

KONA GRILL INC  
Form DFAN14A  
April 15, 2010

**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

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**Kona Grill, Inc.**

(Name of Registrant as Specified In Its Charter)

Mill Road Capital, L.P.

Mill Road Capital GP LLC

Mill Road Capital Management LLC

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**Thomas E. Lynch**

**Scott P. Scharfman**

**Charles M. B. Goldman**

**Justin C. Jacobs**

**Craig S. Miller**

**Lawrence F. Harris**

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

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

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

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

April 15, 2010

To Our Fellow Shareholders of Kona Grill:

We are writing to you regarding the upcoming 2010 Annual Meeting of Shareholders of Kona Grill, Inc. (NasdaqGM: KONA)(the Company ) scheduled to be held on Wednesday, April 28, 2010. At the Annual Meeting, you have two slates of candidates for the Board of Directors from which to choose one from the Company and one from Mill Road Capital, L.P. ( Mill Road ).

It is important for you as a shareholder to understand why we have nominated an opposition slate. Mill Road is not an activist fund. Mill Road is currently the Company s largest shareholder owning 9.8% of the common shares outstanding. We approach investing with a long-term mindset and believe in the long-term potential of the Company. This is the first time we have ever nominated a slate of candidates in opposition to the directors of a company. Our strong preference is to work with the management and board of a company in a constructive and positive manner. Regrettably, the actions of the Board of Directors of Kona Grill have left us little choice. Starting in late 2008, we have documented for the public record a series of actions that we believe demonstrate a track record of consistently poor corporate governance at Kona Grill. Since that time, we have reached out to the leadership of the Company in both public and private forums. Our efforts to reach an amicable compromise have been repeatedly rebuffed. Therefore, after much consideration, we were forced to choose the only remaining alternative: take the decision to the shareholders as to who should be on the Board of Directors of Kona.

The Company s slate of candidates includes Douglas Hipskind, Anthony Winczewski, and Mark Zesbaugh. None of these three candidates have any restaurant operating experience. Outside of the Company, they have never served on the board of another restaurant company (either public or private) and they have never served on the board of another public company. Quite simply, they do not possess the necessary experience to serve as director for you, the shareholders and owners of the Company.

Mill Road has nominated Lawrence Harris, Thomas Lynch, and Craig Miller. Our nominees have substantial experience in restaurant operations, on the boards of restaurant companies, and on the board of public companies. A summary of their experience is as follows:

**Larry Harris.** Mr. Harris is a seasoned restaurant industry executive with more than 30 years of public and private restaurant experience at all levels. He is currently the CEO, Chairman of the Board, and a Partner of Food Management Partners, Inc. ( FMP ), a multi-concept restaurant management company operating more than 85 units under the Buffalo Wild Wings, Zio s Italian Kitchens, Smashburger, and Little Caesar s brands. FMP has won awards including Franchisee (2009) and Developer (2001) of the Year for Buffalo Wild Wings. Mr. Harris has also served as the Chief Operations Officer for Pizza Hut operations in Mexico, as well as President of the Harvest Restaurant Group, Inc.

**Thomas Lynch.** Mr. Lynch is an accomplished investor with a deep financial understanding of the restaurant industry. Mr. Lynch has a successful two decade track record of investing, having founded both Mill Road Capital and Lazard Capital Partners. Previously, he was a member of the private equity group at The Blackstone Group. From 2003 to 2006, Mr. Lynch served on the Board of Directors of Panera Bread Company, one of the most successful public restaurant companies of the last decade. He was recently reappointed to the Board in March 2010.

**Craig Miller.** Mr. Miller is an award-winning restaurant industry executive with more than 35 years of public and private restaurant experience. He has served as the President, CEO, and Chairman of the Board of Ruth's Chris Steak House, Inc. where he was named Operator of the Year in 2007 by Nation's Restaurant News. Mr. Miller has also served as the President and CEO of UNO Restaurants, Inc. He currently serves on the Board of Directors of Tim Hortons Inc., a publicly traded restaurant chain, and on the Board of Directors of Real Mex Restaurants, Inc., a restaurant chain with publicly traded debt securities.

Considering our slate of candidates along the three crucial aspects of relevant experience (operating restaurants, serving on restaurant boards, and serving on public company boards), we urge you to return the GOLD proxy card and vote for our nominees.

It is important to note that Mr. Harris and Mr. Miller have no previous affiliation with Mill Road. Mill Road has neither voting nor compensation agreements (other than reimbursement of expenses) with Mr. Harris and Mr. Miller.

We have disclosed in several SEC filings that we have indicated our interest in financing and/or acquiring the Company on multiple occasions. As such, you may pause before supporting Mill Road's three nominees to serve on the Company's Board of Directors. To alleviate any concern you may have, we would like to publicly disclose our view on two key issues: 1) transactions involving interested parties or insiders and 2) the appointment of a Director to the Company's currently vacant<sup>7</sup> Board seat.

- 1. Transaction Involving Interested Parties or Insiders.** If any party, whether Mill Road, an insider or any other party, should submit a proposal regarding a financing or acquisition of the Company, we would expect the Board to adhere to market practice and form a special committee of disinterested directors to properly evaluate the proposal and retain outside financial and legal advisors. Of course, if Mill Road submitted a proposal, we would expect this committee would not include Thomas Lynch who, as an employee of Mill Road, would remove himself from discussions. All of our nominees are absolutely committed to acting in the best interest of all shareholders, and we would expect that any pursuit of strategic alternatives, whether or not in response to a proposal from Mill Road, would consist of a fair and open process that seeks to maximize value through consideration of proposals submitted by multiple parties. Ultimately, any potential financing or sale of the Company should be voted upon by all of the Company's shareholders.

2. **Appointment of a Director to the Vacant 7<sup>th</sup> Board Seat.** We believe the Company and its shareholders are best served if the Board of Directors has substantial restaurant operation experience, restaurant board experience, and public company board experience. Therefore, we believe that the 7<sup>th</sup> Board seat, which is currently open, should be filled by a person with substantial experience in these three key areas. Additionally, this candidate should have no affiliation with either Mill Road or other members of the Board of Directors. We strongly believe in good corporate governance and that shareholders would be best served by the addition of an independent voice with significant relevant experience.

To help you in your decision as to which slate of candidates to support, please read our definitive proxy statement and the excerpts of a presentation Mill Road made to RiskMetrics Group on April 8, 2010 regarding the election of directors for the Company. The definitive proxy statement, which contains information relating to the participants in the proxy solicitation in support of Mill Road's nominees, and the excerpts of the presentation to RiskMetrics are both available at no charge on the Securities and Exchange Commission's website at [www.sec.gov](http://www.sec.gov) and on our proxy solicitor's website at [www.icommaterials.com](http://www.icommaterials.com) or by contacting our proxy solicitor, InvestorCom, Inc., by telephone toll-free at 1-877-972-0090. We hope you will find this information helpful as you consider which slate to support.

It is important to reiterate that Mill Road remains open to considering all alternatives that can protect and maximize shareholder value. We thank you for your time and consideration of this matter and appreciate your vote.

Kind regards,

/s/ JUSTIN C. JACOBS  
**Justin C. Jacobs**  
**Managing Director**  
**Mill Road Capital, L.P.**

Excerpts of Presentation to RiskMetrics  
Group  
by Mill Road Capital, L.P.  
2010 Annual Meeting of Shareholders of Kona Grill, Inc.  
April 8, 2010

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Notice to Shareholders

All stockholders of Kona Grill, Inc. are advised to read Mill Road's definitive proxy statement because it contains important information, including information relating to the participants in the solicitation of proxies in support of Mill Road's nominees for use at the 2010 annual meeting of stockholders of Kona Grill, Inc. The definitive proxy statement and GOLD proxy card will be mailed to the stockholders of Kona Grill, Inc. and are also available at no charge on the Securities and Exchange Commission's website at [www.sec.gov](http://www.sec.gov)

or by contacting our proxy solicitor, InvestorCom, Inc., by telephone toll-free at 1-877-972-0090.

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Summary  
Comparison of Slates

There are 3 required areas of experience for Nominees:

Restaurant Operating

Restaurant Board

Public Company Board

Company's Nominees lack all 3

Mill  
Roads

Nominees  
have  
an  
abundance  
of  
experience  
in  
all  
3

Poor governance at Board with consistent pattern of self-dealing

The stock price and operational performance are significantly behind comparable companies

The current Board does not have the necessary experience to allow the management team to succeed

Mill Road is asking all shareholders to return a GOLD proxy card and vote

for our Nominees

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Mill Road Capital

Mill Road Capital:

\$250 million private investment fund based in  
Greenwich, CT

Background:

Core group of former Blackstone professionals

Successful track record of public and private investing

Long-term focus with 12 year commitment from our investors

Investment Strategy:

Exclusive focus on small, public companies

Portfolio: equity & debt investments in minority & control positions

Representative investments

Physician's Formula: ~20% shareholder & subordinated debt holder

Cossette: white-knight  
with management in going-private transaction  
Mill Road is not an activist  
fund:

This is the first slate of candidates we have ever nominated

We have chosen this path only after all other options were exhausted

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Situation Summary

Annual Meeting of Shareholders: April 28, 2010

Kona Grill's Board of Directors

Staggered board with 3 classes

Board seats: 7

Board seats filled: 6

Class up for election has 3 seats

Slate of Nominees

Company nominated 3 incumbent directors for re-election

Mill Road nominated 3 opposition candidates

Former CEO, Marcus Jundt, nominated himself and then withdrew  
Mill Road is asking shareholders to vote for all 3 of our Nominees

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Kona Grill Board of Directors

Kona's non-employee directors have no other

Restaurant Operating Experience

Restaurant Board Experience

Public Board Experience

Relevant Experience (Non-Kona)

Restaurant

Public

Name

Background

Operating

Board

Board  
Douglas Hipskind  
Gaia Leasing (commercial leasing)  
None  
None  
None  
Black Diamond Resorts (hotel development)  
Jundt Associates (hedge fund)  
KPMG (accounting)  
Anthony Winczewski  
Commerical Partners Title (title insurance)  
None  
None  
None  
Chicago Title Insurance (title insurance)  
Winona Co. Abstract & Title (title insurance)  
Mark Zesbaugh  
Green Creek Consulting (self-employed)  
None  
None  
None  
Lennox Holdings (start-up re-insurance)  
Allianz Life Insurance (insurance)  
Berke Bakay  
BBS Capital Mgt. (hedge fund)  
None  
None  
None  
Patara Capital Mgt. (investment firm)  
Southwest Securities (regional securities firm)  
Richard Hauser  
Capital Real Estate (real estate)  
None  
None  
None  
Reliance Development Company (real estate)  
Marc Buehler (CEO)  
Kona Grill (restaurant)  
see  
Tony Roma's  
None  
Lone Star Steakhouse (restaurant)  
background  
Tony Roma's (restaurant)  
Eateries (restaurant)  
Applebee's (restaurant)  
Source: Kona Grill's Proxy filed 3/9/10

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Kona Grill Board

Common Denominator

This Board is a holdover from when Kona was private

Kona is headquartered in Scottsdale, AZ and the first two units were in Arizona

4 of 5 outside directors are from Minnesota

The former CEO, Marcus Jundt, is also from Minnesota

Kona

Common

Director

Shares

Name

Age

Since

Address in Proxy

Owned

Douglas Hipskind

41

2003

50 South 6th Street

0

Suite 1480

Minneapolis, MN 55402

Anthony Winczewski

54

2005

200 South 6th Street

0

Suite 1300

Minneapolis, MN 55402

Mark Zesbaugh

45

2007

3515 Thorwood Court

0

Eagan, MN 55123

Berke Bakay

31

2009

4875 Preston Park Blvd

1,139,000

Suite 775W

Plano, TX 75093

Richard Hauser

48

2004

50 South 6th Street

675,302

Suite 1480

Minneapolis, MN 55402

Marc Buehler

40

2009

7150 East Camelback Road

27,243

Suite 220

Scottsdale, AZ 85251

Source: Kona Grill's Proxy filed 3/9/10

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Mill Road Nominees

Mill Road's nominees have extensive experience in each of the following critical areas:

Restaurant Operations

Restaurant Board of Directors

Public Company Board of Directors

The Nominees

Larry Harris

Thomas Lynch

Craig Miller

Relationship of the Nominees

All 3 Nominees would be considered independent

Larry Harris and Craig Miller

No other affiliation with Mill Road

No compensation or voting agreement with Mill Road

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Nominee: Larry Harris

Headline: 30+ Year Track Record of Operational Success in Restaurants

Selected Restaurant Experience:

CEO,  
Chairman  
of  
Board  
and  
a  
Partner  
of  
Food  
Management  
Partners

(10+  
years)

Buffalo Wild Wings  
franchisee (27 units open, 5 in development, 22 committed)

Zio's Italian Kitchens  
owner (17 units open, 2 in development)

Smashburger  
franchisee (4 units open, 2 in development, 39 committed)

Little Caesar's  
franchisee (37 units open, 2 in development, 17 committed)

President & COO of Harvest Restaurant Group (~3 years)

COO of Pizza Hut operations in Mexico (~10 years)  
Awards/Achievements:

Buffalo Wild Wings

Franchisee of the Year (2009)

Developer of the Year (2001)

Zio's Italian Kitchen

Purchased EBITDA negative company (2007) and turned around to generate significant EBITDA by 2009

Little Caesar's

Operational Excellence Award (2006)

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Nominee: Thomas Lynch

Headline:

Long-Term

Investor

with

Significant

Board

Experience

at

Top

Restaurant Performer

Select Experience:

Founder & Senior Managing Director of Mill Road Capital (6+ years)

Founder & Senior Managing Director of Lazard Capital Partners (~3 years)

Managing Director of The Blackstone Group (~7 years)

Consultant at The Monitor Group (~3 years)

Public Company Board Experience:

Panera Bread

Member of Board of Directors: 2003-2006 (Audit and Nominating Committees)

Recently asked to re-join the Board as of March 2010

People's Choice TV  
Awards/Achievements:

Mill Road Capital

Fund has consistently and significantly outperformed benchmark indices

Lazard Capital Partners

One of top 1997 vintage private equity funds

One of top debut funds of last 15 years

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Nominee: Craig Miller

Headline: 35+Year Career as Top Tier Restaurant Operator with Public, Restaurant

Board Experience

Selected Restaurant Experience:

President, CEO & Chairman of Ruth's Chris Steak House (4+ years)

President, CEO of UNO Restaurants (Pizzeria Uno) (~20 years)

VP of Darden Restaurants (~10 years)

Red Lobster

Casa Gallardo

Additional Board of Directors

Tim Horton s (Audit Committee)

Real Mex Restaurants  
Awards/Achievements:

2007  
Operator  
of  
the  
Year  
for  
Ruth s  
Chris

Awarded  
by  
Nation s  
Restaurant  
News

Two-time Golden Chain Award

In 2000 as President, CEO of UNO Restaurants

In 2007 as President, CEO & Chairman of Ruth s Chris Steak House

UNO Restaurants grew from 15 units to ~200 units over his tenure

National Restaurant Association: Chairman of the Board (2005-2006)

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Comparison of Slates

A summary comparison of relevant experience in the key areas illustrates the superior slate put forward by Mill Road

Relevant Experience (Non-Kona)

Restaurant  
Public  
Name  
Operating  
Board  
Board  
Douglas Hipskind  
None  
None  
None  
Anthony Winczewski  
Mark Zesbaugh  
Lawrence Harris  
Buffalo Wild Wings  
Food Mgt. Partners  
Panera Bread  
Thomas Lynch  
Zio's Italian Kitchen  
Panera Bread  
Galaxy Nutritional Foods  
Craig Miller  
Smashburger  
Ruth's Chris Steak House  
People's Choice TV  
Little Caesar's  
Tim Horton's  
Ruth's Chris Steak House  
Boston Chicken  
Real Mex  
Tim Horton's  
Pizza Hut  
Ruth's Chris Steak House  
Pizzeria Uno  
Casa Gallardo  
Red Lobster

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Governance Deficit

Kona Grill has a set of policies that are inconsistent with good corporate

governance

Policy Examples

Staggered board

Plurality voting for directors

Shareholders do not have cumulative voting rights in elections

Shareholders can not call a special meeting

Shareholders may not act by written consent

Shareholders need super-majority to change charter and by-laws

Board may amend by-laws without shareholder approval

Output of Policies

The Board adopts a Poison Pill which is voted down by shareholders in 2009

Former Chairman/CEO is re-elected in 2009 even though 53% of shares voted against/withheld in an uncontested election

A director and chair of Audit Committee resigned in July 2006 citing board governance process related to appointment of CEO

Board lacks majority of independent directors for 6 months and only gains compliance through resignation of Chairman/CEO

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Governance Deficit: Culture of Self-Dealing

The Board of Kona Grill has a consistent track record of self-dealing

Key examples

In December 2008, the Board approved a financing in a non-competitive process for the sale of stock representing ~15% of the Company to the Chairman/CEO's father at an ~20% discount to the market price

Upon announcement, Mill Road publicly offered to purchase the stock but at a price 22% higher

Company does not respond to our offer but in February 2009, the Agreement with the Chairman/CEO's father is mutually terminated

In March 2009, the Company completed a financing with Board members and their families on terms materially less favorable to the Company than those described in a term sheet provided to potential outside investors (including Mill Road) just 3 days prior

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Kona Grill Operational Performance

Compared to similar price points competitors, Kona has significantly under-performed along 2 key metrics:

Same-Store Sales Growth (SSS)

Unit Profitability (Rest. Operating Margin)

(1)

Figures calculated utilizing average check and alcohol percentage per each company's latest 10-K for the specific concepts listed

(2)

One year period represents CY2009 same-store sales change. Three year period represents the cumulative calendarized full year same-store sales change for the

CY2007, CY2008, and CY2009 periods. If a company does not have a calendar year end, then calendarized full year same-store sales change is calculated as the average of the calendar quarters or months, as available, for each period

(3)

Change in restaurant margin (restaurant EBITDA) during the one year period from Q4 CY2008 to Q4 CY2009 and during the period from Q4 CY2006 to Q4 CY2009

1 Year Change

3 Year Change

Average Check (1)

Rest. Op.

Rest. Op.

Restaurant Concept

Ticker

Food

Alcohol

Total

SSS (2)

Margin (3)

SSS (2)

Margin (3)

RA Sushi

BNHN

\$13.89

\$7.16

\$21.05

1.7%

1.3%

-4.9%

-4.7%

The Cheesecake Factory

CAKE

\$16.53

\$2.47

\$19.00

-2.6%

3.4%

-6.5%

-1.8%

Red Lobster

DRI

\$17.83

\$1.42

\$19.25

-3.8%

N/A

-4.7%

N/A

Maggiano's

EAT

\$21.12

\$4.76

\$25.88

-6.7%

N/A  
-9.8%  
N/A  
J. Alexander's  
JAX  
\$20.38  
\$4.26  
\$24.64  
-4.7%  
-0.2%  
-8.7%  
-8.8%  
PF Chang's China Bistro  
PFCB  
\$17.53  
\$2.97  
\$20.50  
-6.7%  
0.5%  
-11.1%  
-1.3%  
Average of MRC Comparables  
\$21.72  
-3.8%  
1.2%  
-7.6%  
-4.1%  
Kona Grill  
KONA  
\$16.35  
\$7.55  
\$23.90  
-9.3%  
-6.0%  
-13.6%  
-8.1%

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Kona Grill vs. RA Sushi

Kona has materially under-performed its closest comparable, RA Sushi, even though it is less geographically exposed to the financial crisis

(1)

Figures per Bureau of Labor Statistics (BLS). Local unemployment rate is defined as the average of the unemployment rates in the county divided by the number of units in the county. Figure as of November 2009 (latest available)

(2)

Figure are not seasonally adjusted as BLS does not report seasonally adjusted county data. Seasonally adjusted, November 2009

(3)

See previous page for additional details

Kona Grill

RA Sushi

Difference

Average Check :

Food Check

\$16.35  
\$13.89  
\$2.46  
Alcohol  
7.55  
7.16  
0.39  
Total Average Check  
\$23.90  
\$21.05  
\$2.85  
Units Per State:  
Arizona  
4  
6  
(2)  
California  
0  
6  
(6)  
Florida  
2  
3  
(1)  
Michigan  
1  
0  
1  
Nevada  
1  
1  
0  
Hardest Hit States Sub-Total  
8  
16  
(8)  
Texas  
5  
3  
2  
Illinois  
2  
3  
(1)  
Other  
9  
3  
6  
Total Units  
24

25

(1)

Local Unemployment Rate (1):

Local Unemployment Rate

8.5%

9.7%

-1.2%

National Average (2)

9.4%

9.4%

Operating Statistics (3):

3 Year Cumulative

SSS

-13.6%

-4.9%

-8.6%

3 Year Operating Margin

-8.1%

-4.7%

-3.4%

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Kona Grill New Unit Performance

The decline in new unit revenue has resulted in Return on Invested Capital (ROI) significantly below targeted levels

Notes:

Targeted

figures per January 2010 Investor Presentation, Slide 34, except for pre-opening costs, which are added in per 2009 10-K, Page basis as in the January 2010 Investor Presentation (excluding cash pre-opening costs) would increase to 35%

New Units

figures utilize actual annualized average weekly sales figures and an estimated 5% operating margin. The operating margin is comment

during

the

Q3

2009

conference

call  
(October  
27,  
2009)

that  
new  
units  
had  
an  
operating  
margin  
in  
the

lower  
single  
digits.

Accordingly,

Mill  
Road  
believes  
the

5% assumption is likely generous. Build costs matched to Targeted  
figures. New unit # does not include units opened during the period

Construction Costs  
are net of tenant improvement allowances as noted in the company presentation

New Units

All figures \$mm, unless otherwise noted

Targeted

Q3 2009

Q4 2009

New Units (#)

5

6

New Units as % of Total

23%

26%

Annual Revenue

\$4.5

\$2.9

\$3.0

Restaurant Operating Margin

19%

5%

5%

Unit Operating Profit

\$0.9

\$0.1

\$0.1

Construction Costs

\$2.5

\$2.5  
\$2.5  
Pre-Opening Costs  
0.4  
0.4  
0.4  
Total Build Costs  
\$2.9  
\$2.9  
\$2.9  
Cash-on-Cash ROI  
30%  
5%  
5%

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Kona Grill Stock Price Performance

Kona's stock price performance significantly lags its peer group over all relevant

time periods except the last year

However, the last year has an extraordinary event

(1)

Includes BJRI, BNHN, CAKE, GCFB, JAX, MSSR, and PFCB. As defined in Kona's 10-K.

(2)

Includes BNHN, CAKE, JAX, and PFCB.

Note: Time Period is through 3/31/10

Stock Price Performance

Over/(Under)

Peer Group, defined by

Performance vs.

Time Period

KONA

10-K (1)

MRC (2)

10-K (1)

MRC (2)

Since IPO (Since 8/16/05)

-70%

-38%

-33%

-32%

-37%

Last 3 Years

-75%

-38%

-30%

-37%

-45%

Last 2 Years

-56%

-6%

-2%

-50%

-54%

Last Year

134%

100%

112%

35%

22%

18  
Kona  
Grill  
Stock  
Price  
Performance

Last  
Year  
Adjusted  
Although the Company  
outperformed its peers over  
the last year by 22%-35%,  
there is an extraordinary event  
in this period  
On May 18

th

, 2009, Mill Road

made a public filing expressing

interest to acquire the

Company at a 101% premium

If the increase from this one-

time event is removed from

performance from the rest of

the year, Kona lags its peer

group by 83%

Peer Group Index includes BJRI, BNHN, CAKE, GCFB, JAX, MSSR, and

PFCB as defined in Kona's 10-K. Time Period is through 3/31/10.

Kona

vs.

Peer

Group

--

Last

Year

0%

50%

100%

150%

200%

250%

300%

3/31/09

5/1/09

6/3/09

7/6/09

8/7/09

9/9/09

10/12/09 11/11/09 12/14/09

1/15/10

2/18/10

3/22/10

KONA

Peer Group Index

Mill Road

Expression

of Interest

Adjusted

Performance

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Why Has Relative Performance Been So Poor?

Lack of Restaurant Operating Experience

CEO s

Marcus Jundt: no restaurant operating background

Mark Bartholomay: experience primarily in business development and franchising

Board of Directors

Management Turnover

In the last 8 years, Kona has had 6 different CEO s compared to the peer group average of 1.9

Operating Decisions

Drastic Menu Changes  
80% of menu

Poor Real Estate Selections

Decreased Food Quality  
Cost of Sales down 140bps

Lack of Investment in People  
no Head of HR

Elimination of Key Promotion: Half Price Happy Hour

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Mill Road Capital  
Leadership Plan for Kona Grill  
Operating Performance

New CEO in place  
can be successful with proper support structure

Focus on operations to improve customer experience

Elevate quality of raw protein inputs

Improve consistency of in-store execution

Increase training  
Leadership

Appoint 7  
th  
Director  
must have significant restaurant operating experience  
and should be independent

Assess strengths and weaknesses of current operating team

Ensure menu is consistent with vision of concept

Adopt corporate governance best practices and emphasize ethical leadership  
Capital Structure

Company does not have capital to grow

Unit economics do not currently justify growth

Re-establish unit economics before even considering new growth

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Summary  
Comparison of Slates

There are 3 required areas of experience for Nominees:

Restaurant Operating

Restaurant Board

Public Company Board

Company's Nominees lack all 3

Mill Road's Nominees have an abundance of experience in all 3  
Poor governance at Board with consistent pattern of self-dealing

The stock price and operational performance are significantly behind comparable companies

The current Board does not have the necessary experience to allow the management team to succeed

Mill Road is asking all shareholders to return a GOLD proxy card and vote for our Nominees