FAMOUS DAVES OF AMERICA INC
Form DEF 14A
April 07, 2008

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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
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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):

þ No fee required.
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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 6, 2008

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 Sheraton Bloomington Hotel, Minneapolis South, 7800 Normandale Boulevard, Minneapolis, Minnesota, on Tuesday, May 6, 2008, 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 ratify the appointment of Grant Thornton LLP as the independent registered public accounting firm of the Company for fiscal 2008;
3. To approve certain amendments to the Company s 2005 Stock Incentive Plan; and
4. To transact any other business as may properly come before the meeting or any adjournments thereof.

Pursuant to due action of the Board of Directors, shareholders of record on March 17, 2008 will be entitled to vote at the Annual Meeting or any adjournments thereof. The election of each director under proposal one requires the affirmative vote of the holders of a plurality of the shares of the Company s common stock present in person or represented by proxy at the Annual Meeting. Adoption of each other proposal requires the affirmative vote of the holders of a majority of such shares.

A proxy for the annual meeting is enclosed herewith. You are requested to fill in and sign the proxy, which is solicited by the Board of Directors, and mail it promptly in the enclosed envelope.

By Order of the Board of Directors

Diana G. Purcel
Secretary

April 7, 2008

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

PROXY STATEMENT

Annual Meeting of Shareholders to be Held
May 6, 2008

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 6, 2008, at 3:00 p.m. at The Sheraton Bloomington Hotel, Minneapolis South, 7800 Normandale Boulevard, Minneapolis, Minnesota, for the purpose of considering and taking appropriate action with respect to the following:

1. To elect six directors;

2. To ratify the appointment of Grant Thornton LLP as the independent registered public accounting firm of the Company for fiscal 2008;

3. To approve certain amendments to the Company s 2005 Stock Incentive Plan; 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 April 7, 2008. 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

The Board of Directors has set the close of business on March 17, 2008 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 9,650,324 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 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. The election of each director under proposal one requires the affirmative vote of the holders of a plurality of the shares of the Company s common stock present in person or represented by proxy at the Annual Meeting. Adoption of each other proposal requires the affirmative vote of the holders of a majority of such shares.

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All shares represented by proxies will be voted for the election of the nominees for the Board of Directors named in this Proxy Statement, for ratification of Grant Thornton LLP s appointment as the Company s independent registered public accounting firm and for the amendments to the 2005 Stock Incentive Plan unless a contrary choice is specified. 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. A shareholder who abstains with respect to any proposal is considered to be present and entitled to vote on such proposal and is in effect casting a negative vote, but a shareholder (including a broker) who does not give authority to a proxy to vote, or withholds authority to vote, on any proposal, shall not be considered present and entitled to vote on such proposal.

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 ratification of Grant Thornton LLP as the independent registered public accounting firm of the Company for fiscal 2008 and FOR the amendments to the 2005 Stock Incentive Plan.

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.

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ELECTION OF DIRECTORS
(Proposal One)

The Board of Directors currently consists of the following six (6) directors, each of whom has been nominated for re-election by the Board of Directors. Mr. Wilson L. Craft, has been appointed as President and Chief Executive Officer of the Company, and as a member of the Company s Board of Directors, effective April 21, 2008. Mr. Craft has been nominated for re-election in accordance with the provisions set forth in his employment agreement. If elected, each nominee has consented to serve as a director of the Company, to hold office until the next annual meeting of shareholders, or until his or her successor is elected and shall have qualified.

The names and ages of the nominees, and their principal occupations and tenure as directors are set forth below based upon information furnished to the Company by such nominees.

Name and Age of Director and Nominee	Principal Occupation, Business Experience For the Past Five Years and Directorships of Public Companies	Director Since
F. Lane Cardwell, Jr. Age 55	F. Lane Cardwell, Jr. has served as the Company s Interim President and Chief Executive Officer since December 2007. He has spent over 30 years in the restaurant industry, most recently as the President of Eatzi s Market and Bakery from June 1996 to June 1999. Prior to joining Eatzi s in 1996, Mr. Cardwell was Executive Vice President, Chief Administrative Officer and a member of the Board of Directors of Brinker International, Inc. Mr. Cardwell is also a director of P. F. Chang s China Bistro, Inc., a publicly traded company, and serves on its Audit and Compensation Committees. He also serves on the boards of four privately held companies. *Committee: Strategic Planning (Chair).*	2003
Wilson L. Craft Age 54	Wilson L. Craft was appointed as the Company s President and Chief Executive Officer, and elected as a director, effective April 21, 2008. Since June 2005, Mr. Craft has served as Executive Vice President of Operations for Longhorn Steakhouse, a 300-unit chain based in Atlanta, Georgia that is owned by Darden Restaurants, Inc. Previously, Mr. Craft served as Senior Vice President of Brinker International Inc., where he was employed for 21 years, including serving as Chief Operating Officer of Chili s Grill & Bar from May 1998 to November 2000, as President of Big Bowl Asian Kitchen from November 2000 until June 2003, and as President of Chili s Grill & Bar operations from June 2003 through May 2005.	2008
K. Jeffrey Dahlberg Age 54	K. Jeffrey Dahlberg has served as Chairman of the Company s Board of Directors since December 2003. Mr. Dahlberg also serves as President of Sugarloaf Ventures, Inc. a business development and investment firm. 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.	2001
Mary L. Jeffries Age 50	Mary L. Jeffries joined Petters Group Worldwide in 2004 as Chief Operating Officer, and became President in 2006. Prior to joining Petters Group, she	2003

owned her own management consulting company focused in the areas of strategy, operations and finance. Ms. Jeffries served as a General Partner and Chief Operating Officer of St. Paul Venture Capital, an early-stage venture capital fund, from February 2001 until December 2003. From 1997 until she joined St. Paul Venture Capital, Ms. Jeffries served as Chief Operating Officer at the marketing and communications agency of Shandwick International. Ms. Jeffries, who was a Senior Auditor and Computer Audit Specialist at KPMG from 1979-1983, also served as Assistant Controller of Fairview Hospital and HealthCare Services from 1983-1988 and held positions as Managing Director, Chief Operating Officer and Controller at the public relations agency of Mona Meyer McGrath & Gavin from 1988-1997. *Committees: Audit (Chair); Corporate Governance and Nominating.*

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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
Richard L. Monfort Age 53	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. *Committees: Audit; Compensation.*	1996
Dean A. Riesen Age 51	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 serves as a member of Meridian Bank, N.A. s Board of Directors and Chairman of its Audit Committee. 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 is also Vice Chairman of the Cornell College Board of Trustees. *Committees: Compensation (Chair); Corporate Governance and Nominating (Chair); Audit; Strategic Planning.*	2003

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

Famous Dave s was incorporated as a Minnesota corporation in March 1994 and opened its first restaurant in Minneapolis in June 1995. As of December 30, 2007, there were 164 Famous Dave s restaurants operating in 35 states, including 44 company-owned restaurants and 120 franchise-operated restaurants.

As of December 30, 2007, we employed approximately 2,800 employees, who we refer to as our associates, of which approximately 300 were full-time. The following individuals held executive positions within the Company at December 30, 2007 and participated in the Company s executive compensation plans:

Name	**Title**
Diana G. Purcel(1)	Chief Financial Officer
Christopher O Donnell(1)	Chief Operating Officer
Glenn D. Drasher	Vice President Marketing
Corrie J. Kvasnicka	Vice President Procurement and Logistics
Clark C. Grant	Vice President Finance
James L. Murphy	Vice President Franchise Operations
John A. Simpson	Vice President Construction and Design

(1) These individuals were determined to be executive officers of the Company pursuant to Item 402(a)(3) of Regulation S-K (collectively, the Named Executive Officers). David Goronkin, our previous Chief Executive Officer, was also an executive officer prior to his resignation in December 2007. Wilson L. Craft, our incoming Chief Executive Officer, will be an executive officer upon commencement of his employment on April 21, 2008.

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 executive officers 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).

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.

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 utilized Towers Perrin as the independent compensation expert to advise the Compensation Committee with respect to development and implementation of the Company s compensation packages. 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. Compensation tally sheets for each of the Named Executive Officers are prepared and reviewed annually 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.

Annual Compensation Plans

As referenced above, the Compensation Committee considers data from its independent compensation expert, 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. 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 former Chief Executive Officer provided input to the Compensation Committee regarding the Company s 2007 executive compensation and participated in the ultimate determination of compensation for the Company s other executives. The Company will continue to follow this practice with its new Chief Executive Officer. Our former Chief Executive Officer had no direct involvement in the determination of his own compensation, the determination and structure of which is the sole responsibility of the Compensation Committee. This practice will also continue with respect to the Company s new Chief Executive Officer.

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.

Annual 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. In addition, 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, despite delivering solid results over the past three years, has not met targets established by the Board of Directors that would result in 100% payout of annual bonus and/or performance shares. 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, as they believe the targets are achievable and would provide an appropriate return for the Company s shareholders.

The annual incentive compensation potential for executives of the Company is structured so that there is alignment between the executives and the Company s shareholders. 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 as provided by the Company s independent compensation consultant. For 2007, target incentive compensation for the Company s Named Executive Officers as a percentage of their annual base salary ranged from 40% to 75% (with Mr. Goronkin s target at 75%, and Mr. O Donnell s and Ms. Purcel s targets each at 40%). In determining 2007 target annual incentive compensation, the Compensation Committee and the Company s independent compensation consultant considered published survey data from five sources: Hay Information Services 2006 Chain Restaurant Compensation Survey, HVS 2006 Chain Restaurant Compensation Survey, the independent consultant s 2006 Compensation DataBank, Watson Wyatt s 2006/2007 Industry Report on Top Management Compensation and William M. Mercer s 2006 Executive Compensation Survey. Annual and long-term incentive data was gathered using a Compensation Databank, focusing on companies with annual sales of less than $1.0 billion, as well as sourcing proxy data for 14 publicly traded peer companies with median annual revenues of approximately $350 million. The 14 publicly traded peer companies that were included in the analysis are listed below:

Ark Restaurants Corp.	Champps Entertainment Inc.	P.F. Changs China Bistro Inc.
BJ s restaurants Inc.	The Cheesecake Factory Inc.	RARE Hospitality International Inc.
BUCA Inc.	J. Alexander s Corp.	Red Robin
California Pizza Kitchen Inc.	Main Street Restaurant Group, Inc.	Texas Roadhouse
Caribou Coffee Company Inc.	O Charley s Inc.	

The actual payouts are based on the Company achieving earnings per share (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 realized 10% of the time over a ten year period.

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Annual EPS target amounts for fiscal 2005, 2006 and 2007, the percentage of those target amounts achieved and the actual payouts as a percentage of target amounts are set forth below:

Year	EPS Target	% of EPS Target Achieved	Actual Payout as Percent of Target Payout
2005	$ 0.45	86.7%	66.7%
2006	$ 0.51	90.2%	58.3%
2007	$ 0.63	93.7%	84.6%

The table below, which sets forth potential and actual annual incentive compensation payouts for fiscal 2005, 2006 and 2007, illustrates how annual incentive compensation applies to the Company s Named Executive Officers (Note: Mr. Goronkin resigned his position with the Company on December 13, 2007, and was therefore not eligible to receive an annual incentive compensation payout for fiscal 2007).

Name	Fiscal Year	Annual Salary	Annual Incentive Compensation as a Percent of Annual Salary	Potential Annual Incentive Compensation Payout: 80% of EPS Target	Potential Annual Incentive Compensation Payout: 100% of EPS Target	Potential Annual Incentive Compensation Payout: 150% of EPS Target	% of EPS Target Achieved	Actual Payout as Percent of Target Payout	Actual Incentive Compensation Payout
David Goronkin	2007	$ 500,000	75%	$ 187,500	$ 375,000	$ 750,000	93.7%	84.6%	$ 0
	2006	$ 472,500	75%	$ 177,188	$ 354,375	$ 708,750	90.2%	58.3%	$ 240,186
	2005	$ 472,500	75%	$ 177,188	$ 354,375	$ 708,750	86.7%	66.7%	$ 236,678
Diana G. Purcel	2007	$ 250,000	40%	$ 50,000	$ 100,000	$ 200,000	93.7%	84.6%	$ 84,600
	2006	$ 210,000	40%	$ 42,000	$ 84,000	$ 168,000	90.2%	58.3%	$ 48,972
	2005	$ 175,000	40%	$ 35,000	$ 70,000	$ 140,000	86.7%	66.7%	$ 46,690
Christopher O Donnell	2007	$ 200,000	40%	$ 40,000	$ 80,000	$ 160,000	93.7%	84.6%	$ 67,680
	2006	$ 180,600	40%	$ 36,120	$ 72,240	$ 144,480	90.2%	58.3%	$ 42,116
	2005	$ 172,000	35%	$ 30,100	$ 60,200	$ 120,400	86.7%	66.7%	$ 40,153

In addition to the annual incentive compensation granted to executives for fiscal 2006, the Compensation Committee elected to grant a one-time discretionary bonus to executives in light of extraordinary non-cash impairment charges taken by the Company in that year, the absence of which would have resulted in the Company achieving 100% of its 2006 EPS target. The discretionary bonus amounts, when added to the annual incentive compensation amounts, resulted in executives receiving a 100% payout for fiscal 2006. The Compensation Committee viewed this discretionary grant as isolated in nature and deemed it appropriate because the extraordinary non-cash charges resulted from business decisions made prior to the current executive team s tenure with the Company. The Compensation

Committee does not intend to make general grants of discretionary bonuses based on future non-cash impairments or other non-recurring events and made no such grants for fiscal 2007 .

The applicable percentages of annual salary for the Named Executive Officers for the current fiscal year 2008 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	Potential Annual Incentive Compensation Payout: 100% of EPS Target	Potential Annual Incentive Compensation Payout: 150% of EPS Target
Wilson L. Craft[1]	$ 425,000	75%	$ 159,375	$ 318,750	$ 637,500
Diana G. Purcel	$ 260,000	40%	$ 52,000	$ 104,000	$ 208,000
Christopher O Donnell	$ 220,000	40%	$ 44,000	$ 88,000	$ 176,000

(1) Under the terms of his employment agreement with the Company, Mr. Craft will earn an Annual Incentive Compensation payout of a minimum of approximately $221,000 during 2008, comprising his target level payout prorated to his employment date of April 21, 2008.

Stock Incentive Awards Performance Shares

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 determined that, beginning in fiscal 2005, the Company would solely use performance shares as a long-term incentive award for executives, including Named Executive Officers, and would discontinue the use of stock options. 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, because these 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.

On an annual basis, the Compensation Committee considers information pertaining to comparable organizations based on data provided by an independent compensation expert, including the published survey data and proxy data for the 14 publicly traded peer companies mentioned above, in determining the 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.

To the extent earned after the applicable three year period, performance shares are paid in shares of the Company s common stock. Therefore, the value realizable from performance shares is dependent upon the extent to which the Company s performance is reflected in the market price of the Company s common stock at any particular point in time.

The Compensation Committee will continue to evaluate the appropriate form for Company stock incentive awards and make changes to the form of such awards as it deems desirable and in the best interests of the Company from time to time.

Performance Share Programs

As of December 30, 2007, we had three approved performance share programs in progress, each with a three-year performance period: a 2005-2007 program (the 2005 Performance Share Program), a 2006-2008 program (the 2006 Performance Share Program) and a 2007-2009 program (the 2007 Performance Share Program) (each a Performance Share Program). Under each Performance Share Program, the Company has granted recipients the right to receive a specified number of shares of the Company s common stock (Performance Shares) subject to the Company achieving a specified percentage of the cumulative total of the EPS goals for each of the fiscal years making up the three-year performance period (the Cumulative EPS Goal). The Compensation Committee determines the EPS goal for each fiscal year prior to the beginning of each fiscal year. The actual EPS for each fiscal year is based on the earnings per diluted share amount for that fiscal year as set forth in the audited financial statements filed with the Company s Annual Report on Form 10-K. The determination as to the number of Performance Shares to be received, if any, is determined after the Company files its Annual Report on Form 10-K for the last fiscal year of the applicable three-year performance period and the Performance Shares are issued following such filing if the applicable specified percentage of the Cumulative EPS Goal is achieved. The Performance Share grants for each recipient are contingent on the recipient remaining an employee of the Company until the filing of the Annual Report on Form 10-K for the applicable fiscal year. The EPS goals utilized for the determination of performance shares are the same measurement as the EPS targets discussed above in Annual Incentive Compensation.

Under the 2005 Performance Share Program, the Company granted certain employees, including Named Executive Officers, the right to receive Performance Shares subject to the Company achieving at least 80% of its Cumulative EPS Goal for fiscal 2005, fiscal 2006 and fiscal 2007. If the Company achieved at least 80% of the Cumulative EPS Goal, each recipient was entitled to receive a percentage of his or her Performance Shares equal to

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the percentage of the Cumulative EPS Goal achieved by the Company, up to a maximum of 100%. (e.g., if the Company achieves 90% of the Cumulative EPS Goal, then the recipient will be entitled to receive 90% of his or her Target Performance Share amount). Based on the actual, cumulative fiscal 2005-2007 results, recipients earned 91.2% of the Performance Shares originally granted under this program.

The Performance Share Program was modified for the 2006 Performance Share Program to allow for upside opportunity for exemplary performance. Under the 2006 Performance Share Program, the Company granted certain employees, including Named Executive Officers, the right to receive Performance Shares, subject to the Company achieving at least 80% of its Cumulative EPS Goal for fiscal 2006, fiscal 2007 and fiscal 2008. If the Company achieves at least 80% of the Cumulative EPS Goal, each recipient will be entitled to receive a percentage of his or her Performance Shares equal to the percentage of the Cumulative EPS Goal achieved by the Company. If the Company achieves between 100% and 150% of the Cumulative EPS Goal, each recipient will be entitled to receive an additional percentage of the Target number of Performance Shares granted equal to twice the incremental percentage increase in the Cumulative EPS Goal over 100% (e.g., if the Company achieves 125% of the Cumulative EPS Goal, then the recipient will be entitled to receive 150% of his or her Target Performance Share amount as shown below).