O Donnell brings a wealth of restaurant operating experience to the Board. *Committee: Strategic Planning.*	2008

Name and Age of Director and Nominee	Principal Occupation, Business Experience For the Past Five Years and Directorships of Public Companies	Director Since
K. Jeffrey Dahlberg Age 57	K. Jeffrey Dahlberg has served as Chairman of the Company s Board of Directors since December 2003. Mr. Dahlberg is currently self-employed as an investor. Mr. Dahlberg, who co-founded Grow Biz International, Inc. in 1990, served as its Chairman from inception until March 2000 and as its Chief Executive Officer from 1999 until March 2000. Grow Biz, which changed its name to Winmark Corporation in 2000, developed franchises and operated value-oriented retail concepts for stores that buy, sell, trade and consign used and new merchandise. During Mr. Dahlberg s tenure at Grow Biz, such concepts included Play It Again Sports, Once Upon a Child, Computer Renaissance, Inc., Music Go Round and Disc Go Round. Mr. Dahlberg s service as co-founder, principal executive and Chairman of Grow Biz and the franchising expertise gained during the rapid growth of Grow Biz s multiple franchised concepts, coupled with his extensive retail experience and overall business judgment, make him well suited to serve on the Company s Board of Directors as its Chairman. We believe that Mr. Dahlberg is also qualified to act on behalf and in the interests of our shareholders in light of his ownership position with the Company.	2001
Wallace B. Doolin Age 64	Wallace B. Doolin currently is the founder and CEO of Black Box Intelligence, a Dallas-based company that provides benchmarking information and analysis for public and private restaurant companies, and serves as Executive Chairman and CEO of ESP Systems a hospitality technology company. Additionally, Mr. Doolin serves as a member of the board of directors of Caribou Coffee Company, of Minneapolis and Share Our Strength, the leading organization to end childhood hunger. From November, 2004 through January, 2008, Mr. Doolin was Chairman, President and CEO of Buca, Inc., operators of the Buca di Beppo chain of restaurants. He served as CEO of La Madeleine Bakery Café and Bistro, a 64-restaurant chain based in Dallas, Texas from 2002 to 2004, and from 1994 to 2002 was CEO and President of CRW and Friday s, a casual dining restaurant company. Mr. Doolin was a Senior Vice President and Executive Vice President of CRW and Friday s from 1989 to 1993. From 1984 to 1986, Mr. Doolin served as President of Applebee s, and from 1972 to 1989 he held senior leadership positions at W.R. Grace s Restaurant Division, Flakey Jake s, Inc., and Steak and Ale Restaurants. Mr. Doolin has received the IFMA Silver Plate and NRN Golden Chain awards; he is a board member emeritus of the National Restaurant Association, and a past chairman of its Education Foundation. *Committee(s): Strategic Planning (Chair); Corporate Governance and Nominating; Compensation.* Mr. Doolin s extensive experience operating large, national restaurant chains makes him particularly well-qualified to assist the Board of Directors in overseeing the Company s restaurant operations. Having led the development and/or growth of several casual dining restaurant concepts, we believe that	2009

our Board will draw upon Mr. Doolin s knowledge and expertise in the areas of real estate and human resources, the latter of which has made him a valued member of the Compensation Committee.

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Name and Age of Director and Nominee	Principal Occupation, Business Experience For the Past Five Years and Directorships of Public Companies	Director Since
Lisa A. Kro Age 45	Lisa A. Kro is a founding partner of Goldner Hawn Private Equity, L.P. where she is the Chief Financial Officer and Managing Director. From September, 2004 to March, 2010, Ms. Kro was the Chief Financial Officer and a Managing Director of Goldner Hawn Johnson and Morrison Incorporated. Prior to joining Goldner Hawn she was at KPMG LLP, an international public accounting firm from 1987-2004, where she ultimately became an audit partner. Ms. Kro also serves on the board of Specialty Commodities, Inc., a privately held company. *Committee(s): Audit (Chair); Corporate Governance and Nominating; Strategic Planning.* Serving as an audit partner for a Big 4 accounting firm and more recently as the principal financial and accounting officer for a private equity firm qualifies Ms. Kro to serve on the Company s Board of Directors and its Audit Committee as an audit committee financial expert. With her education, background and experience, she is particularly qualified to assist the Board in overseeing the Company s financial and accounting functions and evaluating the Company s internal controls over financial reporting. In addition, in light of her position and experiences at Goldner Hawn, Ms. Kro brings the perspective of a professional institutional shareholder to Board discussions, which we believe adds a strategic resource to a Board seeking to maximize shareholder value. Ms. Kro s interaction with Goldner Hawn s portfolio companies also provides insight to the Board on corporate governance and compensation trends.	2009
Richard L. Monfort Age 56	From 1991 to 1995, Richard L. Monfort served as Group Vice President and Chief Executive Officer of ConAgra Red Meats division, which had approximately $8 billion in annual pork and beef sales. From September 1995 to the present, Mr. Monfort has been engaged in the management of various private business and investment interests, including acting as managing partner of the Hyatt Grand Champions Hotel in Palm Springs, California, and being an owner of the Hilltop Steakhouse in Boston, Massachusetts and a partner in the Montera Cattle Company. Since 1997, Mr. Monfort has served as Vice Chairman of the Colorado Rockies, a professional baseball team. *Committee(s): Audit; Compensation.* In addition to his general business acumen and business and investment management experience, including in the hospitality and restaurant industries, Mr. Monfort s experience with the pork and beef markets uniquely qualifies him to serve on the Company s Board of Directors. His additional experience as a private equity investor, coupled with his ownership position in the Company, provides the Board with a strategic focus on maximizing shareholder value.	1996

Name and Age of Director and Nominee	Principal Occupation, Business Experience For the Past Five Years and Directorships of Public Companies	Director Since
Dean A. Riesen Age 54	Appointed as a director in March 2003, Dean A. Riesen has been Managing Partner of Rimrock Capital Partners, LLC and Riesen & Company, LLC since 2001, both real estate investment entities. Riesen also served as a member of Meridian Bank, N.A. s Board of Directors and Chairman of its Audit Committee from 2005-2009. Previously, Mr. Riesen served as Chief Financial Officer of Carlson Holdings, Inc. (parent of Carlson Companies, Inc. and T.G.I. Friday s, Inc.) from 1999-2001. Mr. Riesen was also President & CEO of Tonkawa, Inc. from 1999-2001 and President, CEO, and General Partner of Carlson Real Estate Company from 1985-2001. Mr. Riesen served on Carlson Companies Investment Committee from 1989-1999. Mr. Riesen was a member of Thomas Cook Holdings LTD (U.K.) Board of Directors and a member of its Audit Committee. Mr. Riesen currently serves as a member of the Cornell College Board of Trustees, and on the Advisory Board of Services Group of America, Inc. *Committee(s): Compensation (Chair); Corporate Governance and Nominating (Chair); Audit; Strategic Planning.* In addition to serving in a variety of business related capacities, Mr. Riesen s background in strategic business planning and his expertise in real estate matters specifically qualifies him to serve on the Company s Board of Directors, where he can help develop and guide the Company s strategic plans and assist the Board in overseeing the Company s real estate related matters. In addition, because Mr. Riesen has acquired a breadth of knowledge and remains current on trends in corporate governance and compensation practices, he is a valuable resource to the Board serving as Chair of both the Corporate Governance and Nominating Committee and the Compensation Committee. Mr. Riesen also brings a shareholder s mentality to the Board given his ownership position in the Company.	2003

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EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Certain statements contained in this Proxy Statement include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All forward-looking statements in this Proxy Statement are based on information currently available to us as of the date to which this Proxy Statement pertains, and we assume no obligation to update any forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors may include, among others, those factors listed in Item 1A of our most recent Annual Report on Form 10-K, and elsewhere in our Annual Report on Form 10-K, and our other filings with the Securities and Exchange Commission. The following discussion should be read in conjunction with Selected Financial Data (Item 6 of our Annual Report on Form 10-K) and our financial statements and related footnotes appearing elsewhere in our Annual Report on Form 10-K.

Overview

We operated 182 Famous Dave s restaurants in 37 states as of January 2, 2011, including 52 company-owned restaurants and 130 franchise-operated restaurants. As of the same date, we employed approximately 3,175 employees, who we refer to as our team members, of which approximately 340 were full-time. Seven executives participated in the Company s executive compensation plans in fiscal 2010; however, only our Chief Executive Officer and Chief Financial Officer are considered named executive officers for purposes of the compensation tables appearing elsewhere in this Proxy Statement.

General Compensation Philosophy

The Compensation Committee of the Board of Directors has direct oversight and responsibility for the Company s executive compensation policies and programs. The Company s executive compensation policies and programs are designed to provide:

- competitive levels of compensation that integrate with the Company s annual objectives and long-term goals;
- long-term incentives that are aligned with shareholder interests;
- a reward system for above-average performance;
- recognition for individual initiative and achievements; and
- a means for the Company to attract and retain qualified executives.

To that end, it is the view of the Compensation Committee that the total compensation program for executives should consist of the following three elements, all determined by individual and corporate performance:

- Base salary compensation;
- Annual incentive compensation (bonus); and
- Stock incentive awards (Performance Shares and Restricted Stock Units).

In addition to the compensation program elements listed above, we have established a Deferred Stock Unit Plan and a Non-Qualified Deferred Compensation Plan in which certain executives are entitled to participate. The Compensation Committee believes that the availability of these plans, each of which are discussed below, adds to the attractiveness of the Company s overall compensation program and positively impacts the Company s ability to hire and retain qualified executives.

The Compensation Committee approves, on an annual basis, the competitiveness of our overall executive compensation programs, including the appropriate mix between cash and non-cash compensation as well as annual and long-term incentives. When deemed appropriate by the Compensation Committee, compensation tally sheets

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for the Named Executive Officers are prepared and reviewed by the Compensation Committee. These tally sheets affix dollar amounts to all components of the Named Executive Officers compensation, including salary, bonus, outstanding equity awards, and performance share grants.

As set forth in its written charter, the Compensation Committee has access to resources it deems necessary or desirable to accomplish its responsibilities, including the sole authority to retain (with funding provided by the Company) independent experts in the field of executive compensation. The Compensation Committee has the sole authority to retain and to terminate such independent compensation experts, and to approve the fees and other retention terms. During fiscal 2007, the Compensation Committee retained Towers Perrin as an independent compensation expert to advise the Compensation Committee with respect to development and implementation of the Company s compensation packages. Due in part to a lack of change in the Company s compensation policies from the previous year and the continued relevance of Towers Perrin s previous advice, the Compensation Committee did not retain an outside compensation expert to advise on fiscal 2008 compensation packages, electing instead to consult with Towers Perrin on a limited and informal basis. In addition, the Company relied heavily on executive search firms and the market for executive talent in arriving at salary and bonus determinations for executive new hires in light of executive turnover experienced by the Company during fiscal 2008. During fiscal 2009 and 2010, the Compensation Committee primarily relied upon internal Company resources to generate information on which to benchmark the Company s compensation practices and engaged Towers Watson and its predecessor, Towers Perrin, respectively, to validate such information prior to making compensation determinations. The methodology used by the Company, which included but was not limited to analyses of salary survey data and peer company proxy data, was similar to that used by Towers Perrin when performing past analyses for the Company.

Annual Compensation Plans

The Compensation Committee evaluates the Company s executive compensation structure for our executives on an annual basis to ensure that we are providing a competitive compensation structure for our executives. Additionally, the Compensation Committee ensures that our programs continue to be consistent with established policies.

It is currently our objective to compensate our executives through a combination of salary and bonus eligibility within the mid-point to third quartile of the market for similar positions within companies of comparable size, growth and profitability in our industry. In replacing several executive positions during fiscal 2008 and 2009, we found this objective to be generally consistent with the market for new executive hires. The Compensation Committee continues to evaluate this position in order to remain competitive from a compensation perspective, and will make changes to our compensation programs that it deems desirable and in the best interests of the Company from time to time.

Our Chief Executive Officer does not have direct involvement in the determination of his own compensation, the determination and structure of which is the sole responsibility of the Compensation Committee. However, our Chief Executive Officer provides input to the Compensation Committee regarding executive compensation and participated in the ultimate determination of compensation for the Company s other executives, as was the case for decisions related to compensation for our Chief Financial Officer for fiscal 2008, 2009, 2010 and 2011. In light of the executive attrition that we experienced in 2008, executive searches were undertaken and hiring decisions were made solely under the direction of our Chief Executive Officer. During that process, the determination of executive compensation for new hires was primarily based on the market for executive talent and, although it remained informed regarding the executive search process, the Compensation Committee had limited involvement in determining new hire compensation.

Base Salary Compensation

Base salary compensation is determined by the potential impact each position has on the Company, the skills and experiences required by the position, the performance and potential of the incumbent in the position, and competitive market information.

Incentive Compensation

The Compensation Committee believes strongly that the Company s executive compensation arrangements should closely align the interests of management with the interests of our shareholders. With that in mind, the Compensation Committee has established annual incentive compensation (bonus) plans and performance shares programs (discussed below) that reward executives based on the Company achieving pre-determined earnings per share (EPS) targets. With respect to the annual incentive compensation (bonus) plans, actual payouts to executives are determined by the extent to which these EPS targets are achieved for the applicable year. With respect to performance share programs, actual payouts are determined by the extent to which the cumulative total of EPS targets are achieved over a three year performance period. The Compensation Committee believes that incentive compensation should represent an inducement for performance that meets or exceeds challenging targets. This belief is evidenced by the fact that management s annual bonus and/or performance share payouts over the past three years have ranged from 0% to 121% of Board of Director established targets. Actual percentage payout of annual bonus and/or performance shares over the last three years is set forth below in this Compensation Discussion and Analysis. The Board of Directors intends to challenge the Company s management by continuing to set aggressive targets that are achievable and provide an appropriate return for the Company s shareholders.

Annual Incentive Compensation (Bonus) Plan

Under the Company s annual incentive compensation plan, target annual incentive compensation is calculated for each executive as a percentage of his or her annual salary, and the applicable percentage is based on competitive market information for similar positions and experience. For 2008, target incentive compensation as a percentage of annual base salary was 40% for Mr. O Donnell and Ms. Purcel, who then served as Chief Operating Officer and Chief Financial Officer, respectively. Upon being promoted to President and Chief Executive Officer in September 2008, Mr. O Donnell s target percentage was increased to 100% of his base salary. At the same time the Compensation Committee increased Ms. Purcel s target percentage to 75% of her base salary. The Compensation Committee utilized external survey data in determining target annual incentive compensation for fiscal 2008, 2009 and 2010. The published survey data considered by the Compensation Committee for fiscal 2010 came from four sources: HCE Restaurant Survey, Hay Restaurant Survey, Watson Wyatt s Survey Report on Top Management Compensation and People Report s Survey. The 10 publicly traded peer companies that were included in the Compensation Committee s analysis for fiscal 2010 are listed below:

Ark Restaurants Corp.	The Cheesecake Factory Inc.	P.F. Chang s China Bistro Inc.
BJ s restaurants Inc.	J. Alexander s Corp.	Red Robin
California Pizza Kitchen Inc.	O Charley s Inc.	Texas Roadhouse
Caribou Coffee Company Inc.		

The actual incentive compensation payouts are based on the Company achieving EPS targets established by the Company s Board of Directors, and are calculated using a linear scale representing a payout of between 50% and 200% of the amount of executives target annual incentives. If the Company achieves at least 80% of the annual EPS target, each executive will be entitled to receive a percentage of his or her target annual incentive equal to the percentage of the EPS Goal achieved by the Company, up to the 200% maximum payout, as illustrated below:

Payout as Percent of Target		% of EPS Target
200%	Maximum	150%
100%	Target	100%

50%	Minimum	80%

Annual EPS targets are established by the Company s Board of Directors and are intended to represent goals on which to base additional compensation for meeting those targets. The annual EPS targets take into account the macroeconomic environment, the industry in which the Company competes, the Company s growth objectives, the life cycle of the Company, and the determination of an adequate return to shareholders given the before-mentioned factors. Payouts at 100% of target amounts are expected to be realized approximately 30% of the time over a ten year period, while payouts at 200% of target amounts are expected to be realized 10% of the time over a ten year period. Annual EPS target amounts for fiscal 2008, 2009 and 2010, the percentage of those target amounts achieved

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and the actual payouts as a percentage of target amounts, are set forth below (note: the identified 2010 EPS target amount excludes a $0.15 non-cash gain related to the acquisition of seven restaurants in New York and New Jersey):

Year	EPS Target	% of EPS Target Achieved	Actual Payout as Percent of Target Payout
2008	$ 0.72	5.6%	0.00%
2009	$ 0.56	110.7%	121.4%
2010	$ 0.66	101.5%	103.0%

The table below, which sets forth potential and actual annual incentive compensation payouts for fiscal 2008, 2009 and 2010, illustrates how annual incentive compensation applies to the Company s Named Executive Officers. Fiscal 2008 annual salary and annual incentive compensation as a percent of annual salary for Mr. O Donnell and Ms. Purcel were calculated using a pro rata blend of the salaries and percentages in effect during that year.

			Annual Incentive Compensation as a Percent of Annual Salary	Potential Annual Incentive Compensation Payout			% of	Actual Payout as Percent	Actual
ame	Fiscal Year	Annual Salary		80% of EPS Target	100% of EPS Target	150% of EPS Target	EPS Target Achieved	of Target Payout	Incentive Compensat Payout
hristopher O Donnell	2010	$ 350,000	100%	$ 175,000	$ 350,000	$ 700,000	101.5%	103.0%	$ 360,500
	2009	$ 300,000	100%	$ 150,000	$ 300,000	$ 600,000	110.7%	121.4%	$ 364,200
	2008	$ 244,330	100%	$ 76,235	$ 152,470	$ 304,940	5.6%	0.00%	$ 0
iana G. Purcel	2010	$ 276,750	75%	$ 103,781	$ 207,563	$ 415,125	101.5%	103.0%	$ 213,789
	2009	$ 270,000	75%	$ 101,250	$ 202,500	$ 405,000	110.7%	121.4%	$ 245,835
	2008	$ 261,780	75%	$ 60,770	$ 121,540	$ 243,080	5.6%	0.00%	$ 0

In evaluating incentive compensation for fiscal 2011, the Compensation Committee considered published survey data from Hay Information Services Chain Restaurant Compensation Survey, HCE Chain Restaurant Compensation and Select Restaurant Custom Surveys, Towers Watson s Industry Report on Top Management Compensation, and People Report s Corporate Compensation and Benefits Survey. The 11 publicly traded peer companies that were included in the Compensation Committee s analysis for fiscal 2011 are listed below:

Ark Restaurants Corp.	Caribou Coffee Company Inc.	P.F. Chang s China Bistro Inc.
BJ s restaurants Inc.	The Cheesecake Factory Inc.	Red Robin
Buffalo Wild Wings, Inc.	J. Alexander s Corp.	Texas Roadhouse
California Pizza Kitchen Inc.	O Charley s Inc.	

The applicable percentages of annual salary for the Named Executive Officers for fiscal 2011 are set forth below, along with the potential annual incentive compensation payouts assuming the Company achieves at least 80% of its Annual EPS target:

Name	Annual Salary	Annual Incentive Compensation as a Percent of Annual Salary	Potential Annual Incentive Compensation Payout: 80% of EPS Target	100% of EPS Target	150% of EPS Target
Christopher O Donnell	$ 375,000	100%	$ 187,500	$ 375,000	$ 750,000
Diana G. Purcel	$ 282,285	75%	$ 105,857	$ 211,714	$ 423,428

Stock Incentive Awards Performance Shares and Restricted Stock Units

A key objective of our Compensation Committee is to align Company performance with shareholder expectations. In order to better align these objectives, the Compensation Committee primarily uses performance shares as a long-term incentive award for executives, including Named Executive Officers. The Compensation Committee believes that the use of performance shares as a long-term incentive award more closely aligns management s objectives with that of its shareholders than do stock options, because performance shares are earned based on the Company achieving specific cumulative EPS goals over a three year period, rather than awards of stock options that merely vest with the passage of time. In fiscal 2008, however, the Compensation Committee elected to supplement performance share grants with limited grants of restricted stock units that vest in three installments on the third, fourth and fifth anniversary of the grant date. These restricted stock units were granted to Mr. O Donnell and Ms. Purcel, and the Compensation Committee elected to make these grants primarily for retention purposes in light of the turnover in executive ranks recently experienced by the Company.

As with annual incentive compensation, the Compensation Committee considered information pertaining to comparable organizations based on the published survey data and proxy data for the publicly traded peer companies mentioned above, in determining the fiscal 2008, 2009 and 2010 recommended grant of stock incentive awards to the Company s executives. When determining the amount of a stock incentive grant to an executive for a particular year, the Compensation Committee does not take into account any gains realized during that year by the executive as a result of his or her individual decision to exercise an option granted in a previous year, previous grants of performance shares, or any gains realized by him or her upon the ultimate grant of shares underlying a stock performance grant. Such gains are excluded from the determination because the decision as to whether the value of exercisable stock options will be realized in any particular year is determined by each individual executive s decision whether to exercise all or a portion of such stock options and not by the Compensation Committee.

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