LONE STAR STEAKHOUSE & SALOON INC
Form PREM14A
August 30, 2006

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by 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 Materials Pursuant to § 240.14a-11(c) or § 240.14a-12

Lone Star Steakhouse & Saloon, 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):

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: **Common Stock, $.01 par value per share, of Lone Star Steakhouse & Saloon, Inc.**
2) Aggregate number of securities to which transaction applies: **21,318,952 shares of common stock and options to purchase 3,721,093 shares of common stock.**
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 is calculated and state how it was determined)**: The filing fee was determined by multiplying 0.000107 by the sum of (i) $577,743,599, which is the product of 21,318,952 outstanding shares of Lone Star Steakhouse & Saloon, Inc. common stock and the transaction consideration of $27.10 per share and (ii) $35,945,758, which is the product of outstanding options to purchase 3,721,093 shares of common stock and $9.66, which is the amount equal to the excess of $27.10 per share over the weighted average exercise price per share of such outstanding options.**
4) Proposed maximum aggregate value of transaction: **$613,689,357**
5) Total fee paid: **$65,664**

Fee paid previously by written preliminary materials.
Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:
2) Form, Schedule or Registration Statement No.:
3) Filing Party:
4) Date Filed:

LONE STAR STEAKHOUSE & SALOON, INC.

224 EAST DOUGLAS

SUITE 700

WICHITA, KANSAS 67202

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD ON [______], 2006

Dear Stockholder:

You are cordially invited to attend a special meeting of the stockholders of Lone Star Steakhouse & Saloon, Inc. The special meeting will be held on [______], 2006 at [___]:00 [__].m., [______] Time, at [______].

At the special meeting, you will be asked to consider and vote on a proposal to adopt the Agreement and Plan of Merger, dated as of August 18, 2006, by and among Lone Star Steakhouse & Saloon, Inc., Lone Star U.S. Acquisitions LLC (Lone Star Acquisitions) and COI Acquisition Corp., an affiliate of Lone Star Acquisitions. As a result of the transactions contemplated by the merger agreement, Lone Star Acquisitions and its affiliates will acquire our entire company, including all of our restaurant operations, which include Lone Star Steakhouse & Saloon, Texas Land & Cattle Co., Sullivan s Steakhouse, Del Frisco s Double Eagle Steak House and Frankie s Italian Grille, and our stockholders will receive an aggregate of $27.10 per share in cash.

The steps of the transactions are as follows: (1) we will sell to an affiliate or affiliates of Lone Star Acquisitions all of the shares of capital stock of certain of our subsidiaries designated by Lone Star Acquisitions, which sales are referred to in the accompanying proxy statement as the transfers and which subsidiaries of ours are referred to in the accompanying proxy statement as the transferred subsidiaries; and (2) immediately thereafter, COI Acquisition Corp. will merge with and into us and we will be the surviving corporation in the merger and become an affiliate of Lone Star Acquisitions. **Together, the transfers and the merger will result in the sale of our entire company to Lone Star Acquisitions and its affiliates. We will not consummate one of these transactions without the other.**

Upon completion of the transfers and the merger, each share of our common stock not held by Lone Star Acquisitions, COI Acquisition Corp. or us, or by our stockholders who perfect their appraisal rights under Delaware law, will automatically be converted into the right to receive an aggregate of $27.10 in cash, without interest.

The consummation of the transactions contemplated by the merger agreement is **NOT** conditioned on (1) Lone Star Acquisitions obtaining financing or (2) our obtaining consents to the transactions under any of our real property leases or under any federal, state, city or local law governing the sale of liquor that may be applicable.

Our board of directors has unanimously determined that the transfers, the merger and the merger agreement are advisable and are fair to us and our stockholders, and in our best interest and the best interest of our stockholders. Accordingly, the board of directors has unanimously approved the merger agreement and the transactions contemplated thereby. **The board of directors unanimously recommends that you vote FOR the adoption of the merger agreement and the approval of the transactions contemplated thereby at the special meeting and FOR the approval of the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies.**

We cannot consummate the sale of the transferred subsidiaries and the merger unless holders of a majority of the outstanding shares of our common stock entitled to vote approve the merger agreement and the transactions contemplated thereby.

Your vote is extremely important. We ask that you either promptly sign, date and return the enclosed proxy card in the envelope provided without delay or promptly submit your proxy by telephone or over the Internet following the instructions on the proxy card, even if you plan to attend the special meeting.

Lone Star Acquisitions is an affiliate of Lone Star Funds, a Dallas-based private equity firm. Neither Lone Star Funds nor Lone Star Acquisitions, despite the similarity in name, is an affiliate or associate of Lone Star Steakhouse & Saloon, Inc., and neither Lone Star Funds nor Lone Star Acquisitions has any relationship with Lone Star Steakhouse & Saloon, Inc., except with respect to the merger agreement. No members of the management or the board of directors of Lone Star Steakhouse & Saloon, Inc. will be participating with Lone Star Funds or Lone Star Acquisitions in the purchase of Lone Star Steakhouse & Saloon, Inc.

This proxy statement and the form of the proxy are first being sent to the stockholders on or about [______], 2006.

Sincerely,

/s/ Gerald T. Aaron

GERALD T. AARON, Secretary

LONE STAR STEAKHOUSE & SALOON, INC.

224 EAST DOUGLAS

SUITE 700

WICHITA, KANSAS 67202

PROXY STATEMENT

FOR

SPECIAL MEETING OF STOCKHOLDERS

[______], 2006

Notice is hereby given that a special meeting of the stockholders of Lone Star Steakhouse & Saloon, Inc., a Delaware corporation, will be held at [______], on [______], 2006 at [__].m., [______] Time. The special meeting is being called to consider and vote upon a transaction as a result of which Lone Star U.S. Acquisitions LLC and its affiliates will acquire our entire company, including all of our restaurant operations, which include Lone Star Steakhouse & Saloon, Texas Land & Cattle Co., Sullivan s Steakhouse, Del Frisco s Double Eagle Steak House and Frankie s Italian Grille, and our stockholders will receive an aggregate of $27.10 per share in cash.

Specifically, the special meeting is being held for the following purposes:

1. To adopt the Agreement and Plan of Merger, dated as of August 18, 2006, by and among Lone Star Steakhouse & Saloon, Inc., Lone Star U.S. Acquisitions LLC and COI Acquisition Corp., an affiliate of Lone Star Acquisitions, pursuant to which we will sell to an affiliate or affiliates of Lone Star Acquisitions all of the shares of capital stock of certain of our subsidiaries designated by Lone Star Acquisitions, which sales are referred to in the accompanying proxy statement as the transfers and which subsidiaries of ours are referred to in the accompanying proxy statement as the transferred subsidiaries, and, immediately thereafter, COI Acquisition Corp. will merge with and into us, and we will be the surviving corporation in the merger and become an affiliate of Lone Star Acquisitions;
2. To approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the merger agreement and approve the transactions contemplated thereby; and
3. To transact such other business as may properly come before the special meeting or any adjournment thereof.

Together, the transfers and the merger will result in the sale of our entire company to Lone Star Acquisitions and its affiliates. We will not consummate one of these transactions without the other.

Upon completion of the transfers and the merger, each share of our common stock not held by Lone Star Acquisitions, COI Acquisition Corp. or us, or by our stockholders who perfect their appraisal rights under Delaware law, will automatically be converted into the right to receive an aggregate of $27.10 in cash, without interest.

The consummation of the transactions contemplated by the merger agreement is **NOT** conditioned on (1) Lone Star Acquisitions obtaining financing or (2) our obtaining consents to the transactions under any of our real property leases or under any federal, state, city or local law governing the sale of liquor that may be applicable.

The board of directors unanimously recommends that you vote FOR the adoption of the merger agreement and the approval of the transactions contemplated thereby and FOR the approval of the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies.

The proxy statement accompanying this notice provides a more complete description of the matters to be acted upon at the special meeting. Stockholders of record at the close of business on August 28, 2006 are entitled to receive notice of and to vote at the special meeting and any adjournment thereof. A list of such stockholders will be available for examination by any stockholder, for any purpose related to the special meeting, during ordinary business hours, at Lone Star Steakhouse & Saloon, Inc., at 224 East Douglas, Suite 700, Wichita, Kansas 67202, during the 10-day period preceding the special meeting.

In order to approve the merger agreement and the transactions contemplated thereby, holders of a majority of the outstanding shares of our common stock entitled to vote must vote in favor of adopting the merger agreement and the transactions contemplated thereby.

All stockholders are cordially invited to attend the special meeting. Whether or not you expect to attend, please sign and return the enclosed proxy card promptly in the envelope provided or promptly submit your proxy by telephone or over the Internet following the instructions on the proxy card. You may revoke your proxy and vote in person at the special meeting if you desire. **If you fail to vote in person or by proxy, or abstain from voting, it will have exactly the same effect as voting against adopting the merger agreement and the transactions contemplated thereby.**

Lone Star Acquisitions is an affiliate of Lone Star Funds, a Dallas-based private equity firm. Neither Lone Star Funds nor Lone Star Acquisitions, despite the similarity in name, is an affiliate or associate of Lone Star Steakhouse & Saloon, Inc., and neither Lone Star Funds nor Lone Star Acquisitions has any relationship with Lone Star Steakhouse & Saloon, Inc., except with respect to the merger agreement. No members of the management or the board of directors of Lone Star Steakhouse & Saloon, Inc. will be participating with Lone Star Funds or Lone Star Acquisitions in the purchase of Lone Star Steakhouse & Saloon, Inc.

By order of the Board of Directors,

/s/ Gerald T. Aaron

GERALD T. AARON, Secretary

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Annex B	Opinion of North Point Advisors LLC
Annex C	Opinion of Thomas Weisel Partners LLC
Annex D	Section 262 of the Delaware General Corporation Law

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SUMMARY TERM SHEET

This summary term sheet highlights selected information from this proxy statement about the proposed transactions contemplated by the merger agreement and the special meeting and may not contain all of the information that is important to you as a stockholder of Lone Star Steakhouse & Saloon, Inc. Accordingly, we encourage you to read carefully this entire document and the other documents to which we refer you.

As a result of the transactions contemplated by the merger agreement, Lone Star Acquisitions and its affiliates will acquire our entire company, including all of our restaurant operations, which include Lone Star Steakhouse & Saloon, Texas Land & Cattle Co., Sullivan s Steakhouse, Del Frisco s Double Eagle Steak House and Frankie s Italian Grille, and our stockholders will receive an aggregate of $27.10 per share in cash.

References in this proxy statement to the Company, Lone Star Steakhouse, we, our, our company and us mean, unless the context indicates otherwise, Lone Star Steakhouse & Saloon, Inc. and its consolidated subsidiaries; all references to Acquisitions or Lone Star Acquisitions refer to Lone Star U.S. Acquisitions LLC; all references to COI Acquisition or Merger Sub refer to COI Acquisition Corp.; all references to Purchase Sub or Purchase Subs refer to an affiliate or affiliates of Lone Star Acquisitions that are or will be formed to acquire the capital stock of the transferred subsidiaries; all references to merger agreement refer to the Agreement and Plan of Merger, dated as of August 18, 2006, by and among Lone Star Steakhouse & Saloon, Inc., Lone Star U.S. Acquisitions LLC and COI Acquisition Corp., as it may be amended from time to time, a copy of which is attached as Annex A to this proxy statement; all references to the transferred subsidiaries refer to our direct and indirect subsidiaries designated by Lone Star Acquisitions, all of the shares of capital stock of which will be sold by us to Purchase Sub pursuant to the merger agreement; all references to transfers refer to the sale of the capital stock of the transferred subsidiaries to Purchase Sub pursuant to the merger agreement; all references to the merger refer to the merger of COI Acquisition with and into us pursuant to the merger agreement; and all references to the transactions refer to the transfers and the merger.

The Companies (page [______])

***Lone Star Steakhouse & Saloon, Inc*.**

224 East Douglas, Suite 700

Wichita, Kansas 67202

(316) 264-8899

As of August 28, 2006, Lone Star Steakhouse & Saloon, Inc., a Delaware corporation, owned and operated 222 mid-priced, full service, casual dining restaurants located in the United States, which operate under the trade name Lone Star Steakhouse & Saloon or Lone Star Cafe, 22 Texas Land & Cattle Co. restaurants, and 20 upscale steakhouse restaurants, five operating as Del Frisco s Double Eagle Steak House restaurants and 15 operating as Sullivan s Steakhouse restaurants. We also operate a mid-priced restaurant operating as Frankie s Italian Grille. In addition, a licensee operates four Lone Star Steakhouse & Saloon restaurants in California and a licensee operates a Del Frisco s restaurant in Orlando, Florida. Internationally, licensees operate 12 Lone Star Steakhouse & Saloon restaurants in Australia and one in Guam.

Lone Star U.S. Acquisitions LLC

717 North Harwood Street, Suite 2100

Dallas, Texas 75201

(214) 754-8400

Lone Star U.S. Acquisitions LLC, a Delaware limited liability company, is an affiliate of Lone Star Funds. Lone Star Funds, founded in 1993, is a group of private funds that invests globally in a broad range of assets, including secured and unsecured non-performing loans, and other debt and equity investments. The group has invested approximately $11 billion of equity capital and has affiliate offices in Dallas, London, Tokyo and Seoul.

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Neither Lone Star Funds nor Acquisitions, despite the similarity in name, is an affiliate or associate of Lone Star Steakhouse, and neither Lone Star Funds nor Acquisitions has any relationship with Lone Star Steakhouse, except with respect to the merger agreement. No members of the management or the board of directors of Lone Star Steakhouse will be participating with Lone Star Funds or Acquisitions in the purchase of the Company.

COI Acquisition Corp.

717 North Harwood Street, Suite 2100

Dallas, Texas 75201

(214) 754-8400

COI Acquisition Corp., a Delaware corporation and an affiliate of Acquisitions, was formed solely for the purpose of effecting the merger and the transactions related to the merger agreement. It has not engaged in any business except in furtherance of this purpose.

Purchase Subs

717 North Harwood Street, Suite 2100

Dallas, Texas 75201

(214) 754-8400

The Purchase Subs are or will be formed solely for the purpose of effecting the purchase of the transferred subsidiaries and the transactions related to the merger agreement.

The Special Meeting (page [______])

Date, Time and Place (page [______])

The special meeting will be held on [______], [______], 2006 at [______], located at [______], at [____] [__].m., [________] Time, to consider and vote upon proposals to adopt the merger agreement and to approve the transactions contemplated thereby, to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the adoption of the merger agreement and the transactions contemplated thereby, and to transact such other business as may properly come before the special meeting and any adjournment of the special meeting.

Record Date, Shares Entitled to Vote and Quorum (page [______])

Only holders of record of our common stock at the close of business on August 28, 2006, the record date for the special meeting, are entitled to notice of, and to vote at, the special meeting. On the record date, 21,318,952 shares of our common stock were issued and outstanding and held by approximately 297 holders of record. A quorum will be present at the special meeting if the holders of a majority of the outstanding shares of our common stock entitled to vote on the record date are represented in person or by proxy at the special meeting.

Vote Required (page [______])

In order to approve the merger agreement and the transactions contemplated thereby, holders of a majority of the outstanding shares of our common stock entitled to vote must vote in favor of adopting the merger agreement and the transactions contemplated thereby. **If you withhold a vote or abstain from voting on the proposal for the adoption of the merger agreement and the approval of the transactions contemplated thereby, it will have the same effect as a vote AGAINST the proposal.** Approval of the proposal to adjourn the special meeting, if necessary or appropriate, requires the favorable vote of a majority of the votes cast at the special meeting, in person or by proxy, even if less than a quorum.

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Share Ownership of Directors and Executive Officers (page [______])

As of the record date, our executive officers (who include Jamie B. Coulter, our Chief Executive Officer, John D. White, our Executive Vice President and Chief Financial Officer, Gerald T. Aaron, our Senior Vice President Counsel, Deidra Lincoln, our Vice President of Del Frisco s, Mark Mednansky, our Chief Operating Officer, and Jon W. Howie, our Chief Accounting Officer) as a group and our directors (other than John D. White, our Executive Vice President and Chief Financial Officer, who is also a director) as a group owned and were entitled to vote 2,628,600 shares and 77,199 shares, respectively, of our common stock, which represent approximately 12.3% and less than 1%, respectively, of our total common stock outstanding on that date. Each of our directors and executive officers has indicated that he intends to vote in favor of the adoption of the merger agreement and the approval of the transactions contemplated thereby and for the approval of the adjournment, if necessary or appropriate, of the special meeting, but, in each case, has no obligation to do so other than as described below.

Voting Agreement (page [______])

In connection with the merger agreement, Jamie B. Coulter, our Chief Executive Officer, who holds and is entitled to vote approximately 11.2% of our total common stock outstanding on the record date, has entered into a voting agreement in which he has agreed, subject to specified exceptions, to vote his shares of our common stock:

- to approve and vote in favor of the merger agreement and the transactions contemplated by the merger agreement and any other actions or agreements required in furtherance thereof;
- against any action or agreement that would result in a breach of any covenant, representation or warranty or any of our other obligations or agreements under the merger agreement; and
- against any action or agreement (other than the merger agreement or the transactions contemplated thereby) that would impede, interfere with, delay, postpone or attempt to discourage the transactions.

The voting agreement terminates upon the earliest to occur of (1) the termination of the merger agreement in accordance with its terms, (2) the effective time of the merger, (3) at such time as the board of directors (A) withdraws or modifies its approval or recommendation of the merger agreement or the transactions or (B) recommends or approves any takeover proposal and (4) at such time as the merger agreement is amended in any respect or we waive any of our rights under the merger agreement.

Voting of Proxies; Revocability of Proxies (page [______])

After carefully reading and considering the information contained in this proxy statement, you should either complete, date and sign the enclosed proxy card and mail the proxy card in the enclosed return envelope as soon as possible or promptly submit your proxy by telephone or over the Internet following the instructions on the proxy card so that your shares of common stock are represented at the special meeting, even if you plan to attend the special meeting in person. If you elect to submit your proxy by telephone or via the Internet, you will need to provide the control number set forth on the enclosed proxy card upon which you will be provided the option to vote for, against, or abstain with respect to each of the proposals. If no specification is indicated, all of your shares of common stock represented by valid proxies that have been submitted will be voted FOR the adoption of the merger agreement and the approval of the transactions contemplated thereby and FOR the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies.

Until your proxy is voted at the special meeting, you can revoke your proxy and change your vote in any of the following ways:

- by giving written notice of the revocation to our Secretary;
- by properly submitting another proxy by mail, telephone or the Internet, with a later date; or
- by voting in person at the special meeting (if your shares are registered directly on our books and not held through a broker, bank or other nominee).

Your attendance at the special meeting will not in and of itself constitute a revocation of your proxy.

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If you have instructed your broker or other nominee to vote your shares, you must follow the procedures provided by your broker or nominee to change those instructions.

The Transactions (page [______])

Consideration to Be Received by Our Stockholders (page [______])

If the merger agreement is approved and adopted by our stockholders and the other conditions to closing are satisfied or waived, we will sell to Purchase Sub all of the shares of capital stock of the transferred subsidiaries and, immediately thereafter, Merger Sub will be merged with and into us and we will be the surviving corporation and become an affiliate of Acquisitions.

As a result of the transactions contemplated by the merger agreement, Acquisitions and its affiliates will acquire our entire company, including all of our restaurant operations, which include Lone Star Steakhouse & Saloon, Texas Land & Cattle Co., Sullivan s Steakhouse, Del Frisco s Double Eagle Steak House and Frankie s Italian Grille, and our stockholders will receive an aggregate of $27.10 per share in cash. Together, the transfers and the merger will result in the sale of our entire company to Acquisitions and its affiliates. We will not consummate one of these transactions without the other.

Upon completion of the transfers and the merger, each share of our common stock not held by Lone Star Acquisitions, COI Acquisition or us, or by our stockholders who perfect their appraisal rights under Delaware law, will automatically be converted into the right to receive an aggregate of $27.10 in cash, without interest. Following the completion of the transactions, we will no longer be a public company, and you will cease to have any ownership interest in us and will not participate in any of our future earnings and growth or losses.

Reasons for the Transactions (page [______])

Our board of directors has determined unanimously to recommend the adoption of the merger agreement and the approval of the transactions contemplated thereby based on its consideration of a number of factors, which are described in the section of this proxy statement entitled The Transactions Reasons for the Transactions.

Recommendation of the Board of Directors (page [______])

After careful consideration, the board of directors has unanimously determined that the merger agreement, the sale of the transferred subsidiaries and the merger are advisable and are fair to us and our stockholders, and in our best interest and the best interest of our stockholders and has unanimously approved the merger agreement, the sale of the transferred subsidiaries and the merger. The board of directors unanimously recommends that you vote FOR the adoption of the merger agreement and the approval of the transactions contemplated thereby at the special meeting and FOR the approval of the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies.

Opinions Delivered to the Board of Directors (page [______])

In connection with the transactions, the board of directors received written opinions, each dated August 18, 2006, from North Point Advisors LLC and Thomas Weisel Partners LLC as to the fairness to our stockholders, from a financial point of view and as of the date of the opinions, of the aggregate $27.10 per share transaction consideration. The full text of North Point s and Thomas Weisel Partners written opinions are attached to this proxy statement as Annex B and Annex C, respectively. We encourage you to read these opinions carefully in their entirety for a description of the assumptions made, procedures followed, matters considered and limitations on the reviews undertaken. The opinions were provided to the board of directors in connection with its evaluation of the aggregate $27.10 per share transaction consideration to be received by our stockholders and relate only to the fairness to our stockholders, from a financial point of view and as of August 18, 2006, of the aggregate $27.10 per share transaction consideration. The opinions do not address any other terms, aspects or implications of the transactions and do not constitute a recommendation to any stockholder as to how such stockholder should vote or act on any matter relating to the proposed transactions.

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Background of the Transactions (page [______])

The section of the proxy statement entitled The Transactions Background of the Transactions contains a description of the process that we undertook with respect to reaching a definitive merger agreement with Acquisitions and Merger Sub, and includes a discussion of our contacts and discussions with Acquisitions and its affiliates that led to the merger agreement.

Financing for the Transactions; Source and Amounts of Funds (page [______])

The consummation of the transactions contemplated by the merger agreement is not conditioned on Acquisitions obtaining financing. The total amount of funds required by Acquisitions to pay the consideration to be paid for the transferred subsidiaries and the merger, and to pay related fees and expenses, is estimated to be approximately $[______]. Acquisitions plans to fund this through its working capital, borrowings under existing lines of credit and other sources of immediately available funds. The foregoing estimate does not take into account the results of the exercise by stockholders of dissenters rights under Delaware law which may result in their receipt of consideration less than, more than or equal to the transaction consideration which would have been payable to them under the terms of the merger agreement.

Material United States Federal Income Tax Consequences (page [______])

Holders of our common stock that exchange all of their shares of our common stock for cash (either pursuant to the merger agreement or as a result of perfecting their appraisal rights) will recognize gain or loss on the exchange in an amount equal to difference between the amount of the cash received and that holder s adjusted tax basis in the shares of our common stock exchanged therefor.

Interests of Certain Persons in the Transactions (page [______])

When considering our board of directors unanimous recommendation that our stockholders vote in favor of the adoption of the merger agreement and approval of the transactions contemplated thereby, you should be aware that some of our directors and executive officers have interests in the transactions that are different from, or in addition to, the interests of our stockholders. See The Transactions Interests of Certain Persons in the Transactions for a description of such interests that may be different from, or in addition to, the interests of our stockholders.

Our board of directors knew about these additional interests and considered them, among other matters, when it approved the merger agreement and determined that the sale of the transferred subsidiaries, the merger and the merger agreement are advisable and are fair to us and our stockholders, and in our best interest and the best interest of our stockholders.

Appraisal or Dissenters Rights (page [______])

We have concluded that our stockholders are entitled under Delaware law to appraisal rights in connection with the transactions. To exercise appraisal rights, you must:

- before the taking of the vote on the proposal to approve the merger agreement and the transactions contemplated thereby, deliver to us a written demand for appraisal;
- NOT vote in favor of the proposal to approve the merger agreement and the transactions contemplated thereby; and
- comply with other procedures as is required by Section 262 of the General Corporation Law of the State of Delaware.

A copy of the relevant provisions of Section 262 of the General Corporation Law of the State of Delaware is attached to this proxy statement as Annex D.

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Under the merger agreement, Acquisitions is not required to complete the transactions if holders of 22.5% or more of our outstanding common stock as of the effective date of the merger demand appraisal of their shares in accordance with Delaware law.

The Merger Agreement (page [______])

Structure of the Transactions (page [______])

As a result of the transactions contemplated by the merger agreement, Acquisitions and its affiliates will acquire our entire company, including all of our restaurant operations, which include Lone Star Steakhouse & Saloon, Texas Land & Cattle Co., Sullivan s Steakhouse, Del Frisco s Double Eagle Steak House and Frankie s Italian Grille, and our stockholders will receive an aggregate of $27.10 per share in cash.

Subject to the terms and conditions of the merger agreement, the steps of the transactions are as follows: (1) we will sell to Purchase Sub all of the shares of capital stock of the transferred subsidiaries; and (2) immediately thereafter, Merger Sub will merge with and into us, and we will be the surviving corporation in the merger.

As a result of the transactions, we will cease to be a publicly traded company, and we will become an affiliate of Acquisitions.

Consideration to be Received by our Stockholders in the Transactions (page [______])

At the effective time of the merger, each outstanding share of our common stock (other than shares held by Acquisitions, Merger Sub or us, and other than shares held by stockholders properly exercising appraisal rights pursuant to Section 262 of the Delaware General Corporation Law, which we refer to as the DGCL) automatically will be converted into the right to receive an aggregate of $27.10 in cash, without interest, which we refer to in this proxy statement as the transaction consideration. All shares of our common stock held by Acquisitions, Merger Sub or us will be retired and cancelled and no payment will be made in respect of those shares.

Pursuant to Delaware law, holders of shares of our common stock will have the right to dissent from the transactions and receive the fair value of their shares. For a complete description of the procedures that must be followed to dissent from the transactions, see The Transactions Appraisal or Dissenters Rights as well as the text of Section 262 of the DGCL, set forth in Annex D.

Treatment of Stock Options (page [______])

A holder of outstanding options to purchase shares of our common stock, whether or not then vested, at the effective time of the merger, will be entitled to receive a cash amount equal to the product of (a) the amount, if any, by which $27.10 exceeds the exercise price per share of each option held by such person at the effective time of the merger, multiplied by (b) the number of shares subject to such option held by such person, less any applicable withholdings for taxes. No consideration will be paid in respect of any stock options for which the exercise price equals or exceeds $27.10 per share.

Conditions to the Transactions (page [______])

The obligations of the parties to effect the transactions are subject to the fulfillment or waiver of the following conditions, among others:

- the approval of the merger agreement and the transactions contemplated thereby by our stockholders;
- the absence of legal prohibitions to the completion of the transactions;
- the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 shall have expired or been terminated;

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- the accuracy of our representations and warranties in the merger agreement, subject to exceptions which could not reasonably be expected to have a material adverse effect with respect to us;
- our performance in all material respects of our obligations and compliance in all material respects with our agreements or covenants to be performed or complied with by us under the merger agreement;
- the absence of any changes, conditions, events or developments that have had or that could reasonably be expected to have a material adverse effect with respect to us;
- the absence of any judgment, order, injunction, ruling or decree which prohibits or materially limits the ownership or operation, or requires divestiture or rescission, by Acquisitions or its affiliates of any material portion of the shares of stock (or other rights of ownership) or assets of us and our subsidiaries, taken as a whole;
- all consents required in connection with the merger agreement or the transactions contemplated by the merger agreement (other than any consents that may be required under any of our real property leases or permits, including under any federal, state, city or local law governing the sale of liquor that may be applicable) shall have been obtained and shall be in full force and effect, except where the failure to do so could not reasonably be expected to have, in the aggregate, a material adverse effect with respect to us; and
- the holders of not more than 22.5% of the shares of our common stock shall have exercised dissenter s rights.

The merger agreement expressly provides that our failure to obtain or have in effect consents that may be required under any of our real property leases or permits, including under any federal, state, city or local law governing the sale of liquor that may be applicable, will not constitute a material adverse effect with respect to us.

Termination of the Merger Agreement (page [______])

The merger agreement may be terminated and the transactions contemplated by the merger agreement may be abandoned at any time prior to the effective date of the merger:

- by mutual written consent of Acquisitions and us;
- by either Acquisitions or us, if the merger has not been consummated on or before December 15, 2006; provided, however, that the right to terminate the merger agreement under this provision is not available to any party whose failure to fulfill any obligation under the merger agreement has been the cause of, or resulted in, the failure of the merger to be consummated on or before this date;
- by either Acquisitions or us, if any governmental authority shall have enacted, issued, promulgated, enforced or entered any legally binding law, injunction, order, decree or ruling or taken any other action (including the failure to have taken an action) which has become final and non-appealable and has the effect of making consummation of any of the transactions contemplated by the merger agreement illegal or otherwise preventing or prohibiting consummation of any of the transactions contemplated by the merger agreement;
- by Acquisitions, if neither Acquisitions nor Merger Sub is in material breach of any of its representations, warranties or covenants under the merger agreement, and if (1) any of our representations or warranties in the merger agreement becomes untrue or inaccurate such that the condition in the merger agreement with respect to the accuracy of our representations and warranties would not be satisfied, or (2) we have breached any of our covenants or agreements in the merger agreement such that the condition in the merger agreement with respect to our performance of and compliance with our covenants or agreements under the merger agreement would not be satisfied, and the breach (if curable) has not been cured within 20 days after notice to us;

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- by us, if we are not in material breach of any of our representations, warranties or covenants under the merger agreement, and if (1) any of the representations or warranties of Acquisitions or Merger Sub in the merger agreement becomes untrue or inaccurate such that the condition in the merger agreement with respect to the accuracy of Acquisitions representations and warranties would not be satisfied, or (2) Acquisitions or Merger Sub has breached any of its covenants or agreements in the merger agreement such that the condition in the merger agreement with respect to Acquisitions performance of and compliance with its covenants or agreements under the merger agreement would not be satisfied, and such breach (if curable) has not been cured within 20 days after notice to Acquisitions or Merger Sub, as applicable;
- by Acquisitions, if the board of directors shall have withdrawn or modified in a manner adverse to Acquisitions its approval or recommendation of the merger agreement or the transactions contemplated by the merger agreement or recommended or approved any takeover proposal;
- by us, if the board of directors shall have withdrawn or modified in a manner adverse to Acquisitions its approval or recommendation of the merger agreement or the transactions contemplated by the merger agreement in accordance with the terms of the merger agreement, but any such purported termination shall be void and of no force or effect unless we:
  - concurrently pay to Acquisitions a termination fee of $18 million and its expenses of up to $1.5 million; and
  - enter into a definitive acquisition, merger or similar agreement to effect the superior offer that caused the board of directors to withdraw or modify its approval or recommendation of the merger agreement or the transactions; or
- by us or Acquisitions, if, at the special meeting, the stockholder approval for the merger agreement is not obtained.

Effect of Termination of the Merger Agreement (page [______])

In the event of the termination of the merger agreement as described above, the merger agreement will become void, and there will be no liability under the merger agreement on the part of any party to the merger agreement, except that:

- the parties will remain liable for fees and expenses under the circumstances described under Fees and Expenses below; and
- the parties will remain subject to the confidentiality provisions of the merger agreement.

In the event that a party terminates the merger agreement because of a material breach of any of the other party s representations, warranties or covenants, such that the applicable conditions to the terminating party s obligations to effect the transactions would not be satisfied, the terminating party will be entitled to receive from the breaching party, within two business days after termination of the merger agreement, an amount equal to $3,000,000 as the sole and liquidated damages of the terminating party, except as otherwise described under Fees and Expenses below. A party will not otherwise have any liability for any breach of any of its representations, warranties, covenants or agreements in the merger agreement prior to a termination of the merger agreement, or otherwise in connection with any termination of the merger agreement, except as otherwise described above or under Fees and Expenses below. In lieu of terminating the merger agreement, a party may seek an injunction or restraining order to prevent breaches of the merger agreement, as well as specific performance of the terms and provisions of the merger agreement.

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Fees and Expenses (page [______])

Except as otherwise described below, all expenses incurred in connection with the merger agreement and the transactions contemplated by the merger agreement will be paid by the party incurring such expenses, whether or not any of the transactions contemplated by the merger agreement are consummated.

The merger agreement provides that we will be required to pay a termination fee of $18 million and/or termination expenses equal to the reasonably documented expenses of Acquisitions and its affiliates of up to $1.5 million if the merger agreement is terminated in the following circumstances:

- by Acquisitions because our board of directors has withdrawn or modified in a manner adverse to Acquisitions its approval or recommendation of the merger agreement or the transactions or recommended or approved any takeover proposal, then, so long as neither Acquisitions nor Merger Sub was, as of the date of termination, in material breach of any of its representations, warranties or covenants in the merger agreement, we will pay Acquisitions the termination fee, within two business days after the termination of the merger agreement, and the termination expenses;
- by us if our board of directors has withdrawn or modified in a manner adverse to Acquisitions its approval or recommendation of the merger agreement or the transactions in accordance with the terms of the merger agreement, and we enter into a definitive acquisition, merger or similar agreement to effect the superior offer that caused the board of directors to withdraw or modify its approval or recommendation of the merger agreement or the transactions, then we will pay Acquisitions the termination fee, concurrently with and as a condition to the termination of the merger agreement, and the termination expenses;
- because (1) the transactions have not been consummated on or before December 15, 2006 or (2) we do not obtain stockholder approval of the merger agreement at the special meeting, if prior to such termination a takeover proposal has been publicly announced or otherwise disclosed to our stockholders and, within nine months of the termination date, we or any of our subsidiaries enters into a definitive agreement with respect to, or the board of directors recommends that our stockholders approve, adopt or accept, any takeover proposal, then we will pay Acquisitions the termination fee, concurrently upon entering into such definitive agreement or with the board of directors recommendation, and the termination expenses;
- by Acquisitions because of a material breach of any of our representations, warranties or covenants, such that the applicable conditions to Acquisitions obligations to effect the transactions would not be satisfied, and, within nine months of the termination date, we or any of our subsidiaries enters into a definitive agreement with respect to, or the board of directors recommends that our stockholders approve, adopt or accept, any takeover proposal, then we will pay Acquisitions the termination fee (with a credit for the $3,000,000 liquidated damages amount payable upon such termination), concurrently upon entering into such definitive agreement or with the board of directors recommendation, and the termination expenses; or
- because we do not obtain stockholder approval of the merger agreement at the special meeting, and prior to such termination a takeover proposal has not been publicly announced or otherwise disclosed to our stockholders, then we will pay Acquisitions termination expenses of up to $1,000,000.

In no event will we be required to pay under any of the above circumstances an amount in the aggregate in excess of $19,500,000.

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If we fail to pay the termination fee or any termination expenses when due, we will reimburse Acquisitions, in addition to the termination expenses and not subject to any cap or limit, for all reasonable costs and expenses actually incurred or accrued by Acquisitions (including reasonable fees and expenses of counsel) in connection with the collection under and enforcement of the above provisions. If the merger agreement is terminated under any of the circumstances described above as a result of which Acquisitions is entitled to receive payment of the termination fee and/or termination expenses, Acquisitions right to receive payment of the termination fee and/or termination expenses will be the exclusive remedy of Acquisitions and Merger Sub for the loss suffered as a result of the failure of the transactions to be consummated, and upon payment of the termination fee and/or termination expenses, we will have no further liability or obligation relating to or arising out of the merger agreement or the transactions (except with respect to the first sentence of this paragraph and with respect to our confidentiality obligations under the merger agreement) if the merger agreement is terminated under any of the above circumstances.

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QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER

The following questions and answers briefly address some commonly asked questions regarding the special meeting, the proposed sale of the transferred subsidiaries, the merger and the merger agreement. These questions and answers may not address all questions that may be important to you. Please refer to the more detailed information contained elsewhere in this proxy statement, the appendices to this proxy statement and the other documents we refer to in this proxy statement.

Q. Why are our stockholders receiving these materials?

A. Our board of directors is sending these proxy materials to provide our stockholders with information about the sale of the transferred subsidiaries and the merger so that they may determine how to vote their shares in connection with the special meeting.

Q. When and where is the special meeting?

A. The special meeting will be held on **[______]**, **[______]**, 2006 at **[______]**, located at **[______]**, at **[___]**:00 **[___]**.m., **[__________]** Time.

Q. Who is soliciting my proxy?

A. This proxy is being solicited by our board of directors.

Q. Who is paying for the solicitation of proxies?

A. We will bear the cost of solicitation of proxies by us. In addition to soliciting stockholders by mail, our directors, officers and employees, without additional remuneration, may solicit proxies in person or by telephone or other means of electronic communication. We will not pay these individuals for their solicitation activities but will reimburse them for their reasonable out-of-pocket expenses. Brokers and other custodians, nominees and fiduciaries will be requested to forward proxy-soliciting material to the owners of stock held in their names, and we will reimburse such brokers and other custodians, nominees and fiduciaries for their reasonable out-of-pocket costs. Solicitation by our directors, officers and employees may also be made of some stockholders in person or by mail, telephone or other means of electronic communication following the original solicitation. In addition, we have retained Innisfree M&A Incorporated, to assist in the solicitation of proxies.

Q. What matters will we vote on at the special meeting?

A. You will vote on the following proposals:

- to adopt the merger agreement and to approve the transactions contemplated thereby;
- to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the merger agreement and approve the transactions contemplated thereby; and
- to transact such other business as may properly come before the special meeting or any adjournment thereof.

None of the proposals to be acted upon at the special meeting is conditioned upon the approval of any other proposal.

Q. How does our board of directors recommend I vote on the proposals?

A. Our board of directors recommends that you vote:

- FOR the adoption of the merger agreement and approval of the transactions contemplated thereby; and
- FOR the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies.

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Q. What are the required votes for the proposals?

A. In order to approve the merger agreement, holders of a majority of the outstanding shares of our common stock entitled to vote must vote in favor of adopting the merger agreement and the transactions contemplated thereby. **If you withhold a vote or abstain from voting on the proposal for the adoption of the merger agreement and the approval of the transactions contemplated thereby, it will have the same effect as a vote AGAINST the proposal.** Approval of the proposal to adjourn the special meeting, if necessary or appropriate, requires the favorable vote of a majority of the votes cast at the special meeting, in person or by proxy, even if less than a quorum.

Q. Who may attend the special meeting?

A. All of our stockholders who owned shares on August 28, 2006, the record date for the special meeting, may attend.

Q. Who may vote at the special meeting?

A. Only holders of record of our common stock as of the close of business on August 28, 2006, the record date for the special meeting, may vote at the special meeting. As of the record date, we had 21,318,952 outstanding shares of common stock entitled to vote.

Q. If my shares are held in street name by my broker, will my broker vote my shares for me?

A. Yes, but your broker will only be permitted to vote your shares of our common stock if you instruct your broker how to vote. You should follow the procedures provided to you by your broker regarding how to instruct your broker to vote your shares. Failure to instruct your broker to vote your shares will have exactly the same effect as voting against adoption of the merger agreement and the transactions contemplated thereby.

Q. What does it mean if I get more than one proxy card?

A. If your shares are registered in multiple accounts with one or more brokers and/or our transfer agent, you will receive more than one proxy card. If you are submitting your proxy by completing and returning your proxy card, please complete and return each of the proxy cards you receive to ensure that all of your shares are voted.

Q. What is a quorum ?

A. A quorum will be present at the special meeting if the holders of a majority of the outstanding shares of our common stock entitled to vote on the record date are represented in person or by proxy. This quorum of our shares must be present at the special meeting, in person or by proxy, in order for the special meeting to be held. Shares present by proxy will be counted as present for purposes of determining the presence of a quorum even if the proxy does not have authority to vote on all matters.

Q. What happens if I withhold my vote or abstain from voting?

A. **If you withhold a vote or abstain from voting on the proposal for the adoption of the merger agreement and the approval of the transactions contemplated thereby, it will have the same effect as a vote AGAINST the proposal.** Approval of the proposal to adjourn the special meeting, if necessary or appropriate, requires the favorable vote of a majority of the votes cast at the special meeting, in person or by proxy, even if less than a quorum, and, therefore, withholding a vote or abstaining from voting will have no effect on the proposal to adjourn the special meeting.

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Q. Will my shares be voted if I do not provide my proxy?

A. Under stock market rules currently in effect, brokerage firms and nominees have the authority to vote their customers unvoted shares on certain routine matters if the customers have not furnished voting instructions within a specified period prior to the special meeting. However, the proposal to adopt the merger agreement and the transactions contemplated thereby and the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies, are not considered routine matters and hence brokerage firms and nominees will not be able to vote the shares of customers from whom they have not received voting instructions with regard to the proposal to adopt the merger agreement and the transactions contemplated thereby or the proposal to adjourn the special meeting. If you hold your shares directly in your own name, they will not be counted as shares present for the purposes of establishing a quorum or be voted if you do not provide a proxy or attend the special meeting and vote the shares yourself.

Broker non-votes occur when shares held by a broker are not voted with respect to a proposal because (1) the broker has not received voting instructions from the beneficial owner of the shares and (2) the broker lacks the authority to vote the shares at the broker s discretion. Broker non-votes will have no effect on the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies because broker non-votes will not be considered votes cast, but will be counted as shares present and entitled to vote for the purposes of determining the presence of a quorum. With regard to the proposal to adopt the merger agreement and the transactions contemplated thereby, the shares represented by broker non-votes will **also** be considered present at the special meeting for the purposes of determining a quorum, but will have the same effect as a vote AGAINST the proposal because holders of a majority of the outstanding shares of our common stock entitled to vote must vote in favor of the adoption of merger agreement and the transactions contemplated thereby in order for this proposal to be approved.

Q. If I have given a proxy, may I change my vote?

A. Yes. Until your proxy is voted at the special meeting, you can revoke your proxy and change your vote in any of the following ways:

- by giving written notice of the revocation to our Secretary;
- by properly submitting another proxy by mail, telephone or the Internet, with a later date; or
- by voting in person at the special meeting (if your shares are registered directly on our books and not held through a broker, bank or other nominee).

If you have instructed a broker to vote your shares, the above-described options for changing your vote do not apply; instead, you must follow the instructions received from your broker to change your vote.

Your attendance at the special meeting will not in and of itself constitute a revocation of your proxy.

Q. What are the proposed transactions?

A. In the proposed transactions, we will sell to Purchase Sub all of the shares of capital stock of the transferred subsidiaries and, immediately thereafter, Merger Sub will merge with and into us and we will be the surviving corporation in the merger. As a result of the transactions contemplated by the merger agreement, Acquisitions and its affiliates will acquire our entire company, including all of our restaurant operations, which include Lone Star Steakhouse & Saloon, Texas Land & Cattle Co., Sullivan s Steakhouse, Del Frisco s Double Eagle Steak House and Frankie s Italian Grille, and our stockholders will receive an aggregate of $27.10 per share in cash. Together, the transfers and the merger will result in the sale of our entire company to Acquisitions and its affiliates. We will not consummate one of these transactions without the other. As a result of the transactions, we will cease to be a publicly traded company, and we will become an affiliate of Acquisitions.

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Q. If the transactions are completed, what will I be entitled to receive for my shares and when will I receive it?

A. At the effective time of the merger, each outstanding share of our common stock (other than shares held by Acquisitions, Merger Sub or us, and other than shares held by stockholders properly exercising appraisal rights pursuant to Section 262 of the DGCL) automatically will be converted into the right to receive the transaction consideration of an aggregate of $27.10 in cash, without interest. All shares of our common stock held by Acquisitions, Merger Sub or us will be retired and cancelled and no payment will be made in respect of those shares.

Pursuant to Delaware law, holders of shares of our common stock will have the right to dissent from the transactions and receive the fair value of their shares. For a complete description of the procedures that must be followed to dissent from the transactions, see The Transactions Appraisal or Dissenters Rights as well as the text of Section 262 of the DGCL, set forth in Annex D.

After the transactions are completed, we will arrange for a letter of transmittal to be sent to each of our stockholders. The transaction consideration will be paid to each stockholder once that stockholder submits a properly completed and duly executed letter of transmittal, properly endorsed stock certificates and any other required documentation.

Q. Am I entitled to appraisal rights?

A. Yes. In order to exercise your appraisal rights, you must follow the requirements of Delaware law. Under Delaware law, holders of our common stock who do not vote in favor of adopting the merger agreement and the transactions contemplated thereby will have the right to seek appraisal of the fair value of their shares as determined by the Delaware Court of Chancery if the transactions are completed, but only if they submit a written demand for an appraisal prior to the vote on the adoption of the merger agreement and the transactions contemplated thereby at the special meeting and they comply with the procedures and requirements under Delaware law, which are summarized in this proxy statement. A copy of the applicable provision under Delaware law is included as Annex D to this proxy statement and a summary of this provision can be found along with additional information about appraisal rights under Appraisal Rights beginning on page **[______]** of this proxy statement.

Q. Will the transactions be taxable to me?

A. Yes. The exchange of your shares of our common stock for cash will be taxable to you. You will recognize gain or loss for federal income tax purposes in an amount equal to the difference between the cash you receive (either as transaction consideration of an aggregate of $27.10 per share or as a result of dissenting and receiving your appraisal rights) and your adjusted tax basis in your shares of our common stock exchanged therefor.

See the section entitled The Transactions Material United States Federal Income Tax Consequences on pages **[______]** through **[______]** of this proxy statement for a more detailed explanation of the tax consequences of the transactions. You should consult your tax advisor on how specific tax consequences of the merger and the other transactions contemplated by the merger agreement apply to you.

Q. Are the transactions subject to the satisfaction of any conditions?

A. Yes. In addition to the adoption of the merger agreement and the transactions contemplated thereby by our stockholders, the transactions are subject to the satisfaction or waiver of other customary conditions. For a description of these conditions, please see The Merger Agreement Conditions to the Transactions beginning on page **[______]** of this proxy statement. The consummation of the transactions contemplated by the merger agreement is **NOT** conditioned on (1) Lone Star Acquisitions obtaining financing or (2) our obtaining consents to the transactions under any of our real property leases or under any federal, state, city or local law governing the sale of liquor that may be applicable.

Q. What should I do now?

A. After carefully reading and considering the information contained in this proxy statement, including the appendices, please authorize your shares of our common stock to be voted by either marking, signing and dating the enclosed proxy card and returning it in the postage prepaid envelope provided as soon as possible or promptly submitting your proxy by telephone or over the Internet following the instructions on the proxy card. Do NOT enclose or return your stock certificates with the proxy card.

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Q. What happens if I sell my shares of common stock before the special meeting?

A. The record date for the special meeting is August 28, 2006, which is earlier than the date of the special meeting. If you held your shares of our common stock on the record date for the special meeting, you will retain your right to vote at the special meeting. If you transfer your shares of our common stock after the record date for the special meeting but prior to the date on which the transactions are completed, you will lose the right to receive the transaction consideration for the shares of our common stock you have sold. The right to receive the transaction consideration will pass to the person who owns your shares of our common stock when the transactions are completed.

Q. When do you expect to complete the transactions?

A. We are working toward completing the transactions as quickly as possible. We currently expect to complete the transactions as soon as possible after the special meeting and after all the conditions to the transactions, including antitrust regulatory approval, are satisfied or waived. In order to complete the transactions, we must obtain stockholder approval and the other closing conditions under the merger agreement must be satisfied or waived. See The Merger Agreement Conditions to the Transactions.

Q. What happens to Lone Star Steakhouse & Saloon, Inc. if the merger agreement is not adopted?

A. If the merger agreement is not adopted, neither the sale of the transferred subsidiaries nor the merger will be consummated, and our stockholders will not receive any payment for their shares. We will remain an independent public company, and we would expect to be operated by management in a manner similar to that in which we are being operated today. In view of the pending transactions, we do not anticipate paying a cash dividend for the 2006 third quarter, but we intend to subsequently pay this dividend to our stockholders if for any reason the transactions are not consummated; however, there can be no assurance that such cash dividend will be paid or as to the amount of the cash dividend. See The Transactions Certain Effects on the Company if the Transactions are Not Completed.

Q. After the special meeting, how can I determine whether the proposal to adopt the merger agreement and the transactions contemplated thereby has been approved by our stockholders?

A. Promptly after the special meeting, we anticipate that we will issue a press release announcing whether the proposal to adopt the merger agreement and the transactions contemplated thereby has been approved by holders of a sufficient number of outstanding shares of our common stock.

Q. Should I send in my stock certificates now?

A. No. After we complete the transactions, you will receive written instructions informing you how to send in your stock certificates in order to receive the transaction consideration. You will receive your cash payment as soon as practicable after receipt of the stock certificates representing the shares of our common stock that you own, together with the completed documents requested in the instructions.

PLEASE DO NOT SEND ANY STOCK CERTIFICATES WITH YOUR PROXY CARD.

Q. Where can I find more information about Lone Star Steakhouse & Saloon, Inc.?

A. We file periodic reports and other information with the Securities and Exchange Commission, which we refer to as the SEC. This information is available at the SEC s public reference facilities, and at the Internet site maintained by the SEC at http://www.sec.gov. For a more detailed description of the information available, please see the section of this proxy statement entitled Where You Can Find Additional Information.

Q. Who can help answer my questions?

A. If you have questions about the special meeting or the transactions after reading this proxy statement, you should contact our proxy solicitor, Innisfree M&A Incorporated, at 501 Madison Avenue, 20th Floor, New York, New York 10022 or call Innisfree toll-free at (877) 456-3488.

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THE SPECIAL MEETING

We are furnishing this proxy statement to our stockholders as part of the solicitation of proxies by our board of directors for use at the special meeting.

Date, Time and Place

The special meeting will be held on **[______]**, **[______]**, 2006 at **[______]**, located at **[______]**, at **[___]**:00 **[___]**.m., **[_________]** Time.

Purpose of the Special Meeting

The special meeting is being called to consider and vote upon the transactions, as a result of which Acquisitions and its affiliates will acquire our entire company, including all of our restaurant operations, which include Lone Star Steakhouse & Saloon, Texas Land & Cattle Co., Sullivan s Steakhouse, Del Frisco s Double Eagle Steak House and Frankie s Italian Grille, and our stockholders will receive an aggregate of $27.10 per share in cash.

Specifically, at the special meeting, we will ask holders of our common stock to consider and vote on the following proposals:

1. To adopt the Agreement and Plan of Merger, dated as of August 18, 2006, by and among Lone Star Steakhouse & Saloon, Inc., Lone Star U.S. Acquisitions LLC and COI Acquisition Corp., an affiliate of Lone Star Acquisitions, pursuant to which we will sell to an affiliate or affiliates of Lone Star Acquisitions all of the shares of capital stock of certain of our subsidiaries designated by Lone Star Acquisitions, which sales are referred to in this proxy statement as the transfers and which subsidiaries or ours are referred to in this proxy statement as the transferred subsidiaries, and, immediately thereafter, COI Acquisition will merge with and into us, and we will be the surviving corporation in the merger and become an affiliate of Lone Star Acquisitions;
2. To approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the merger agreement and approve the transactions contemplated thereby; and
3. To transact such other business as may properly come before the special meeting or any adjournment thereof.

Our board of directors has unanimously determined that the transfers, the merger and the merger agreement are advisable and are fair to us and our stockholders, and in our best interest and the best interest of our stockholders. Accordingly, the board of directors has unanimously approved the merger agreement and the transactions contemplated thereby. The board of directors unanimously recommends that you vote FOR the adoption of the merger agreement and the approval of the transactions contemplated thereby at the special meeting and FOR the approval of the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies.

Record Date, Shares Entitled to Vote and Quorum

Only holders of record of our common stock at the close of business on August 28, 2006, the record date for the special meeting, are entitled to notice of, and to vote at, the special meeting. On the record date, 21,318,952 shares of our common stock were issued and outstanding and held by approximately 297 holders of record. A quorum will be present at the special meeting if the holders of a majority of the outstanding shares of our common stock entitled to vote on the record date are represented in person or by proxy.

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Vote Required

In order to adopt the merger agreement and approve the transactions contemplated thereby, holders of at least a majority of the outstanding shares of our common stock entitled to vote must vote in favor of adopting the merger agreement and the transactions contemplated thereby. Each holder of our common stock is entitled to one vote for each share held of record on the record date. **If you withhold a vote or abstain from voting on the proposal relating to the adoption of the merger agreement and the transactions contemplated thereby, it will have the same effect as a vote AGAINST the proposal.** As of the record date, our executive officers (who include Jamie B. Coulter, our Chief Executive Officer, John D. White, our Executive Vice President and Chief Financial Officer, Gerald T. Aaron, our Senior Vice President Counsel, Deidra Lincoln, our Vice President of Del Frisco s, Mark Mednansky, our Chief Operating Officer, and Jon W. Howie, our Chief Accounting Officer) as a group and our directors (other than John D. White, our Executive Vice President and Chief Financial Officer, who is also a director) as a group owned and were entitled to vote 2,628,600 shares and 77,199 shares, respectively, of our common stock, which represent approximately 12.3% and less than 1%, respectively, of our total common stock outstanding on that date. Each of our directors and executive officers has indicated that he intends to vote in favor of the adoption of the merger agreement and the approval of the transactions contemplated thereby and for the approval of the adjournment, if necessary or appropriate, of the special meeting, but, in each case, has no obligation to do so other than as described in the next sentence. In connection with the merger agreement, Jamie B. Coulter, our Chief Executive Officer, who holds and is entitled to vote approximately 11.2% of our total common stock outstanding on the record date, has entered into a voting agreement in which he has agreed to vote in favor of the adoption of the merger agreement and the transactions contemplated thereby and the adjournment proposal, subject to specified exceptions. Assuming that the directors, as a group, and executive officers, as a group, vote in favor of the adoption of the merger agreement and the transactions contemplated thereby, other stockholders holding at least 7,953,678 shares of our common stock, representing approximately 37.3% of all shares outstanding on the record date, must vote in favor of the adoption of the merger agreement and the transactions contemplated thereby in order for this proposal to be approved.

Approval of the proposal to adjourn the special meeting, if necessary or appropriate, requires the favorable vote of a majority of the votes cast at the special meeting, in person or by proxy, even if less than a quorum. For the proposal to adjourn the special meeting, abstentions will have no effect on the outcome, since an abstention is not a vote cast.

Under stock market rules currently in effect, brokerage firms and nominees have the authority to vote their customers unvoted shares on certain routine matters if the customers have not furnished voting instructions within a specified period prior to the special meeting. However, the proposal to adopt the merger agreement and the transactions contemplated thereby and the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies, are not considered routine matters, and brokerage firms and nominees will not be able to vote the shares of customers from whom they have not received voting instructions with regard to the proposal to adopt the merger agreement and the transactions contemplated thereby or the proposal to adjourn the special meeting. If you hold your shares directly in your own name, they will not be counted as shares present for the purposes of establishing a quorum or be voted if you do not provide a proxy or attend the special meeting and vote the shares yourself.

Broker non-votes occur when shares held by a broker are not voted with respect to a proposal because (1) the broker has not received voting instructions from the beneficial owner of the shares and (2) the broker lacks the authority to vote the shares at the broker s discretion. Broker non-votes will have no effect on the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies because broker non-votes will not be considered votes cast, but will be counted as shares present and entitled to vote for the purposes of determining the presence of a quorum. With regard to the adoption of the merger agreement and the transactions contemplated thereby, the shares represented by broker non-votes will also be considered present at the special meeting for the purposes of determining a quorum, but will have the same effect as a vote AGAINST the proposal because holders of a majority of the outstanding shares of our common stock entitled to vote must vote in favor of the adoption of the merger agreement and the transactions contemplated thereby in order for this proposal to be approved.

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Voting of Proxies

After carefully reading and considering the information contained in the proxy statement, you should either complete, date and sign the enclosed proxy card and mail the proxy card in the enclosed return envelope as soon as possible or promptly submit your proxy by telephone or over the Internet following the instructions on the proxy card so that your shares of common stock are represented at the special meeting, even if you plan to attend the special meeting in person. If you elect to submit your proxy by telephone or via the Internet, you will need to provide the control number set forth on the enclosed proxy card upon which you will be provided the option to vote for, against, or abstain with respect to each of the proposals. If no specification is indicated, all shares of common stock represented by valid proxies that have been submitted will be voted FOR the adoption of the merger agreement and the approval of the transactions contemplated thereby and FOR the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies.

We do not expect that any matter other than the proposal to adopt the merger agreement and the transactions contemplated thereby and to adjourn the special meeting, if necessary or appropriate, will be brought before the special meeting. If, however, our board of directors properly presents other matters, each of the persons named as a proxy will vote in accordance with his judgment as to matters that he believes to be in the best interests of the stockholders. A proxy in the accompanying form or properly submitted by telephone or over the Internet will give authority to Jamie B. Coulter, our Chief Executive Officer, and John D. White, our Executive Vice President and Chief Financial Officer, to vote on such matters at their respective discretion and they intend to do so in accordance with their respective best judgment on any such matter.

Revocability of Proxies

The grant of a proxy on the enclosed form of proxy or submission of a proxy by telephone or over the Internet pursuant to the instructions on the proxy card does not preclude a stockholder from voting in person at the special meeting. Until your proxy is voted at the special meeting, you can revoke your proxy and change your vote in any of the following ways:

- by giving written notice of the revocation to our Secretary;
- by properly submitting another proxy by mail, telephone or the Internet, with a later date; or
- by voting in person at the special meeting (if your shares are registered directly on our books and not held through a broker, bank or other nominee).

Your attendance at the special meeting will not in and of itself constitute a revocation of your proxy.

If you have instructed a broker to vote your shares, the above-described options for changing your vote do not apply; instead, you must follow the instructions received from your broker to change your vote.

Solicitation of Proxies

We will bear the cost of solicitation of proxies by us. In addition to soliciting stockholders by mail, our directors, officers and employees, without additional remuneration, may solicit proxies in person or by telephone or other means of electronic communication. We will not pay these individuals for their solicitation activities but will reimburse them for their reasonable out-of-pocket expenses. Brokers and other custodians, nominees and fiduciaries will be requested to forward proxy-soliciting material to the owners of stock held in their names, and we will reimburse such brokers and other custodians, nominees and fiduciaries for their reasonable out-of-pocket costs. Solicitation by our directors, officers and employees may also be made of some stockholders in person or by mail, telephone or other means of electronic communication following the original solicitation.

We have retained the firm of Innisfree M&A Incorporated to assist in the solicitation of proxies for a base fee of $[_______], plus reasonable out-of-pocket expenses, and have agreed to indemnify Innisfree for specified liabilities and expenses.

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You should not send your stock certificates with your proxy. A letter of transmittal with instructions for the surrender of our common stock certificates will be mailed to our stockholders promptly after the consummation of the transactions.

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THE TRANSACTIONS

This section describes material aspects of the sale of the transferred subsidiaries and the merger, including the merger agreement. While we believe that the description covers the material terms of the merger agreement and the transactions contemplated thereby, this summary may not contain all of the information that is important to you. You should read carefully this entire document and the other documents referred to in this proxy statement for a more complete understanding of the merger agreement and the transactions contemplated thereby.

The Companies

Lone Star Steakhouse & Saloon, Inc.

As of August 28, 2006, Lone Star Steakhouse & Saloon, Inc., a Delaware corporation, owned and operated 222 mid-priced, full service, casual dining restaurants located in the United States, which operate under the trade name Lone Star Steakhouse & Saloon or Lone Star Cafe, 22 Texas Land & Cattle Co. restaurants, and 20 upscale steakhouse restaurants, five operating as Del Frisco s Double Eagle Steak House restaurants and 15 operating as Sullivan s Steakhouse restaurants. We also operate a mid-priced restaurant operating as Frankie s Italian Grille. In addition, a licensee operates four Lone Star Steakhouse & Saloon restaurants in California and a licensee operates a Del Frisco s restaurant in Orlando, Florida. Internationally, licensees operate 12 Lone Star Steakhouse & Saloon restaurants in Australia and one in Guam.

Lone Star U.S. Acquisitions LLC

Lone Star U.S. Acquisitions LLC, a Delaware limited liability company, is an affiliate of Lone Star Funds. Lone Star Funds, founded in 1993, is a group of private funds that invests globally in a broad range of assets, including secured and unsecured non-performing loans, and other debt and equity investments. The group has invested approximately $11 billion of equity capital and has affiliate offices in Dallas, London, Tokyo and Seoul.

Neither Lone Star Funds nor Acquisitions, despite the similarity in name, is an affiliate or associate of Lone Star Steakhouse, and neither Lone Star Funds nor Acquisitions has any relationship with Lone Star Steakhouse, except with respect to the merger agreement. No members of the management or the board of directors of Lone Star Steakhouse will be participating with Lone Star Funds or Acquisitions in the purchase of the Company.

COI Acquisition Corp.

COI Acquisition Corp., a Delaware corporation and an affiliate of Acquisitions, was formed solely for the purpose of effecting the merger and the transactions related to the merger agreement. It has not engaged in any business except in furtherance of this purpose.

Purchase Subs

The Purchase Subs are or will be formed solely for the purpose of effecting the purchase of the transferred subsidiaries and the transactions related to the merger agreement.

Background of the Transactions

In early October 2005, members of our management and board of directors met with North Point and another nationally recognized investment bank regarding our company.

On October 19, 2005, at a meeting of the executive committee of our board of directors in Nashville, Tennessee, North Point presented an overview of the restaurant mergers and acquisitions market and industry trends, as well as its preliminary views on our valuation. As a result of this meeting and in light of our declining results, the executive committee decided to invite North Point and two other nationally recognized investment banks to deliver presentations to the board of directors on strategic alternatives available to us to increase stockholder value. Following the October 19, 2005 meeting, we also explored with third-party financing sources the possibility of engaging in a sale/leaseback of our restaurant sites.

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On December 5, 2005, North Point and two other nationally recognized investment banks made presentations to the board of directors on strategic alternatives available to us to increase stockholder value. At the board of directors meeting, director Mark Saltzgaber informed the board members that Lone Star Funds financial advisor, Piper Jaffray, had approached him concerning a potential acquisition of us by Lone Star Funds.

On December 7, 2005, we presented to Lone Star Funds a proposed confidentiality agreement between Lone Star Funds and us for execution in connection with Lone Star Funds approaching us concerning a potential acquisition of us. Lone Star Funds and we executed the confidentiality agreement dated December 7, 2005. Following the execution of the confidentiality agreement, we provided Lone Star Funds with certain non-public information.

On December 19, 2005, representatives of Lone Star Funds informed us that its preliminary indication of value for an acquisition of us was $28.00 - $30.00 per share, subject to further due diligence.

On December 21, 2005, the executive committee met to discuss the preliminary expression of interest of Lone Star Funds. After discussion, the executive committee determined that we should engage in a dialogue with Lone Star Funds regarding a potential transaction, including seeking an upward adjustment of the proposed price range, and decided to submit for the consideration of the full board the questions of whether we should enter into an exclusivity agreement with Lone Star Funds or engage a financial advisor at that time.

The board of directors met later in the day on December 21, 2005. Members of the executive committee reviewed with the board of directors the executive committee s discussions regarding the preliminary expression of interest of Lone Star Funds. After discussion, the board of directors deferred on the issue of granting Lone Star Funds an exclusive negotiating period at that stage, but determined that we should engage a financial advisor to formally assist us. The board of directors considered the presentations that had been delivered to it earlier in December 2005 by North Point and the other investment banking firms and directed management to enter into discussions with North Point concerning an engagement letter to act as our financial advisor in connection with a potential strategic transaction. In making this determination, the board of directors considered, among other things, the significant experience of North Point in advising companies in the restaurant industry on strategic transactions and recently completed transactions in which North Point had served as financial advisor. Neither the executive committee nor the board of directors had made any determination at this time regarding a potential strategic transaction.

Following these meetings on December 21, 2005, discussions between representatives of Lone Star Funds and us produced a proposed price range for a transaction of $30.50 - $31.00 per share, subject to further due diligence on the part of Lone Star Funds.

On December 27, 2005, North Point delivered to us by e-mail a due diligence request list received from Lone Star Funds.

On December 28, 2005, the executive committee of the board of directors reviewed and approved the form of engagement letter between North Point and us. The executive committee further discussed a potential strategic transaction with Lone Star Funds and considered Lone Star Funds request for a 15-day exclusivity period as well as the due diligence request list it had provided. After discussion, the executive committee authorized management to negotiate a 15-day exclusivity agreement with Lone Star Funds based upon, among other things, the proposed price range for a transaction with Lone Star Funds. A representative of North Point joined the meeting and advised the executive committee that Lone Star Funds had completed substantial due diligence but that Lone Star Funds needed to conduct additional due diligence before presenting a formal proposal related to an acquisition of us. The executive committee approved the due diligence list provided by Lone Star Funds and directed management to permit Lone Star Funds to conduct additional due diligence.

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On December 28, 2005, we received a draft exclusivity agreement from Lone Star Funds. Also on December 28, 2005, we entered into an engagement letter with North Point, which commenced discussions with Lone Star Funds financial advisor, Piper Jaffray, regarding a potential strategic transaction.

Between December 28, 2005 and January 3, 2006, our counsel and counsel for Lone Star Funds negotiated the terms of the exclusivity agreement. On January 3, 2006, we executed the exclusivity agreement with Lone Star Funds, which provided for an exclusive negotiating period ending January 18, 2006.

On January 3-4, 2006, Lone Star Funds conducted due diligence at our offices in Wichita, Kansas.

The executive committee of the board of directors met on January 6, 2006 and discussed strategic alternatives available to us. The executive committee also discussed the process for continued discussions with Lone Star Funds.

On January 9, 2006, Lone Star Funds and we discussed the potential key terms of a transaction involving the sale of us. The terms discussed included the size of any break-up fee that would be payable by us in the event of specified termination events under a merger agreement. Also on January 9, 2006, Lone Star Funds delivered to us additional due diligence requests in preparation for a meeting with us on January 10-11, 2006.

On January 10-11, 2006, Lone Star Funds conducted additional due diligence at our offices in Wichita, Kansas. During this meeting, Lone Star Funds and we continued discussions about the potential terms of a transaction, although no agreement was reached on these terms at that time.

The board of directors met on January 13, 2006. Management briefed the board members on the due diligence meeting with Lone Star Funds at our offices on January 10-11, 2006. Management advised the board of directors that Lone Star Funds intended to conduct additional due diligence before presenting a formal proposal related to an acquisition of us. Management also indicated that our preliminary 2005 fourth quarter and full year results were significantly below management s expectations and the prior year s results. In light of these deteriorating trends, the board of directors discussed other strategic alternatives to the sale of our company, including leveraging our balance sheet for a significant share repurchase, continuing to operate our existing business in its present structure and spinning off our upscale restaurant business. North Point briefed the board of directors on the status of discussions with Lone Star Funds. North Point also reviewed with the board members a proposed solicitation process for the sale of us involving a list of targeted potential buyers and a timetable for the solicitation effort. The board members discussed the desirability of this market check that would allow the board the opportunity to test the adequacy of any proposal presented by Lone Star Funds.

On January 19, 2006, Lone Star Funds advised North Point that, based on its due diligence and the deterioration in our 2005 fourth quarter and full year results, Lone Star Funds had decided to lower the proposed price range for a potential transaction. North Point discussed this decision of Lone Star Funds with members of our board of directors and discussions between Lone Star Funds and us were suspended.

On February 9, 2006, the board of directors asked North Point to begin an effort to identify potential buyers for us in order to assist the board in evaluating its strategic alternatives.

On February 16, 2006, we received a non-binding proposal from Lone Star Funds to acquire us for a price of $28.50 $29.00 per share in a cash tender offer, with no financing contingency, but subject to confirmatory due diligence. We advised Lone Star Funds that the proposal would be presented to the board of directors. Meanwhile, at the request of the board of directors, our counsel had prepared materials for the board s consideration regarding a possible spinoff and initial public offering of our upscale restaurant business. These materials were delivered to the board members on February 22, 2006.

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On February 22, 2006, the executive committee of the board of directors met and discussed the proposal from Lone Star Funds. The executive committee discussed various alternatives to a sale of us, including continuing to operate our business in its present structure and a spinoff and initial public offering of our upscale restaurant business. The executive committee discussed the marketing effort of North Point to identify other potential buyers for us. North Point indicated that a targeted market check would be recommended to provide an assessment of the potential willingness of potential buyers to acquire us. The executive committee also considered the implications on our business of conducting a broader market check. The executive committee discussed various options for responding to the proposal from Lone Star Funds, including the possibility of presenting Lone Star Funds with a definitive merger agreement for its review and informing Lone Star Funds that we would not respond to its proposal until we had completed our market check. The executive committee discussed the process for considering an offer to acquire us, including the need to obtain a fairness opinion from North Point. The executive committee also discussed whether we should obtain a fairness opinion from a second investment banking firm. After discussion, the executive committee determined that North Point would be directed to continue its marketing effort and that Lone Star Funds would be informed of this decision and of the fact that we would not agree to a further exclusive negotiating window with Lone Star Funds until North Point had completed its market check. In addition, the executive committee determined that we would present a draft of a definitive merger agreement to Lone Star Funds and request its comments on the terms of the agreement other than price (this draft was sent to Lone Star Funds on February 24, 2006). The executive committee was willing to proceed in its discussions with Lone Star Funds, despite its reduced offer, due to the continued downturn in our business and industry and operational challenges that we faced for the foreseeable future. The executive committee also directed management to ask one of the nationally recognized investment banks that had made a presentation to the board of directors in December 2005 to provide its separate views on the risks and benefits associated with various strategic alternatives to increase stockholder value, to update its financial analysis of the potential range of values of those alternatives based on the downward trend in our operating results and in our industry, and to potentially render a second fairness opinion in any sale of us. The executive committee also asked Thomas Weisel Partners to prepare an analysis of a spinoff and initial public offering of our upscale restaurant business.

Between February 22 and March 11, 2006, North Point contacted five highly qualified potential buyers, and one other highly qualified potential buyer contacted North Point, regarding a possible transaction. During that period, we entered into confidentiality agreements with all six of these potential buyers and provided certain non-public information to these potential buyers for their consideration.

The board of directors met on March 1, 2006. At this meeting, the board again discussed strategic alternatives to increase stockholder value and Thomas Weisel Partners delivered a presentation to the board regarding a spinoff and initial public offering of our upscale restaurant business.

On March 1-2, 2006, we negotiated the terms of an engagement letter with the nationally recognized investment bank that had been identified by the executive committee to update its financial analysis based on our declining results. The investment bank and we executed the engagement letter.

On March 3, 2006, North Point provided to us a list of additional due diligence requested by Lone Star Funds.

The board of directors met on March 11, 2006. North Point provided the board of directors with a report on the status of its discussions with the potential buyers for us.

On March 13, 2006, we issued our 2005 fourth quarter and fiscal year earnings release announcing, among other things, that we had experienced a decline in consolidated comparable store sales of 0.5% for each of the 2005 fourth quarter and fiscal year, including a 3.0% and 2.5% decrease for domestic Lone Star Steakhouse & Saloon restaurants for the 2005 fourth quarter and fiscal year, respectively. In this release, Jamie B. Coulter, our Chief Executive Officer, characterized 2005 as a disappointing year for the Company, especially for the Lone Star brand.

The board of directors met again on March 17, 2006. North Point provided a status update, and then North Point, Thomas Weisel Partners and the other nationally recognized investment bank made presentations to the board of directors on strategic alternatives to increase stockholder value, including continuing to operate our existing business in its present structure, leveraging our balance sheet (including a sale/leaseback transaction) and spinning off and engaging in an initial public offering of our upscale restaurant business. Following discussion, the board of directors determined not to proceed with a sale of us at that time so that it could evaluate the depth and severity of our deteriorating financial results and their impact on our ability to implement strategic alternatives.

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On March 20, 2006, North Point advised the potential buyers for us, including Lone Star Funds, that we had decided to terminate our sale process. To that point, although four of these potential buyers had expressed some level of interest in exploring a potential transaction, none of them had made any type of proposal to us, other than Lone Star Funds.

On May 30, 2006, due to the continued decline in our business and industry, at our request, a representative of North Point called representatives of Lone Star Funds and Piper Jaffray to discuss re-opening negotiations. On June 5, 2006, representatives of Lone Star Funds and us, together with our respective financial advisors, met in Dallas to discuss Lone Star Funds interest in re-opening negotiations for the possible acquisition of our company.

On June 6, 2006, North Point gave the board of directors an update on the renewed discussions with Lone Star Funds. On June 6, 2006, we executed a new exclusivity agreement with Lone Star Funds so that Lone Star Funds would continue its due diligence and delivered to Lone Star Funds a draft merger agreement. Lone Star Funds commenced additional diligence.

In early June 2006, we negotiated an engagement letter with Thomas Weisel Partners to deliver a second fairness opinion in the event the board determined that a sale of our company was in the best interest of us and our stockholders. This engagement letter was not executed until August 17, 2006 due to the extended nature of the negotiations with Acquisitions.

On June 28, 2006, the board of directors met and discussed the proposed transaction with Lone Star Funds. Lone Star Funds had not submitted a proposal to acquire us for our consideration at this meeting but, as a result of the continued deterioration of our financial results, had indicated that any forthcoming proposal was likely to be lower than its prior indications of interest. Members of our management provided an update on the operating trends in the casual dining segment for the restaurant industry as well as the continuing decline in the financial results at our Lone Star Steakhouse & Saloon restaurants. The board members reached a general consensus that the deteriorating trends in our business and industry were likely to have a significant and long-term effect on our results of operations. After discussion, the board of directors directed management to ask Lone Star Funds for its best and final offer to acquire us.

On June 30, 2006, Lone Star Funds requested a meeting at our offices in Wichita, Kansas to get an update on our business. Lone Star Funds conducted additional diligence at our offices on July 6, 2006.

On July 12, 2006, Lone Star Funds submitted to us a non-binding proposal letter to acquire us for $27.00 per share in cash, with no financing contingency, and delivered to us a mark-up of the draft merger agreement. Lone Star Funds proposal letter expressed its strong preference to structure the transaction in the form set out in this proxy statement, as a sale of the transferred subsidiaries followed by the merger, rather than as a tender offer.

On July 17, 2006, North Point presented to the board of directors the proposal of Lone Star Funds to acquire us for $27.00 per share in cash. The board members also received and discussed a memorandum from our counsel that described the key issues presented by Lone Star Funds mark-up of the draft merger agreement.

The board members participated in a telephonic board call on July 19, 2006 and continued their discussions of the proposal from Lone Star Funds. The board authorized the formation of a negotiating committee, consisting of directors Anthony Bergamo, William Greene, Clark Mandigo and Mark Saltzgaber, to negotiate the proposed transaction with Lone Star Funds. After having considered the ongoing financial, operational and industry difficulties that we have experienced and would continue to face, and having reviewed the strategic alternatives previously explored by us, the board of directors approved in principle a sale of us at $27.00 per share in cash, subject to certain conditions, including structuring the transaction as a tender offer that would be subject to an expeditious closing, limited closing conditions, our right to respond to unsolicited proposals to acquire us from a third party, and a 10% reduction in the proposed break-up fee that had been previously discussed between Lone Star Funds and us.

On July 24, 2006, we issued our 2006 second quarter earnings release, announcing, among other things, a decrease in comparable store sales for the 2006 second quarter of 0.3%, including a 3.4% decline for domestic Lone Star Steakhouse & Saloon restaurants.

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Representatives of Lone Star Funds and the negotiating committee discussed the terms of the proposed transaction on July 26, 2006. Lone Star Funds agreed with our proposed conditions, except that Lone Star Funds would not agree to structure the transaction as a tender offer. The negotiating committee members asserted that Lone Star Funds should pay $27.50 per share for a transaction structured as a voted upon merger due to the additional time that would be required to close the transaction. The parties completed the meeting with no agreement on price and various other material terms of the transaction.

On July 27, 2006, North Point briefed the board of directors on the status of the negotiations with Lone Star Funds. The board of directors directed the negotiating committee to continue negotiations with Lone Star and authorized North Point to conduct another targeted market check by contacting the potential buyers who had previously indicated some interest in exploring a strategic transaction with us. North Point commenced this market check on August 3, 2006 and delivered updated financial information to these potential buyers, but none of them expressed any further interest in pursuing a transaction.

On August 1-2, 2006, Lone Star Funds and we met at our offices for confirmatory due diligence. The discussions included, among other items, a recent reduction in prices implemented by us at our Lone Star Steakhouse & Saloon restaurants.

Between August 4, 2006 and August 12, 2006, counsel for Lone Star Funds and us exchanged numerous revised drafts of the merger agreement and conducted several conference calls. On August 10, 2006, counsel for Lone Star Funds sent to our counsel a draft of a voting agreement to be executed by Mr. Coulter. From August 12-16, 2006, the respective parties counsel negotiated the remaining outstanding issues in the merger and voting agreements. On August 16, 2006, Lone Star Funds and we completed negotiation of the terms of the merger agreement, which included a final aggregate price per share of $27.10. The negotiating committee ultimately determined, after reviewing the potential strategic alternatives available to us to increase stockholder value, that it was advisable to proceed with the transaction in the form proposed by Lone Star Funds, due, among other reasons, to the continued deterioration in our business and financial results, to the limited closing conditions to the transaction contained in the merger agreement and to the negotiating committee s belief that the transaction could be consummated in an expeditious fashion with a buyer that did not require a financing contingency.

On August 18, 2006, a special meeting of the board of directors was held to consider the proposed transaction with Lone Star Funds. The negotiating committee updated the board members on its negotiations and resolution of the principal terms of the merger agreement. North Point provided to the board its financial analysis of the proposed transaction, and then delivered to the board of directors its oral opinion (subsequently confirmed in writing) to the effect that, as of August 18, 2006, and subject to and based upon the assumptions made, matters considered and limits of review forth in its opinion, the aggregate $27.10 per share transaction consideration to be received by holders of our common stock was fair to us and our stockholders from a financial point of view. Thomas Weisel Partners also provided to the board its financial analysis of the proposed transaction, and then delivered to the board of directors its oral opinion (subsequently confirmed in writing) to the effect that, as of August 18, 2006, and subject to and based upon the assumptions made, matters considered and limits of review forth in its opinion, the aggregate $27.10 per share transaction consideration to be received by holders of our common stock (other than Acquisitions and its affiliates) was fair to such stockholders from a financial point of view. Representatives of our outside counsel, Olshan Grundman Frome Rosenzweig & Wolosky LLP, reviewed with the board members their fiduciary duties under Delaware law and the terms and provisions of the merger agreement. After discussion, including an in-depth analysis of the reasons for engaging in the transaction, the board of directors unanimously declared the sale of the transferred subsidiaries, the merger and the merger agreement advisable, fair to and in the best interests of us and our stockholders, approved the sale of the transferred subsidiaries, the merger and the merger agreement, and resolved to recommend that our stockholders adopt the merger agreement and approve the transactions contemplated thereby.

On August 18, 2006, Acquisitions and Merger Sub, affiliates of Lone Star Funds, and we executed the merger agreement and the voting agreement, which was also executed by Mr. Coulter. On August 18, 2006, we issued a press release announcing the signing of the merger agreement.

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Reasons for the Transactions

In reaching its decision to approve the merger agreement, the merger and the other transactions contemplated by the merger agreement, and to recommend that our stockholders vote to approve the merger agreement, our board of directors consulted with management and its financial and legal advisors. The board of directors considered the following factors and potential benefits of the transactions, each of which it believed supported its decision.

1. **Company Financial Condition**. Our current and historical financial condition and results of operations, as well as our prospects and strategic objectives if we were to retain our current ownership structure, and determined that our future financial condition, results of operations, prospects and strategic objectives would be best served through a sale of our company. The board of directors believed that we faced difficult industry and operational challenges for the foreseeable future. Some of the financial and operational factors used to determine such conclusion included:
   - the continued decrease in our EBITDA, as evidenced by a decrease in EBITDA of 28.7% from the second quarter of 2005 to the second quarter of 2006, as well as a decline in EBITDA from $70,983,000 in fiscal 2004, to $57,530,000 in fiscal 2005 to $45,102,000 for the 12-month period ended June 13, 2006;
   - the continued deterioration of the Lone Star Steakhouse & Saloon concept as evidenced by a decrease in comparable store sales of 14.5% for the four-week period ended August 8, 2006, as well as similar declines in comparable store sales in the Lone Star Steakhouse & Saloon concept of (i) 2.5% for fiscal 2005 compared to fiscal 2004, (ii) 1.4% for the 24 weeks ended June 13, 2006 compared to the 24 weeks ended June 14, 2005 and (iii) 5.5% for the six weeks ended July 25, 2006 compared to the six weeks ended July 26, 2005;
   - for the first two periods of the third quarter of 2006, EBITDA for the Lone Star Steakhouse & Saloon concept has declined 44% from the same two periods in 2005;
   - the negative demographic shifts and deterioration in many of the markets in which the our Lone Star Steakhouse & Saloon restaurants are located;
   - the costs involved in renovating, closing and/or relocating under-performing or older units;
   - the negative overall performance of the casual dining sector driven by, among other things, declining consumer disposable income, higher gas prices and higher interest rates;
   - the proliferation of discount pricing in the casual dining segment;
   - the spread of living-wage ordinances on a local basis, setting a minimum wage exceeding the federally mandated minimum wage;
   - the over-saturation of the casual dining industry coupled with an increased number of restaurants in the casual dining segment which offer or have added steak as part of their menus;
   - the expected over-saturation of the upscale steakhouse segment;
   - the continued price of beef above historical levels;
   - the reduced availability of quality beef due to factors such as the increasing number of restaurants which serve beef, as well as mad cow disease and foot/mouth disease;

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- the difficulty in identifying, recruiting, training and retaining senior management and other key personnel;
- increased labor, occupancy and construction costs and other operating expenses; and
- the fact that our Lone Star Steakhouse & Saloon restaurants are not media efficient from a marketing perspective, making television advertising inefficient and thereby placing the Lone Star Steakhouse & Saloon concept at a disadvantage compared to larger casual dining chains.

2. **Best Acquisition Proposal Received**. The board of directors considered that North Point made contact with approximately seven highly qualified third parties (including Acquisitions) regarding potential strategic transactions involving us and that, at the time the merger agreement was entered into, the market check completed by North Point revealed no other firm proposals to purchase us. The board of directors believed that Acquisitions proposal contemplated by the merger agreement was beneficial to us for several reasons including (i) the purchase price to be paid per share of our common stock and that the purchase price is payable in cash, (ii) the limited conditions required to be satisfied or waived in order to consummate the transactions contemplated by the merger agreement, including that there is no financing contingency, and (iii) the speed and likelihood of successfully consummating the transactions contemplated by the merger agreement.
3. **Strategic Alternatives**. The board of directors considered strategic alternatives to increase stockholder value other than a sale of our company, including:
   - maintaining our current capital structure. However, the board of directors ultimately decided against this approach because, in order for our stockholders to benefit from this approach, the board of directors believed that we must successfully execute our growth plans in light of the increased competition in the casual dining segment and the industry and operational challenges affecting us. In addition, this alternative required significant capital investment to enable us to open additional units and remodel existing units. The board of directors was also concerned that continued deterioration at the Lone Star Steakhouse & Saloon concept as well as the negative operating trends at the Lone Star Steakhouse & Saloon restaurants would adversely affect the current capital structure;
   - a possible spin-off of our upscale concepts in conjunction with an initial public offering for the spin-off entity. However, the board of directors decided that in addition to the risks associated with the timing and completion of an initial public offering, a spin-off would result in duplicate public company costs, including additional administrative, accounting and Sarbanes-Oxley-related costs, the necessity for two separate management groups, and two small public companies with limited public float and liquidity. In addition, the board of directors was concerned with the recent decline in the stock prices of premium steak companies and the impact of a spin-off on the residual value of our common stock given the deteriorating performance of the Lone Star Steakhouse & Saloon concept;
   - a partial sale of our casual dining concepts. However, the board of directors decided that the resulting company with only the upscale concepts would have a limited public float and the partial sale of the mid-priced concepts would have been a taxable event for the resulting company. In addition, the board of directors was concerned that the deteriorating performance of the Lone Star Steakhouse & Saloon concept could negatively impact the value that we would receive in connection with a sale of the casual dining concepts;
   - issue a one-time cash dividend to our stockholders or initiate a substantial buy-back of our common stock. However, the board of directors decided that these alternatives would significantly increase our leverage thereby limiting our future financial flexibility and decreasing our market capitalization at a time when there has been continued deterioration at the Lone Star Steakhouse & Saloon concept. Such leverage would hinder our ability to make significant capital investments;

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a sale/leaseback of our real estate holdings. However, the board of directors decided that this alternative would decrease our market capitalization and increase our operating risk given the uncertainty in future operating results;
making a strategic acquisition or acquisitions. However, the board of directors decided it did not believe that there were suitable acquisitions which would address the financial problems facing us; namely our ability to execute our business plan in light of the increased competition in the casual dinning segment and the industry and operational challenges affecting us; and
undertaking a going-private transaction/management buy-out. However, the board of directors decided that the transactions contemplated by the merger agreement will provide more value for our stockholders and in a shorter amount of time, and no candidates surfaced to lead a going private transaction.

4. **Multiple of EBITDA.** The board of directors considered the fact that the transaction consideration of an aggregate of $27.10 per share represents a factor that is 12.3 times EBITDA for the 12 months ended June 13, 2006, a significant premium over the average of historical transactions in the restaurant industry.
5. **Multiple Fairness Opinions**. At a meeting of the board of directors held on August 18, 2006 to evaluate the transactions, the board of directors considered the respective presentations and fairness opinions of North Point and Thomas Weisel Partners, each of which provided that, as of August 18, 2006, and based upon and subject to the considerations and assumptions set forth in their respective opinions, the aggregate $27.10 per share transaction consideration was fair to our stockholders from a financial point of view. The board of directors also considered that North Point becomes entitled to certain fees described under The Transactions Opinions of the Board of Directors Financial Advisors below upon the consummation of the transactions. See The Transactions Opinions of the Board of Directors Financial Advisors below for further detail.
6. **Perceived Certainty of Closure - Limited Conditions to Consummation**. The board of directors considered that Acquisitions obligations to consummate the transactions are subject to only a limited number of customary conditions, including that a majority of the outstanding shares of our common stock approve the merger agreement. The board of directors further considered that to consummate the transactions, we would not be required to obtain certain material consents, approvals or authorizations, including those required by all state, city or local liquor licensing boards, agencies or other similar entities. In addition, the consummation of the transactions is not subject to Acquisitions receiving financing for the aggregate transaction consideration or completing any additional due diligence.
7. **Market Price of our Common Stock.** The board of directors considered the current and historical market prices of our common stock, and the fact that the transaction consideration represents a premium to the market price of our common stock, including a premium of 17.8% to the average closing price for the one-week period ended August 16, 2006, and a premium of 14.3% to the one month moving average for the period ended August 16, 2006.
8. **Alternative Proposals**. The board of directors considered that, under the terms of the merger agreement, while we are prohibited from soliciting acquisition proposals from third parties, we may engage in discussions and negotiations with, and may furnish non-public information to, a third party that makes an unsolicited acquisition proposal if, among other things, the board of directors determines in good faith, after consultation with its outside legal counsel, that such action with respect to such proposal is necessary for the board of directors to comply with its fiduciary duties. Specifically, we may entertain discussions with third parties whose initial proposals may be less than the transaction consideration, but the board of directors would be prohibited from accepting such an offer unless it ultimately determined it was a superior proposal to the transactions. In addition, the merger agreement permits the board of directors, in the exercise of its fiduciary duties, to withdraw or modify its approval or recommendation of the merger agreement or the transactions even if we have not received a superior proposal if it were to subsequently determine that the merger agreement and the transactions are no longer in our best interest and the best interest of our stockholders, although, unless the merger agreement is terminated by Acquisitions in such event, we would remain obligated to hold the special meeting. The board of directors further considered that the terms of the merger agreement provide the board of directors with the ability to terminate the merger agreement in order to enter into an agreement for a superior proposal, subject to paying Acquisitions expenses and a termination fee and the fact that, in the judgment of the board of directors, the amount of the termination fee would not preclude an interested third party from making an offer for us. The board of directors also considered the possible effect of these provisions of the merger agreement on third parties that might be interested in making a proposal to acquire us.

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The foregoing includes the material factors considered by the board of directors. In view of its many considerations, the board of directors did not find it practical to, and did not, quantify or otherwise assign relative weights to the specific factors considered. In addition, individual members of the board of directors may have given different weights to the various factors considered.

After considering the factors discussed above, the board of directors determined that the following constituted reasons to approve the merger agreement and the transactions contemplated thereby and recommend that holders of our common stock adopt the merger agreement and approve the transactions contemplated thereby:

- the transaction consideration represents 12.3 times EBITDA for the 12 months ended June 13, 2006;
- our future financial condition, results of operations, prospects and strategic objectives will be best served through a sale of our company;
- a sale of our company will provide more value to our stockholders and in a shorter period of time than other potential strategic alternatives;
- two financial advisors engaged by the board of directors have opined that the transaction consideration is fair to our stockholders from a financial point of view;
- the transactions are subject to a limited number of customary conditions to consummation, and there is no financing contingency;
- the merger agreement offered a speedy and timely closing;
- the transaction consideration represents a premium of approximately 15% over the closing price of shares of our common stock on August 17, 2006, the last full day of trading prior to our public announcement of the execution of the merger agreement; and
- the board of directors did not receive any other firm proposals.

Based upon these reasons, the board of directors unanimously (1) determined that the merger agreement and the transactions contemplated thereby are advisable and are fair to us and our stockholders, and in our best interest and the best interest of our stockholders, (2) approved the merger agreement and the transactions contemplated thereby and (3) recommended that the holders of our common stock adopt the merger agreement and approve the transactions contemplated thereby.

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Recommendation of the Board of Directors

After careful consideration, the board of directors has unanimously determined that the merger agreement, the sale of the transferred subsidiaries and the merger are advisable and are fair to us and our stockholders, and in our best interest and the best interest of our stockholders and has unanimously approved the merger agreement and the transactions contemplated thereby. The board of directors unanimously recommends that you vote FOR the adoption of the merger agreement and the approval of the transactions contemplated thereby at the special meeting and FOR the approval of the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies.

Opinions Delivered to the Board of Directors

Description of North Point s Fairness Opinion

North Point rendered an opinion to the board of directors that, as of August 18, 2006, and based upon and subject to the factors and assumptions set forth therein, the aggregate per share consideration to be paid to our stockholders in the transactions contemplated by the merger agreement is fair from a financial point of view to us and our stockholders.

The full text of the North Point fairness opinion, dated as of August 18, 2006, which sets forth assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Annex B to this proxy statement. North Point provided its opinion to the board of directors in its consideration of the transactions contemplated by the merger agreement and in order to provide further information for our stockholders in connection with such transactions. The North Point fairness opinion is not a recommendation as to how any stockholder of our company should vote with respect to the transactions contemplated by the merger agreement. North Point has consented to the disclosures regarding its fairness opinion in this proxy statement.

In connection with rendering the opinion described above and performing its related financial analyses, North Point reviewed, among other things:

- the August 18 draft of the merger agreement;
- certain financial, operating and business information prepared and furnished by our management, including certain of our audited and unaudited financial statements;
- certain internal information prepared and furnished by our management with respect to our business, operations and prospects, including financial forecasts and projected financial data;
- to the extent publicly available, information concerning selected transactions deemed comparable to the proposed transactions;
- certain publicly available financial and securities data of selected public companies deemed comparable to our company;
- certain internal financial information, including financial forecasts, of our company on a stand-alone basis, prepared and furnished by our management;
- certain publicly available market and securities data of our company; and
- certain publicly available press releases and research reports.

North Point also had discussions with members of our management concerning our financial condition, current operating results and our business outlook. In addition, North Point compared certain financial information for our company with similar information for certain other companies the securities of which are publicly traded, reviewed the financial terms of certain recent business combinations in the restaurant business and performed such other studies and analyses, and considered such other factors, as it considered appropriate.

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North Point relied upon and assumed the completeness, accuracy and fairness of our financial statements, financial forecasts and management estimates as to our future performance, and other information made available to North Point, and North Point did not assume responsibility for the independent verification of that information. North Point relied on assurances from our management that the information provided to North Point by us was prepared on a reasonable basis in accordance with industry practice and that such information provides a reasonable basis upon which North Point could render its opinion.

With respect to the financial planning data, forward-looking statements, and other business outlook information provided to North Point, North Point assumed that the information had been reasonably prepared by us on bases reflecting the reasonable estimates and judgment of our management, that the information was based on reasonable assumptions, and that it reflected the anticipated effects of the transactions contemplated by the merger agreement. North Point did not express any opinion as to such financial planning data or the assumptions on which such data was based. In addition, various analyses performed by North Point incorporated forecasts prepared by research analysts using only publicly available information. These forecasts may or may not prove to be accurate.

North Point also assumed that our management was not aware of any information or facts that would make the information provided to North Point incomplete or misleading in any material respect. North Point also assumed that other than as provided in our disclosure schedules to the merger agreement there have been no material changes in our assets, financial condition, results of operations, business or prospects since the respective dates of the last financial statements made available to North Star. North Star further assumed that we were not party to any pending transaction, including external financing, recapitalization, acquisition, merger, consolidation or sale of all or substantially all of our assets, other than the transactions contemplated by the merger agreement or in the ordinary course of business.

In rendering its opinion, North Point assumed that the merger agreement as executed by the parties will not differ in any material respect from the August 18, 2006 draft of the merger agreement examined by North Point and that we and the other parties to the merger agreement will comply in all material respects with the terms of the merger agreement. North Point further assumed that the transactions will be consummated in accordance with the terms described in the merger agreement without waiver, modification or amendment to any material term, condition or agreement and that there will not be any material adjustment to the aggregate per share consideration to be paid to our stockholders in the transactions contemplated by the merger agreement. North Point also assumed and relied upon the accuracy and completeness of each of the representations and warranties contained in the merger agreement.

North Point assumed that all the necessary regulatory approvals and consents required for the transactions contemplated by the merger agreement will be obtained in a manner that will not change the aggregate per share consideration to be paid to our stockholders under the merger agreement. North Point also assumed that the transactions contemplated by the merger agreement will be consummated in a manner that complies in all respects with the applicable provisions of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, and all other applicable federal and state statutes, rules and regulations.

North Point s opinion does not address the basic business decision to proceed with or effect the transactions contemplated by the merger agreement. North Point did not structure the merger or the other transactions contemplated by the merger agreement. North Point s opinion did not address the relative merits of the transactions contemplated by the merger agreement, on the one hand, or any alternative business strategies or alternative transactions that may be available to our company, on the other hand, or any tax consequences of such transactions. In addition, North Point did not perform any appraisals or valuations of any specific assets or liabilities of our company, nor were any such appraisals or valuations furnished to North Point.

The following is a summary of the material financial analyses delivered by North Point to the board of directors in connection with rendering the opinion described above. The following summary, however, does not purport to be a complete description of the financial analyses performed by North Point, nor does the order of analyses described represent relative importance or weight given to those analyses by North Point. Some of the summaries of the financial analyses include information presented in tabular format. The tables must be read together with the full text of each summary and are alone not a complete description of North Point s financial analyses. Except as otherwise noted, the following quantitative information for our company, to the extent that it is based on market data, is based on market data as it existed on or before the August 18, 2006 announcement of the merger agreement and is not necessarily indicative of current market conditions.

North Point noted that the aggregate per share consideration to be paid pursuant to the merger agreement of $27.10 represented the following multiples for our company:

LTM Revenue	CY 2006E Revenue	LTM EBITDA	CY 2006E EBITDA
0.8 x	0.8 x	12.1 x	8.8 x

These multiples were calculated based on publicly available information and estimates for our company provided by management.

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Discounted Cash Flow Analysis. North Point performed a discounted cash flow analysis of our estimated cash flow for calendar years 2007 through 2011. North Point estimated a range of terminal values in the year 2011 based on multiples ranging from 7.5x earnings before interest, taxes, depreciation and amortization, or EBITDA, to 9.5x EBITDA. The 7.5x to 9.5x EBITDA multiples represented a reasonable range in line with the range of the mean and median of comparable public trading and M&A multiples. These terminal values were then discounted to calculate implied indications of present values using discount rates ranging from 10.0% to 15.0%. The discount rates used in this analysis were chosen based on accepted industry averages for the cost of capital for companies in the restaurant industry. North Point used these discounted terminal values to calculate a range of enterprise values (which is the market value of common equity plus the book value of debt, less cash) and equity values per share for our company. The resulting enterprise value ranged from $457.1 million to $659.7 million and the resulting equity value per share (based on 22.7 million fully diluted shares outstanding) ranged from $22.73 to $31.66. North Point compared this range of enterprise values to the implied transaction value of $556.3 million for the transactions contemplated by the merger agreement (based on the total transaction consideration of $614.5 million less $58.2 million of cash and short-term investments) and compared this range of equity values per share to the aggregate per share consideration to be paid pursuant to the merger agreement of $27.10.

Selected Companies Analysis. North Point reviewed and compared certain financial information and valuation multiples for our company to corresponding financial information and public market multiples for the following publicly traded corporations in the restaurant business:

Brinker International
Champps Entertainment, Inc.
Darden Restaurants, Inc.
J. Alexander s Corp.
Landry s Restaurants, Inc.
McCormick & Schmick s Restaurants, Inc.
Morton s Restaurant Group Inc.
O Charley s Inc.
OSI Restaurant Partners
RARE Hospitality International Inc.
Ruth s Chris Steak House, Inc.
Smith & Wollensky Restaurant Group, Inc.

Although none of the selected companies is directly comparable to our company, each of the companies has operations in the restaurant business and the operations of these companies as a whole for purposes of analysis may be considered similar to our operations.

North Point calculated various financial multiples for such comparable companies (as set forth in the table below) based on the ratio of the enterprise value of these companies to the last twelve months revenue and last twelve months EBITDA of these companies for calendar year (CY) 2005 and the estimated revenue and estimated EBITDA for CY 2006 of these companies (obtained from SEC filings and Reuters consensus estimates as of August 18, 2006). North Point then identified the first and third quartiles within the range of such multiples.

The results of these analyses are summarized as follows:

Enterprise Value as a multiple of:	**Range of Multiples**	**First Quartile**	**Third Quartile**
LTM Revenue	0.3x-2.1x	0.6x	1.0x
LTM EBITDA	4.4x-12.9x	7.0x	10.0x
2006 Estimated Revenue	0.3x-1.8x	0.7x	1.0x
2006 Estimated EBITDA	4.3x-11.2x	6.9x	8.7x

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North Point then used the first and third quartiles within the range of such multiples to calculate a range of enterprise values and equity values per share for our company based on our operating data (provided by our management) set forth below.

- enterprise value as a multiple of last twelve months revenue;
- enterprise value as a multiple of last twelve months EBITDA;
- enterprise value as a multiple of estimated revenue for CY 2006; and
- enterprise value as a multiple of estimated EBITDA for CY 2006.

The resulting enterprise value for our company ranged from $321.1 million to $691.5 million and the resulting equity value per share ranged from $16.74 to $33.06. North Point compared this range of enterprise values to the implied transaction value of $556.3 million for the transactions contemplated by the merger agreement and compared this range of equity values per share to the aggregate per share consideration to be paid pursuant to the merger agreement of $27.10.

Selected Transactions Analysis. North Point reviewed the terms of certain recent merger and acquisition transactions reported in SEC filings, public company disclosures, press releases, industry and popular press reports, databases and other sources relating to the following selected transactions (listed by target/acquirer) in the restaurant industry since 2004:

Target	**Acquiror**
Ryan s Restaurant Group	Buffets Inc.
Jamba Juice Company	Services Acquisition Corporation
Quizno s Corporation	JPMorganChase
Bravo! Development Inc.	Bruckman, Rosser, Sherrill/Castle Harlan/Management
Main Street Restaurant Group Inc.	Briad Group
Checkers Drive-In Restaurants Inc.	Wellspring Capital Management LLC
Sticky Fingers Inc.	Quad-C Management
Dave & Buster s Inc.	Wellspring Capital Management LLC
Dunkin Brands, Inc.	Bain Capital/Carlyle Group/Thomas H Lee
Fox & Hound Restaurant Group	Newcastle Partners/Steel Partners
Del Taco, Inc.	Sagittarius Brands Inc.
Corner Bakery Cafe	Bruckman, Rosser, Sherrill & Co.
El Pollo Loco Inc.	Trimaran Capital Partners
Garden Fresh Holdings, Inc.	Sun Capital Partners, Inc.
Claim Jumper Restaurants	Black Canyon Capital/Leonard Green
Perkins Restaurant & Bakery	Castle Harlan Inc.
Worldwide Restaurant Concepts Inc.	Pacific Equity Partners
Taco Bueno Restaurants	Palladium Equity Partners
Quality Dining	Management/Fitzpatrick Group
Elmer s Restaurants Inc.	ERI Acquisition Group
Charlie Brown s Inc.	Trimaran Capital Partners
Church s Chicken	Crescent Capital Investments
Chevy s Mexican Restaurant	Bruckman, Rosser, Sherrill & Co.
Mimi s Cafe	Bob Evans
Garden Fresh Restaurant Corp.	Centre Partners/Fairmont Capital/Management
Piccadilly Cafeterias, Inc.	Piccadilly Investments LLC
Tumbleweed Inc.	Tumbleweed Inc. Management
Ninety Nine Restaurant & Pub	O Charleys

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These transactions were selected because the target companies were involved in the restaurant business. Although none of the selected transactions involved businesses that are directly comparable to our company, each of the target businesses involved in the selected transactions had operations in the restaurant business and the operations of the target businesses involved in the selected transactions as a whole for purposes of analysis may be considered similar to our operations.

For each of the selected transactions, North Point calculated financial multiples for the target companies based on the ratio of the transaction value to the last twelve months revenue and the transaction value to the last twelve months EBITDA of the target companies prior to the consummation of the transaction. North Point then identified the first and third quartiles within the range of such multiples. The results of these analyses are summarized as follows:

Transaction Value as a multiple of last twelve months:	**Range of Multiples**	**First Quartile**	**Third Quartile**
Revenue	0.4x-5.5x	0.5x	1.0x
EBITDA	5.1x-13.7x	6.2x	9.6x

North Point used the first and third quartiles within the range of such multiples to calculate a range of enterprise values and equity values per share for our company based on our last twelve months revenue and last twelve months EBITDA (provided by our management). The resulting enterprise value for our company ranged from $282.5 million to $707.0 million and the resulting equity value per share ranged from $15.02 to $33.75. North Point compared this range of enterprise values to the implied transaction value of $556.3 million for the transactions contemplated by the merger agreement and compared this range of equity values per share to the aggregate per share consideration to be paid pursuant to the merger agreement of $27.10.

Premiums Paid Analysis. North Point reviewed the premiums paid in pending and completed acquisitions of U.S. target companies since January 1, 2004 with market capitalizations between $400 million and $1 billion on the date of announcement of the transaction (excluding transactions involving companies in higher growth industries such as healthcare, technology and telecommunications industries which are typically valued differently than restaurants and other retail businesses). North Point calculated the premiums paid in each of these transactions based on the trading prices of the stock of the target companies one day prior to announcement, one week prior to announcement and one month prior to announcement of the transaction. North Point then identified the first and third quartiles within the range of such premiums paid in these transactions. The results of these analyses are summarized as follows:

Premiums Paid:	**Range of Premiums Paid**	**First Quartile**	**Third Quartile**
One Day Prior to Announcement	0.20%-52.51%	11.81 %	32.25 %
One Week Prior to Announcement	0.54%-62.21%	16.03 %	34.07 %
One Month Prior to Announcement	2.70%-60.58%	17.69 %	34.74 %

North Point then applied the first and third quartiles of such premiums to the trading prices of our common stock one day, one week and one month prior to announcement of the transactions contemplated by the merger agreement to calculate a range of implied offer prices per share for our company. The resulting implied offer price per share for our company ranged from $26.67 to $31.66. North Point compared this range of offer prices to the aggregate per share consideration to be paid pursuant to the merger agreement of $27.10.

Additional Considerations. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Selecting portions of the analyses or of the summary set forth above, without considering the analyses as a whole, could create an incomplete view of the processes underlying North Point s opinion. In arriving at its fairness determination, North Point considered the results of all of its analyses and did not attribute any particular weight to any factor or analysis considered by it. Rather, North Point made its determination as to fairness on the basis of its experience and professional judgment after considering the results of all of its analyses. No company or transaction used in the above analyses as a comparison is directly comparable to our company or the transactions contemplated by the merger agreement.

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North Point prepared these analyses for purposes of providing its opinion to the board of directors as to the fairness from a financial point of view of the aggregate per share consideration to be paid to our stockholders under the merger agreement. These analyses do not purport to be appraisals nor do they necessarily reflect the prices at which businesses or securities actually may be sold. Analyses based upon forecasts of future results are not necessarily indicative of actual future results, which may be significantly more or less favorable than suggested by these analyses. Because these analyses are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the parties or their respective advisors, neither we nor North Point nor any other person assumes responsibility if future results are materially different from those forecast.

The aggregate per share consideration was determined through arms -length negotiations between Lone Star Funds and us and was approved by the board of directors. North Point did not recommend any specific amount of consideration to the board of directors or that any specific amount of consideration constituted the only appropriate consideration for the transactions.

The foregoing summary does not purport to be a complete description of the analyses performed by North Point in connection with the fairness opinion and is qualified in its entirety by reference to the written opinion of North Point attached as Annex B to this proxy statement.

North Point, as part of its customary investment banking practice, is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, competitive biddings, corporate and other purposes. North Point has acted as financial advisor to our company in connection with the transactions. North Point has received a $500,000 fee for rendering its fairness opinion. North Point will also receive a fee for its financial advisory services equal to 0.65% of the aggregate transaction value realized by our stockholders, which fee is contingent upon the consummation of the transactions. The opinion fee paid to North Point will be credited against any transaction fee payable to North Point upon the consummation of the transactions. In addition, whether or not the transactions are consummated, we have agreed to pay the reasonable out-of-pocket expenses of North Point and to indemnify North Point against certain liabilities in connection with its services.

Opinion of Thomas Weisel Partners

The board of directors retained Thomas Weisel Partners LLC to provide it with an opinion as to the fairness to our stockholders, from a financial point of view and as of the date of the opinion, of the aggregate $27.10 per share transaction consideration. The board of directors selected Thomas Weisel Partners to render such opinion based on Thomas Weisel Partners experience, expertise and reputation, and its familiarity with our business and industry.

On August 18, 2006, Thomas Weisel Partners delivered to the board of directors its oral opinion, subsequently confirmed in writing, that, as of August 18, 2006, and subject to and based on the assumptions made, matters considered and limits of review set forth in Thomas Weisel Partners written opinion, the aggregate $27.10 per share transaction consideration to be received by holders of our common stock (other than Acquisitions and its affiliates) was fair to such stockholders from a financial point of view.

We determined the aggregate $27.10 per share transaction consideration through negotiations with Lone Star Funds. We did not impose any limitations on Thomas Weisel Partners with respect to the investigations made or procedures followed in rendering its opinion. Further, we did not request the advice of Thomas Weisel Partners with respect to alternatives to the transactions, the terms and conditions, including structure, of the transactions, or our underlying decision to proceed with or effect the transactions. Thomas Weisel Partners did not solicit or assist our company in soliciting indications of interest from third parties for all or any part of our company.

The full text of Thomas Weisel Partners written opinion, which sets forth, among other things, the assumptions made, procedures followed, matters considered and limitations on the scope of the review undertaken by Thomas Weisel Partners in delivering its opinion, is attached as Annex C. You should read the opinion carefully and in its entirety. The following description of Thomas Weisel Partners opinion is only a summary of the written opinion and is qualified in its entirety by the written opinion and is not a substitute for the written opinion.

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Thomas Weisel Partners opinion was directed to the board of directors in its consideration of the transactions and is not a recommendation to any stockholder as to how such stockholder should vote with respect to the transactions or any other matter. Further, Thomas Weisel Partners opinion addressed only the financial fairness of the aggregate $27.10 per share transaction consideration to holders of our common stock (other than Acquisitions and its affiliates) and did not address the relative merits of the transactions or any alternatives to the transactions, our underlying decision to proceed with or effect the transactions, the financial or other fairness of the distribution consideration or the merger consideration, individually (as opposed to the aggregate $27.10 per share transaction consideration), or any other aspect of the transactions. In furnishing its opinion, Thomas Weisel Partners did not admit that it is an expert within the meaning of the term expert as used in the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder, nor did it admit that its opinion constitutes a report or valuation within the meaning of Section 11 of the Securities Act. Thomas Weisel Partners opinion includes statements to this effect.

In connection with its opinion, Thomas Weisel Partners:

(1) reviewed certain publicly available financial and other data with respect to our company, including our company s consolidated financial statements for recent years and interim periods to our fiscal quarter ended June 13, 2006 and certain other relevant financial and operating data relating to our company made available to Thomas Weisel Partners from published sources and from our internal records;
(2) reviewed the financial terms and conditions of the merger agreement;
(3) reviewed certain publicly available information concerning the trading of, and the trading market for, shares of our common stock;
(4) compared our company from a financial point of view with certain other public companies in the restaurant industry which Thomas Weisel Partners deemed to be relevant;
(5) considered the financial terms, to the extent publicly available, of selected recent business combinations of companies in the restaurant industry which Thomas Weisel Partners deemed to be comparable, in whole or in part, to the transactions;
(6) reviewed and discussed with representatives of our company s management certain information of a business and financial nature regarding our company, including financial forecasts and related assumptions with respect to our company;
(7) made inquiries regarding and discussed the transactions and the merger agreement and other related matters with our counsel; and
(8) performed such other analyses and examinations as Thomas Weisel Partners deemed appropriate.

In preparing its opinion, Thomas Weisel Partners did not assume any responsibility to independently verify the information referred to above. Instead, with the board of directors consent, Thomas Weisel Partners relied on the information being accurate and complete. Thomas Weisel Partners also made the following assumptions, in each case with the board of directors consent:

with respect to the financial forecasts and related assumptions related to our company, upon the advice of representatives of our management, Thomas Weisel Partners assumed for purposes of its opinion that the forecasts were reasonably prepared on bases reflecting the best available estimates and judgments of our management as to the future financial performance of our company and that they provided a reasonable basis upon which Thomas Weisel Partners could form its opinion;

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that there have been no material changes in our company s assets, financial condition, results of operations, business or prospects since the date of our last financial statements made available to Thomas Weisel Partners;
that the transactions will be consummated in a manner that complies in all respects with the applicable provisions of the Securities Act of 1933, the Securities Exchange Act of 1934, and all other applicable federal and state statutes, rules and regulations;
that the transactions will be treated as a single overall plan to fully redeem each of our stockholders of his, her or its shares of common stock for U.S. federal income tax purposes pursuant to Section 302 of the Internal Revenue Code of 1986, as amended; and
that the transactions will be consummated in accordance with the terms described in the merger agreement, without any amendments, and without waiver by any party of any of the conditions to such party s obligations.

In addition:

Thomas Weisel Partners relied on advice of counsel and independent accountants to our company as to all legal and financial reporting matters with respect to our company, the transactions and the merger agreement;
Thomas Weisel Partners did not assume responsibility for making an independent evaluation, appraisal or physical inspection of any of our assets or liabilities (contingent or otherwise), nor was Thomas Weisel Partners furnished with any such appraisals; and
Thomas Weisel Partners opinion was based on economic, monetary and market and other conditions as in effect on, and the information made available to Thomas Weisel Partners as of, August 18, 2006. Accordingly, although developments occurring after August 18, 2006 may affect its opinion and the assumptions used in preparing it, Thomas Weisel Partners has not assumed any obligation to update, revise or reaffirm its opinion.

The following is a summary of the material financial analyses performed by Thomas Weisel Partners in connection with providing its opinion to the board of directors. Some of the summaries of financial analyses performed by Thomas Weisel Partners include information presented in tabular format. In order to fully understand the financial analyses performed by Thomas Weisel Partners, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data set forth in the tables without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the financial analyses performed by Thomas Weisel Partners.

Thomas Weisel Partners noted that the aggregate $27.10 per share transaction consideration represented the following multiples for our company:

Implied Multiples Based on Aggregate $27.10 Per Share Transaction Consideration

LTM Revenue	CY 2006E Revenue	CY 2006E Net Income	CY 2007E Net Income	LTM EBITDA	CY 2006E EBITDA
0.8 x	0.9 x	28.2 x	24.9 x	12.3 x	10.5 x

These multiples were calculated based on publicly available information and publicly available research estimates with respect to our company.

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Selected Public Company Analysis. Thomas Weisel Partners compared the market values and trading multiples of our company with the market values and trading multiples of 13 public companies in the restaurant industry. Based on publicly available information, Thomas Weisel Partners calculated the implied enterprise value (which Thomas Weisel Partners defined as market capitalization plus total debt less cash and cash equivalents) of our company, the implied equity value of our company and the implied per share value of our company.

The multiples that were used by Thomas Weisel Partners in this analysis were derived by (i) dividing the enterprise value of each selected company (based on closing stock prices on August 16, 2006) by its revenue for the last twelve months, EBITDA for the last twelve months, 2006 estimated revenue and 2006 estimated EBITDA, and (ii) dividing the closing price per share of the common stock of each selected company on August 16, 2006 by its estimated 2006 and 2007 earnings per share (referred to as the P/E ratio). For this analysis, Thomas Weisel Partners utilized publicly available information and examined a range of publicly available estimates based on consensus securities analysis research provided by First Call and, in the case of our company, publicly available research estimates with respect to our company that we advised Thomas Weisel Partners were reasonable and reflected the best available estimates and judgments by our management as to our company s future financial performance.

Thomas Weisel Partners selected companies for this analysis that operate in and are exposed to the restaurant industry and that have operations similar to some of our company s operations, but Thomas Weisel Partners noted that none of the selected companies has the same management, composition, size or combination of businesses as our company. The following companies were reviewed in this analysis:

Applebee s International Inc.
Bob Evans Farms, Inc.
Brinker International Inc.
CBRL Group, Inc.
Darden Restaurants
Landry s Restaurants
Morton s Restaurant Group Inc.
OSI Restaurant Partners
O Charley s Inc.
RARE Hospitality International, Inc.
Ruth s Chris Steak House Inc.
Smith & Wollensky Restaurant Group Inc.
Texas Roadhouse Inc.

Thomas Weisel Partners assembled relevant data regarding selected public companies and used statistical interpolation to divide the probability distribution of that data into four equal areas: the first quartile, the median, the mean and the third quartile. Thomas Weisel Partners considered the first quartile and the third quartile to represent the low and the high ends of the range of each multiple, and highlighted that analysis in its presentation to the board of directors.

The multiples derived from the implied estimated enterprise values, revenues, EBITDA, and net income of the companies utilized in the analysis were calculated using data that excluded all extraordinary items and non-recurring charges. In each case, Thomas Weisel Partners multiplied the ratios derived from its analysis by our company s estimated revenues, EBITDA and net income to calculate the resulting implied value ranges listed below.

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The following table sets forth the multiples and valuation ranges indicated by this analysis:

	Range of Selected Company Multiples		**Implied Enterprise Value**		**Implied Equity Value**		**Implied Price Per Share**	
	Low	**High**	**Low**	**High**	**Low**	**High**	**Low**	**High**
			(millions)		**(millions)**			
LTM Revenue	0.7x	1.1x	$454	$748	$502	$796	$22.38	$35.48
CY 2006E Revenue	0.7x	1.2x	444	739	492	787	21.95	35.12
CY 2006E Net Income	15.7x	18.9x	298	368	346	416	15.74	18.93
CY 2007E Net Income	14.7x	16.3x	329	379	377	427	16.82	19.02
LTM EBITDA	7.2x	9.1x	333	419	381	467	17.23	21.13
CY 2006E EBITDA	7.4x	8.9x	400	485	448	533	20.09	23.91

While the comparable company analysis compared our company to 13 other public companies in the restaurant industry, Thomas Weisel Partners did not include every company that could be deemed to be a participant in the industry or in any specific sector of the industry.

Selected Transactions Analysis. Based on public and other available information, Thomas Weisel Partners calculated the implied enterprise value of our company as multiples of revenue and EBITDA for the last twelve months using data derived from 29 selected acquisitions of companies in the restaurant industry that have been announced since March 19, 1999. The following acquisitions were reviewed in this analysis:

Announcement Date	**Name of Target**	**Name of Acquiror**
07/25/06	Ryan s Restaurant Group*	Buffets, Inc.
06/05/06	Bravo! Development	Management/Bruckman, Rosser/Castle Harlan
05/04/06	Catalina Restaurant Group	Zensho America
12/12/05	Fox and Hound Restaurant*	Newcastle Partners/ Steel Partners
12/08/05	Dave and Busters*	Wellspring Capital Management
10/18/05	Garden Fresh	Sun Capital
10/03/05	Corner Bakery	Bruckman, Rosser/II Fornaio
09/19/05	Claim Jumper	Investor Group
09/06/05	Perkins Restaurant	Castle Harlan
04/28/05	Worldwide Restaurant Concepts*	Pacific Equity Partners
01/12/05	Charlie Brown s	Trimaran Capital Partners
01/12/05	UNO Restaurant Holdings	Centre Partners
12/21/04	Elmer s Restaurants*	ERI Acquisition Group
10/13/04	Quality Dining, Inc.*	Management
06/14/04	SWH Corporation (d.b.a.) Mimi s Café	Bob Evans Farms, Inc.
09/30/03	Garden Fresh Restaurant Corp.*	Fairmont Capital Inc.
06/13/03	VICORP (Village Inn, Bakers Square)	Wind Point Partners
10/28/02	Ninety Nine Restaurant & Pub	O Charley s
03/27/02	Morton s Restaurant Group*	Castle Harlan
01/24/02	Shoney Inc.*	Lone Star Funds
11/20/01	Santa Barbara Restaurant Group*	CKE Restaurant Group
10/08/01	Blimpie International*	Investor Group
03/23/01	PJ America Inc.*	Management
02/15/01	VICORP Restaurants Inc.*	BancBoston Capital, Golden Hawn
11/16/00	II Fornaio*	Bruckman, Rosser, Sherrill & Co.
10/25/00	UNO Restaurant Holdings*	Investor Group
10/06/00	Taco Cabana*	Carrols Corporation
06/05/00	Buffets, Inc.*	Caxton-Iseman Capital/Sentinel Partners
03/19/99	Rock Bottom Restaurants*	RB Capital

* Indicates that the target was a public company.

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Thomas Weisel Partners assembled relevant data regarding selected precedent transactions and used statistical interpolation to divide the probability distribution of that data into four equal areas: the first quartile, the median, the mean and the third quartile. Thomas Weisel Partners considered the first quartile and the third quartile to represent the low and the high ends of the range of each multiple, and highlighted that analysis in its presentation to the board of directors. Thomas Weisel Partners then multiplied the ratios derived from its analysis by estimated revenue and EBITDA for our company for the last twelve months to calculate the resulting implied value ranges listed below.

The following table sets forth the implied enterprise value, the implied equity value and the implied price per share of our company based on multiples derived from the 18 acquisitions of public restaurant companies used in Thomas Weisel Partners analysis:

	Range of Selected Transaction Multiples		**Implied Enterprise Value**		**Implied Equity Value**		**Implied Price Per Share**	
	Low	**High**	**Low**	**High**	**Low**	**High**	**Low**	**High**
			(millions)		**(millions)**			
LTM Revenue	0.6x	0.8x	$386	$510	$434	$557	$19.47	$25.04
LTM EBITDA	5.4x	7.2x	251	334	299	382	13.73	17.55

The following table sets forth the implied enterprise value, the implied equity value and the implied price per share of our company based on multiples derived from acquisitions of both private and public restaurant companies used in Thomas Weisel Partners analysis:

	Range of Selected Transaction Multiples		**Implied Enterprise Value**		**Implied Equity Value**		**Implied Price Per Share**	
	Low	**High**	**Low**	**High**	**Low**	**High**	**Low**	**High**
			(millions)		**(millions)**			
LTM Revenue	0.6x	0.8x	$390	$550	$437	$597	$19.64	$26.82
LTM EBITDA	5.5x	7.3x	254	335	302	383	13.86	17.61

No company or transaction used in the selected transactions analysis is identical to our company or the proposed transactions. Accordingly, an analysis of the results of the foregoing is not mathematical; rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the value of the companies to which our company and the transactions are being compared.

Precedent Premiums Paid Analysis. Based on public information, Thomas Weisel Partners reviewed the consideration paid in 18 acquisitions of public companies in the restaurant industry announced since March 19, 1999. Thomas Weisel Partners calculated the implied valuations of our company based on premiums paid in these transactions over:

- the stock price of the target company one day prior to the announcement of the acquisition;
- the average stock price of the target company during the one week prior to the announcement of the acquisition; and
- the average stock price of the target company during the one month prior to the announcement of the acquisition.

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Thomas Weisel Partners used statistical interpolation to divide the probability distribution of that data into four equal areas: the first quartile, the median, the mean and the third quartile. Thomas Weisel Partners considered the first quartile and the third quartile to represent the low and the high ends of the range of each premium percentage, and highlighted that analysis in its presentation to the board of directors. Thomas Weisel Partners then multiplied the premium percentages derived from its analysis by our company s applicable stock price to calculate the resulting valuation ranges listed below.

	Range of Premiums		Implied Enterprise Value		Implied Equity Value		Implied Price Per Share	
	Low	High	Low	High	Low	High	Low	High
			(millions)		(millions)			
Premiums Paid								
One Day Average Stock Price	15.2 %	46.1 %	$571	$736	$619	$784	$27.28	$34.58
One Week Average Stock Price	18.6 %	50.4 %	566	731	614	779	27.09	34.36
One Month Average Stock Price	22.3 %	44.6 %	605	724	653	772	28.67	33.89

Discounted Cash Flow Analysis. Thomas Weisel Partners used cash flow forecasts with respect to our company for calendar years 2006 through 2010 to perform a discounted cash flow analysis. Our company s management advised Thomas Weisel Partners that the forecasts used in its analysis were reasonable and reflected the best available estimates and judgments of our management as to our company s future financial performance. In conducting this analysis, Thomas Weisel Partners assumed that our company would perform in accordance with these forecasts. Thomas Weisel Partners first estimated the discounted value of the projected cash flows using discount rates ranging from 10.0% to 12.0%. This range of discount rates was selected based upon a weighted average cost of capital analysis for our company and other companies used in the selected public company analysis. Thomas Weisel Partners then discounted the terminal values of our company for calendar years 2006 through 2010 to present values using the same discount rates ranging from 10.0% to 12.0%. This analysis indicated a range of implied enterprise values, to which debt was subtracted and cash and cash equivalents were added back to calculate a range of implied equity values. This analysis implied per share values ranging from $20.83 to $27.22.

The foregoing description is only a summary of the analyses and examinations that Thomas Weisel Partners deems material to its opinion. It is not a comprehensive description of all analyses and examinations actually conducted by Thomas Weisel Partners. The preparation of a fairness opinion necessarily is not susceptible to partial analysis or summary description. Thomas Weisel Partners believes that its analyses and the summary set forth above must be considered as a whole and that selecting portions of its analyses and of the factors considered, without considering all analyses and factors, would create an incomplete view of the process underlying the analyses set forth in its presentation to the board of directors. In addition, Thomas Weisel Partners may have given various analyses more or less weight than other analyses and may have deemed various assumptions more or less probable than other assumptions. The fact that any specific analysis has been referred to in the summary above is not meant to indicate that this analysis was given greater weight than any other analysis. Accordingly, the ranges of valuations resulting from any particular analysis described above should not be taken to be the view of Thomas Weisel Partners with respect to the actual value of our company.

In performing its analyses, Thomas Weisel Partners made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of our company. The analyses performed by Thomas Weisel Partners are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than those suggested by these analyses. These analyses were prepared solely as part of the analysis performed by Thomas Weisel Partners with respect to the financial fairness of the aggregate $27.10 per share transaction consideration to be received by our stockholders in the transactions and were provided to the board of directors in connection with the delivery of Thomas Weisel Partners opinion. The analyses do not purport to be appraisals or to reflect the prices at which a company might actually be sold or the prices at which any securities may trade at any time in the future.

As described above, Thomas Weisel Partners opinion and presentation were among the many factors that the board of directors took into consideration in making its determination to approve, and to recommend that our stockholders approve, the transactions.

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We paid Thomas Weisel Partners a non-refundable cash fee of $1,000,000 upon the delivery of Thomas Weisel Partners opinion. The board of directors was aware of this fee and took it into account in considering Thomas Weisel Partners opinion and in approving the transactions. We have also agreed to reimburse Thomas Weisel Partners for its reasonable out-of-pocket expenses and to indemnify Thomas Weisel Partners, its affiliates, the partners, directors, officers, agents and employees of Thomas Weisel Partners and any controlling persons of Thomas Weisel Partners or its affiliates against certain liabilities arising out of the engagement or the transactions, including liabilities under the federal securities laws.

In the ordinary course of Thomas Weisel Partners business, Thomas Weisel Partners trades the equity securities of our company for its own account and for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities.

Certain Effects of the Transactions

As a result of the transactions contemplated by the merger agreement, Acquisitions and its affiliates will acquire our entire company, including all of our restaurant operations, which include Lone Star Steakhouse & Saloon, Texas Land & Cattle Co., Sullivan s Steakhouse, Del Frisco s Double Eagle Steak House and Frankie s Italian Grille, and our stockholders will receive an aggregate of $27.10 per share in cash.

If the merger agreement is adopted by our stockholders and the other conditions to the closing of the sale of the transferred subsidiaries and the merger are either satisfied or waived, we will sell to Purchase Sub all of the shares of capital stock of the transferred subsidiaries and, immediately thereafter, Merger Sub will be merged with and into us and we will be the surviving corporation. When the transactions are completed, each share of our common stock, other than any such share held by Acquisitions, Merger Sub or us, or by stockholders who perfect appraisal rights under Delaware law, will automatically be converted into the right to receive the transaction consideration of an aggregate of $27.10 in cash, without interest.

Together, the transfers and the merger will result in the sale of our entire company to Acquisitions and its affiliates and, following the transactions, the entire equity in our company is expected to be beneficially owned by Acquisitions and its affiliates. If the transactions are completed, our current stockholders will cease to have any direct or indirect ownership interest in our company or rights as our stockholders. As a result, our stockholders will not participate in any of our future earnings or growth and will not benefit from any appreciation in our value.

A holder of outstanding options to purchase shares of our common stock, whether or not then vested, at the effective time of the merger, will be entitled to receive a cash amount equal to the product of (a) the amount, if any, by which $27.10 exceeds the exercise price per share of each option held by such person at the effective time of the merger, multiplied by (b) the number of shares subject to such option held by such person, less any applicable withholdings for taxes. No consideration will be paid in respect of any stock options for which the exercise price equals or exceeds $27.10 per share.

Our common stock is currently registered under the Securities Exchange Act of 1934, as amended, which we refer to in this proxy statement as the Exchange Act, and is quoted on the NASDAQ Global Select Market, which we refer to in this proxy statement as Nasdaq, under the symbol STAR. As a result of the transactions, we will become a privately held corporation, and there will be no public market for our common stock. After the transactions, our common stock will cease to be quoted on Nasdaq, and price quotations with respect to sales of shares of our common stock in the public market will no longer be available. In addition, the registration of our common stock under the Exchange Act will be terminated. This termination will make certain provisions of the Exchange Act, such as the requirement of filing periodic and other reports with the SEC and furnishing a proxy or information statement in connection with stockholders meetings, no longer applicable to us.

At the effective time of the merger, the directors of Merger Sub immediately prior to the effective time of the merger will be the initial directors of the surviving corporation, and our officers immediately prior to the effective time of the merger will be the officers of the surviving corporation. All of our directors immediately prior to the merger will resign as directors at the effective time of the merger. Our certificate of incorporation in effect immediately prior to the effective time of the merger will continue to be the certificate of incorporation of the surviving corporation, and the bylaws of Merger Sub in effect immediately prior to the effective time of the merger will become the bylaws of the surviving corporation following the merger.

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Certain Effects on the Company if the Transactions are Not Completed

In the event that the merger agreement is not adopted by our stockholders or if the transactions are not completed for any other reason, our stockholders will not receive any payment for their shares in connection with the transactions. Instead, we will remain an independent public company and our common stock will continue to be listed and traded on Nasdaq. In view of the pending transactions, we do not anticipate paying a cash dividend for the 2006 third quarter, but we intend to subsequently pay this dividend to our stockholders if for any reason the transactions are not consummated; however, there can be no assurance that such cash dividend will be paid or as to the amount of the cash dividend. In addition, if the transactions are not completed, we expect that management will operate the business in a manner similar to that in which it is being operated today and that our stockholders will continue to be subject to the same risks and opportunities to which they are currently subject. Accordingly, if the transactions are not consummated, there can be no assurance as to the effect of these risks and opportunities on the future value of shares of our common stock. From time to time, the board of directors may evaluate and review, among other things, our business operations, management and capitalization and make such changes as are deemed appropriate. If the merger agreement is not adopted by the stockholders or if the transactions are not consummated for any other reason, there can be no assurance that any other transaction acceptable to us will be offered or that our business, prospects or results of operations will not be adversely impacted. If the merger agreement is terminated under specified circumstances, we may be obligated to reimburse up to $1.5 million of expenses incurred by Acquisitions and its affiliates in connection with the merger agreement and/or pay a termination fee of $18 million. See The Merger Agreement Fees and Expenses.

Financing for the Transactions; Source and Amount of Funds

The consummation of the transactions contemplated by the merger agreement is not conditioned on Acquisitions obtaining financing. The total amount of funds required by Acquisitions to pay the consideration to be paid for the transferred subsidiaries and the merger, and to pay related fees and expenses, is estimated to be approximately $[______]. Acquisitions plans to fund this through its working capital, borrowings under existing lines of credit and other sources of immediately available funds. The foregoing estimate does not take into account the results of the exercise by stockholders of dissenters rights under Delaware law which may result in their receipt of consideration less than, more than or equal to the transaction consideration which would have been payable to them under the terms of the merger agreement.

Material United States Federal Income Tax Consequences

The following general discussion summarizes the material federal income tax consequences to our stockholders as a result of the exchange of their shares of our common stock solely in exchange for cash either pursuant to the merger agreement or as a result of dissenting and perfecting their appraisal rights. This discussion is based on the Internal Revenue Code of 1986, as amended, the current Treasury Regulations promulgated thereunder, existing administrative interpretations and court decisions, all of which are subject to change, possibly for retroactive effect. This discussion assumes that our stockholders hold their shares of our common stock as capital assets within the meaning of Section 1221 of the Internal Revenue Code.

This discussion does not address all aspects of federal income taxation that may be important to stockholders in light of their particular circumstances or if they are subject to special rules. These special rules include rules relating to:

- stockholders who are not citizens or residents of the United States;
- financial institutions;
- tax-exempt organizations;

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- insurance companies;
- pass-through entities;
- dealers in securities; and
- stockholders who acquired their shares of stock through the exercise of options or similar derivative securities or otherwise as compensation.

This discussion also does not address the alternative minimum tax or any tax consequences under state, local or foreign laws.

The discussion that follows neither binds nor precludes the Internal Revenue Service from adopting a position contrary to that expressed in this proxy statement, and we cannot assure you that such a contrary position could not be asserted successfully by the Internal Revenue Service or adopted by a court if the positions were litigated. We do not intend to obtain a ruling from the Internal Revenue Service with respect to the U. S. federal income tax consequences of the exchange of your shares of our common stock for the transaction consideration pursuant to the merger and the related transactions, nor do we intend to obtain an opinion from tax counsel with respect to the federal income tax consequences of these transactions.

Except as otherwise indicated, this summary describes the United States federal income tax consequences for U.S. stockholders. U.S. stockholders means a beneficial owner of our common stock that is for United States federal income tax purposes:

- a citizen or resident of the United States;
- a corporation organized under the laws of the United States, any state of the United States or the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if (A) a court within the United States is able to exercise primary supervision over its administration and one or more United States Persons (as such term is defined in the Internal Revenue Code) have authority to control all substantial decisions of the trust, or (B) the trust was in existence on August 20, 1996, and validly elected to continue to be treated as a United States domestic trust.

As used herein, the term Non-U.S. stockholder means all stockholders that are not U.S. stockholders.

Exchanging Stockholder. The receipt of the cash by you pursuant to the merger agreement, or as a result of dissenting and perfecting your appraisal rights, will be a taxable transaction. In either case, you will be treated as having had all of your shares completely redeemed pursuant to Section 302 of the Internal Revenue Code and Revenue Rulings 55-745, 1955-2 C.B. 223 and 75-447, 1975-2 C.B. 113. You will recognize gain or loss for federal income tax purposes in an amount equal to the difference between the cash you receive and your adjusted tax basis in your shares of our common stock exchanged therefor. This gain or loss will be capital gain or capital loss if you held your shares of our common stock as a capital asset at the effective date of the merger. Any such capital gain will be long-term capital gain if you held the exchanged shares for more than one year as of the effective date of the merger. Net long-term capital gains generally will be subject to federal income tax at capital gain rates applicable to the exchanging stockholder (e.g., up to a maximum net long-term capital gains tax rate of 15% for taxpayers that are individuals). Capital losses may be subject to certain limitations.

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Non-U.S. Stockholders. In general, if you are a non-U.S. stockholder, you will generally not be subject to U.S. federal income tax or any withholding thereof with respect to the gain recognized on the redemption of your shares of our common stock (either pursuant to the merger and the related transactions or as a result of dissenting and perfecting your appraisal rights) unless one of the following situation applies.

- The gain is effectively connected with your conduct of a trade or business in the United States and, if a tax treaty applies, is attributable to a permanent establishment maintained by you in the United States. In this case, you will generally be taxed on your net gain derived from the disposition of your shares of our common stock at the regular graduated United States federal income tax rates in much the same manner as if you were a U.S. person and, if you are a foreign corporation, then you may also be subject to a branch profits tax.
- You are an individual who is present in the United States for 183 days or more in the taxable year that the merger occurs and you meet certain other requirements. In this case, you will be subject to U.S. federal income tax at a rate of 30% (or a reduced rate under an applicable treaty) on the amount by which capital gains (including gain recognized on the sale or other disposition of our common stock) allocate to U.S. sources exceed capital losses allocable to U.S. sources.
- Our common stock may constitute a United States real property interest by reason of our status as a United States real property holding corporation, or a USRPHC, for United States federal income tax purposes at any time during the shorter of the 5-year period ending immediately on the date you dispose of our common stock or the period you held our common stock. The determination of whether we are a USRPHC depends upon the fair market value of our United States real property interests relative to the fair market value of our business assets. However, due to our common stock being regularly traded on an established securities market within the meaning of Section 897(c)(3) of the Internal Revenue Code, even if we are a USRPHC, our common stock will not be treated as a United States real property interest, except as noted in the next sentence. If you are a non-U.S. stockholder and directly or indirectly owned more than 5% of our common stock at any time during the five year period immediately preceding the date you exchange your shares and we are a USRPHC, any gain you recognize on the exchange of your shares will be treated as income that is effectively connected to a U.S. trade or business and you may be subject to withholding at a United States federal income tax withholding rate of 10% of the gross proceeds you realize with respect to the sale of your shares of our common stock. Any amount withheld in excess of the actual tax owed may be refundable if specified requirements are satisfied.

Backup withholding. You may be subject to backup withholding at a 28% rate on any cash consideration that you receive in connection with the transactions. Backup withholding will not apply, however, if you:

- furnish to us a correct taxpayer identification number and certify that you are not subject to backup withholding on the substitute Form W-9 or successor form included in the letter of transmittal to be delivered to you following the date of the completion of the transactions;
- provide a certification of foreign status on Form W-8BEN or another type of W-8 form; or
- are otherwise exempt from backup withholding.

Backup withholding is not an additional tax but is credited against the federal income tax liability of the taxpayer subject to the withholding. If backup withholding results in an overpayment of a taxpayer s federal income taxes, that taxpayer may obtain a refund from the Internal Revenue Service.

THE PRECEDING DISCUSSION OF THE MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE TRANSACTIONS IS FOR GENERAL INFORMATION PURPOSES ONLY AND IS NOT TAX ADVICE. LONE STAR STEAKHOUSE STOCKHOLDERS ARE URGED TO CONSULT THEIR TAX ADVISORS TO DETERMINE THE PARTICULAR TAX CONSEQUENCES TO THEM OF THE TRANSACTIONS, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF ANY CHANGES IN U.S. FEDERAL OR OTHER APPLICABLE TAX LAWS.

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Regulatory Matters

Except for the filing of a certificate of merger with the Secretary of State of the State of Delaware at or before the effective date of the merger and the notification of the Federal Trade Commission and the Antitrust Division of the Department of Justice under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, we are unaware of any material federal, state or foreign regulatory requirements or approvals that would be necessary for the consummation of the transactions. It is not a condition to the consummation of the transactions that we obtain consents to the merger agreement or the transactions that may be required under any of our permits, including under any federal, state, city or local law governing the sale of liquor that may be applicable.

Interests of Certain Persons in the Transactions

In considering the recommendation of the board of directors with respect to the adoption of the merger agreement and the approval of the transactions contemplated thereby, you should be aware that some of our directors and executive officers have interests in the transactions that are different from, or in addition to, the interests of our stockholders generally. These interests may present them with actual or potential conflicts of interest, and these interests, to the extent material, are described below. The board of directors was aware of these interests and considered them, among other matters, in approving the merger agreement, the sale of the transferred subsidiaries and the merger.

Treatment of Stock Options; Relationships of Executive Officers with Acquisitions

A holder of outstanding options to purchase shares of our common stock, whether or not then vested, at the effective time of the merger, will be entitled to receive a cash amount equal to the product of (a) the amount, if any, by which $27.10 exceeds the exercise price per share of each option held by such person at the effective time of the merger, multiplied by (b) the number of shares subject to such option held by such person, less any applicable withholdings for taxes. No consideration will be paid in respect of any stock options for which the exercise price equals or exceeds $27.10 per share.

Each of our directors and executive officers owns vested and/or unvested options with exercise prices of less than $27.10 per share. The following table sets forth the cash consideration that the directors and executive officers, individually and as a group, will be entitled to receive under the merger agreement in consideration for the cancellation of unvested and vested options held by such directors and executive officers.

Name	Number of Shares Subject to Unvested Options	Consideration for Cancellation of Unvested Options(1)	Number of Shares Subject to Vested Options	Consideration for Cancellation of Vested Options(1)	Total Number of Shares Subject to Options	Total Consideration for Cancellation of Unvested and Vested Options(1)
Jamie B. Coulter	48,750	$	1,178,639	$ 17,007,204	1,227,389	$ 17,007,204
John D. White	45,000		265,000	4,657,813	310,000	4,657,813
Gerald T. Aaron	26,250		158,750	2,794,688	185,000	2,794,688
Deidra Lincoln	15,000		84,576	1,472,444	99,576	1,472,444
Mark Mednansky	101,250	299,250	8,750		110,000	299,250
Jon W. Howie	53,350	55,555	12,750	72,900	66,100	128,455
Fred B. Chaney	24,375	36,563	5,625	2,213	30,000	38,776
William B. Greene, Jr.	24,375	36,563	19,225	208,933	43,600	245,496
Clark R. Mandigo	24,375	36,563	19,225	208,933	43,600	245,496
Mark Saltzgaber	24,375	36,563	37,425	405,853	61,800	442,416
Thomas Lasorda	24,375	36,563	42,425	469,853	66,800	506,416
Michael Ledeen	24,375	36,563	52,425	597,853	76,800	634,416
Anthony Bergamo	60,625	65,344	16,875	8,481	77,500	73,825
All directors and executive officers as a group	496,475	$ 639,527	1,901,690	$ 27,907,168	2,398,165	$ 28,546,695

(1) Under the merger agreement, no consideration will be paid in respect of any stock options for which the exercise price equals or exceeds $27.10 per share, and these options will be cancelled and all of the rights of the holders of these options will terminate at the effective time of the merger.

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Existing Employment Agreements

We have entered into separate employment agreements with each of Messrs. White, Mednansky and Aaron, dated on April 29, 2003, providing for the employment of these individuals as Executive Vice President, Director of Upscale Restaurants and Senior Vice President - Counsel and Secretary, respectively. Each employment agreement provides that the officer shall devote his entire business time to our business. The employment agreements provide base salaries in the amounts of $600,000 (subsequently increased to $675,000), $200,000 (subsequently increased to $300,000) and $250,000 (subsequently increased to $275,000), respectively, for Messrs. White, Mednansky and Aaron, subject to increases as determined by the compensation/stock option committee and ratified by the board of directors. Each agreement initially terminated on April 29, 2006, and extends automatically for successive terms of one year each, unless either we or the respective employee give written notice to the other not later than 90 days prior to the termination date. No notice was given with respect to any of the agreements and accordingly the termination date has now been extended to April 29, 2007. Each agreement contains non-competition and non-solicitation provisions which apply for twenty-four months after cessation of employment and confidentiality provisions which apply for ten years after cessation of employment.

We have an employment agreement, dated as of September 15, 1995, with Ms. Lincoln. Ms. Lincoln s employment agreement provides for a base salary in the amount of $200,000 (subsequently increased to $260,000), subject to increase as determined by the compensation/stock option committee and ratified by the board of directors. Ms. Lincoln s agreement initially terminated on September 16, 2000, and extends automatically for successive terms of one year each, unless either we or Ms. Lincoln give written notice to the other not later than 90 days prior to the termination date. No notice has been given with respect to Ms. Lincoln s agreement and accordingly the termination date has now been extended to September 15, 2007. Ms. Lincoln s agreement contains non-competition and confidentiality provisions which apply for eighteen months after cessation of her employment and non-solicitation provisions which apply for six months after cessation of her employment.

None of the above employment agreements provides for any payments to be made to any of these officers as a result of a change in control of the Company.

Mr. Coulter does not have an employment, non-competition, non-solicitation or confidentiality agreement with us. Mr. Coulter s non-competition, non-solicitation and confidentiality agreement expired in 2001.

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Stock Ownership

Our executive officers and directors beneficially own shares of our common stock. For a further description of these stockholdings, see Security Ownership of Certain Beneficial Owners and Management.

Employee Retention Plan

In connection with entering into the merger agreement, the board of directors adopted an employee retention plan to provide retention bonuses for specified employees who continue to provide services to us, as the surviving corporation in the merger, for a specified period, or whose employment is terminated under specified circumstances, after the consummation of the transactions. Each participant in the plan who remains continuously employed by us through the six-month anniversary of the effective time of the merger will be entitled to receive a retention bonus, 50% of which will be paid to the participant in cash at the three-month anniversary of the effective time, provided the participant remains continuously employed by us through such three-month anniversary, and 50% of which will be paid to the participant in cash at the six-month anniversary of the effective time, provided the participant remains continuously employed by us through such six-month anniversary. If we terminate a participant s employment without cause, or the participant terminates his or her employment for good reason, prior to the six-month anniversary of the effective time, we will be required to make a lump sum cash payment to the participant in an amount equal to the full amount of his or her retention bonus, to the extent not previously paid. Mr. Mednansky, our Chief Operating Officer, Ms. Lincoln, our Vice President of Del Frisco s, and Mr. Howie, our Chief Accounting Officer, are participants in the plan and, subject to the terms and conditions of the plan, are entitled to receive retention bonuses of $90,000, $78,000 and $69,000, respectively. No other executive officers are participants in the plan.

Office Services

For one year after the closing of the transactions, we, as the surviving corporation in the merger, will pay for and provide Mr. Coulter with the same office space and secretarial personnel and support, as well as other office administrative services (including personal tax planning), as is currently provided to him.

Indemnification and Insurance

The merger agreement requires the certificate of incorporation and bylaws of the surviving corporation to contain provisions no less favorable with respect to indemnification than are set forth in our certificate of incorporation and bylaws, respectively, and provides that these provisions may not be amended, repealed or otherwise modified for a period of six years from the effective time of the merger in any manner that would affect adversely the rights thereunder of individuals who, at or prior to the effective time of the merger, were directors, officers, employees, fiduciaries or agents of us or any of our subsidiaries. After the closing of the merger, the surviving corporation has agreed, to the fullest extent permitted under applicable law, to indemnify and hold harmless each present and former director and officer of ours and each of our subsidiaries at or prior to the effective time of the merger against all costs and expenses (including attorneys fees), judgments, fines, losses, claims, damages, liabilities and settlement amounts paid in connection with any claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative, arising out of or pertaining to any action or omission, in his or her capacity as an officer, director, employee, fiduciary or agent, occurring on or before the effective time of the merger, to the same extent as provided in our certificate of incorporation or bylaws, or any other applicable contract or agreement, in effect on the date of the merger agreement.

In the event of any such claim, action, suit, proceeding or investigation:

- the surviving corporation will pay the reasonable fees and expenses of counsel selected by the indemnified parties, which counsel shall be reasonably satisfactory to the surviving corporation, provided the applicable indemnified party provides an undertaking to repay all advanced expenses if it is finally judicially determined that such indemnified party is not entitled to indemnification; and

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the surviving corporation will cooperate in the defense of any such matter; provided, however, that:

- the surviving corporation will not be liable for any settlement effected without the surviving corporation s written consent, not to be unreasonably withheld or delayed;
- the surviving corporation shall not be obligated to pay the fees and expenses of more than one counsel for all indemnified parties in any jurisdiction with respect to any single action except to the extent that two or more of such indemnified parties shall have conflicting interests in the outcome of such action; and
- in the event that any claim for indemnification is asserted or made within six years after the effective time of the merger, all rights to indemnification in respect of such claim will continue until the disposition of the claim.

The surviving corporation will either:

- cause to be obtained at the effective time of the merger tail insurance policies with a claims period of at least six years from the effective time of the merger with respect to directors and officers liability insurance in amount and scope at least as favorable as our existing policies for claims arising from facts or events that occurred on or prior to the effective time of the merger; or
- maintain in effect for six years from the effective time of the merger, if available, the current directors and officers liability insurance policies maintained by us (provided that the surviving corporation may substitute therefor policies of at least the same coverage containing terms and conditions that are not less favorable) with respect to matters occurring on or prior to the effective time of the merger; provided, however, that in no event shall the surviving corporation be required to expend in any year during such six-year period more than 300% of current annual premiums paid by us for current comparable insurance coverage; provided, however, that in the event of an expiration, termination or cancellation of the current policies, the surviving corporation shall be required to obtain as much coverage as is possible under substantially similar policies for such maximum annual amount.

If the surviving corporation or any of its successors or assigns:

- consolidates with or merges into any other person and shall not be the continuing or surviving corporation or entity of such consolidation or merger; or
- transfers all or substantially all of its properties and assets to any person,

then, and in each such case, proper provision shall be made so that the successors and assigns of the surviving corporation shall succeed to the obligations set forth above.

Fees and Expenses

Whether or not the transactions are completed, in general, all fees and expenses incurred in connection with the transactions will be paid by the party incurring those fees and expenses. If the merger agreement is terminated under specified circumstances, we may be required to reimburse Acquisitions and its affiliates for expenses incurred in connection with the merger agreement, up to a maximum of $1.5 million. See The Merger Agreement Fees and Expenses. Fees and expenses with respect to the transactions are estimated at this time to be as follows:

Description	Amount
SEC filing fee	
Hart-Scott-Rodino fee	
Legal fees	
Accounting fees	
Financial advisory fees	
Paying agent fees and expenses	
Printing, proxy solicitation and mailing costs	
Miscellaneous expenses	
Total expenses	

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These expenses will not reduce the transaction consideration payable to our stockholders under the merger agreement.

Appraisal or Dissenters Rights

Under Section 262 of the Delaware General Corporation Law, which we refer to in this proxy statement as the DGCL, any holder of our common stock who does not wish to accept the $27.10 per share transaction consideration may dissent from the sale of the transferred subsidiaries and the merger and elect to exercise appraisal rights. A stockholder who exercises appraisal rights may ask the Delaware Court of Chancery to determine the fair value of his or her shares (exclusive of any element of value arising from the accomplishment or expectation of the transactions), and receive payment of fair value in cash, together with a fair rate of interest, if any, provided that the stockholder complies with the provisions of Section 262 of the DGCL.

The following discussion is not a complete statement of the law pertaining to appraisal rights under the DGCL, and is qualified in its entirety by the full text of Section 262 of the DGCL, the full text of which is attached to this proxy statement as Annex D. All references in Section 262 of the DGCL or in this summary to a stockholder are to the record holder of the shares of our common stock who asserts appraisal rights.

Under Section 262 of the DGCL, when a merger agreement is submitted for adoption at a meeting of stockholders, as in the case of the merger agreement, the corporation, not less than 20 days prior to the meeting, must notify each of its stockholders that appraisal rights are available and include in the notice a copy of Section 262 of the DGCL. This proxy statement constitutes our notice, and we have attached Section 262 of the DGCL to this proxy statement as Annex D. Any holder of our common stock who wishes to exercise appraisal rights or who wishes to preserve the right to do so should review the following discussion and Annex D carefully. Failure to comply with the procedures of Section 262 of the DGCL, in a timely and proper manner, will result in the loss of appraisal rights.

Stockholders wishing to exercise the right to dissent from the transactions and seek an appraisal of their shares must do ALL of the following:

- The stockholder must NOT vote in favor of adoption of the merger agreement. A proxy that does not contain voting instructions will, unless revoked, be voted in favor of the adoption of the merger agreement, therefore a stockholder who votes by proxy and who wishes to exercise appraisal rights must vote AGAINST the merger agreement or ABSTAIN . A vote in favor of the adoption of the merger agreement, by proxy or in person, will constitute a waiver of your appraisal rights in respect to our common stock so voted and will nullify any previously filed written demands for appraisal.
- The stockholder must deliver to us a written demand for appraisal of his or her common stock BEFORE the vote on the adoption of the merger agreement at the special meeting.
- The stockholder must continuously hold the shares from the date of making the demand through the effective date of the merger. A stockholder will lose appraisal rights if the stockholder transfers the shares before the effective date of the merger.
- The stockholder must file a petition in the Delaware Court of Chancery demanding a determination of the fair value of the shares within 120 days after the effective date of the merger.

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Neither voting (in person or by proxy) against, abstaining from voting on or failing to vote on the proposal to adopt the merger agreement will constitute a written demand for appraisal within the meaning of Section 262 of the DGCL. The written demand for appraisal must be in addition to and separate from any proxy or vote. A stockholder who elects to exercise appraisal rights under Section 262 of the DGCL should mail or deliver a written demand fulfilling all the requirements of Section 262 of the DGCL to: Lone Star Steakhouse & Saloon, Inc., 224 East Douglas, Suite 700, Wichita, Kansas 67202, Attention: Secretary.

Only a holder of record of shares of our common stock issued and outstanding immediately prior to the effective date of the merger may assert appraisal rights for the shares of stock registered in that holder s name. A demand for appraisal must be executed by or on behalf of the stockholder of record, fully and correctly, as the stockholder s name appears on the stock certificates. The demand must specify the stockholder s name and mailing address, the number of shares of common stock owned and that the stockholder intends to demand appraisal of his or her common stock. Stockholders who hold their shares in brokerage accounts or other nominee forms, and who wish to exercise appraisal rights, should consult with their brokers to determine the appropriate procedures for the nominee holder to make a demand for appraisal of those shares. A person having a beneficial interest in shares held of record in the name of another person, such as a broker or nominee, must act promptly to cause the record holder to follow properly and in a timely manner the steps necessary to perfect appraisal rights.

Upon completion of the transactions, we will give written notice of the effective date of the merger within 10 days of such time to each of our former stockholders who did not vote in favor of adoption of the merger agreement and who made a written demand for appraisal in accordance with Section 262 of the DGCL. Within 120 days after the effective date of the merger, but not later, either we or any dissenting stockholder who has complied with the requirements of Section 262 of the DGCL may file a petition in the Delaware Court of Chancery demanding a determination of the value of the shares of our common stock held by all dissenting stockholders entitled to appraisal. The surviving corporation is under no obligation to and has no present intention to file a petition. Stockholders who desire to have their shares appraised should initiate any petitions necessary for the perfection of their appraisal rights within the time periods and in the manner prescribed in Section 262 of the DGCL. Failure to file such a petition within the specified period could nullify previously written demands for appraisal.

Within 120 days after the effective date of the merger, any stockholder who has complied with the provisions of Section 262 of the DGCL to that point in time may receive from us, upon written request, a statement setting forth the aggregate number of shares not voted in favor of adoption of the merger agreement and with respect to which we have received demands for appraisal, and the aggregate number of holders of those shares. We must mail this statement to the stockholder within 10 days of receipt of the request or within 10 days after expiration of the period for delivery of demands for appraisals under Section 262 of the DGCL, whichever is later.

If any party files a petition for appraisal in a timely manner, the surviving corporation will then be obligated, within 20 days after receiving a copy of the petition, to file with the Register in Chancery a duly verified list containing the names and addresses of all stockholders who have demanded an appraisal of their shares and with whom an agreement as to the value of their shares has not been reached. The Delaware Court of Chancery will then determine through a hearing which stockholders are entitled to appraisal rights and may require the stockholders demanding appraisal who hold certificated shares to submit their stock certificates to the Register in Chancery for notation thereon of the pendency of the appraisal proceedings. If the stockholder fails to comply with the court s direction, the court may dismiss the proceeding as to the stockholder. The Delaware Court of Chancery will thereafter determine through a hearing the fair value of the shares of our common stock formerly held by dissenting stockholders, exclusive of any element of value arising from the accomplishment or expectation of the transactions, but together with a fair rate of interest, if any, to be paid on the amount determined to be fair value upon surrender by such holders of the certificates representing those shares of our common stock.

In determining the fair value, the Delaware Court of Chancery will take into account all relevant factors. The Delaware Supreme Court has stated that proof of value by any techniques or methods which are generally considered acceptable in the financial community and otherwise admissible in court should be considered in the appraisal proceedings. In addition, Delaware courts have decided that the statutory appraisal remedy, in cases of unfair dealing, may or may not be a dissenter s exclusive remedy. The Delaware Court of Chancery may determine the fair value to be more than, less than or equal to the consideration that the dissenting stockholder would otherwise receive under the merger agreement. If no party files a petition for appraisal in a timely manner, then stockholders will lose the right to an appraisal.

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The Delaware Court of Chancery will determine the costs of the appraisal proceeding and will allocate those costs to us and the stockholders participating in the appraisal proceeding as the Delaware Court of Chancery determines to be equitable under the circumstances. Upon the application of a stockholder, the Delaware Court of Chancery may order all or a portion of the expenses incurred by any stockholder in connection with the appraisal proceeding, including reasonable attorneys fees and the fees and expenses of experts, to be charged pro rata against the value of all shares entitled to appraisal.

Stockholders should be aware that the fair value of their shares as determined under Section 262 of the DGCL could be greater than, the same as or less than the $27.10 per share transaction consideration. The opinions of North Point and Thomas Weisel Partners delivered to the board of directors as to the fairness, from a financial point of view, of the transaction consideration do not in any manner address fair value under Section 262 of the DGCL.

Any stockholder who has duly demanded an appraisal in compliance with Section 262 of the DGCL may not, after the effective date of the merger, vote the shares subject to the demand for any purpose or receive any dividends or other distributions on those shares (except dividends or other distributions payable to holders of record of shares as of a record date prior to the effective date of the merger).

Any stockholder may withdraw a demand for appraisal and accept the transaction consideration by delivering to us a written withdrawal of the demand for appraisal and acceptance of the transactions, except that (1) any attempt to withdraw made more than 60 days after the effective date of the merger will require our written approval and must, to be effective, be made within 120 days after the effective date and (2) no appraisal proceeding in the Delaware Court of Chancery will be dismissed as to any stockholder without the approval of the Delaware Court of Chancery, and may be subject to such conditions as the Delaware Court of Chancery deems just. If the stockholder fails to perfect, successfully withdraws or loses the appraisal right, the stockholder s shares will be converted into the right to receive the transaction consideration.

Under the merger agreement, Acquisitions and Merger Sub are not required to complete the transactions if holders of 22.5% or more of our outstanding common stock as of the effective date of the merger demand appraisal of their shares in accordance with Delaware law.

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THE MERGER AGREEMENT (PROPOSAL NO. 1)

The board of directors is asking our stockholders to vote on a proposal to adopt the merger agreement and approve the transactions contemplated thereby.

This section of the proxy statement summarizes some of the material terms and conditions of the merger agreement, but is not intended to be an exhaustive discussion of the merger agreement. The rights and obligations of the parties are governed by the express terms and conditions of the merger agreement and not the summary set forth in this section or any other information contained in this proxy statement. This summary is qualified entirely by reference to the complete text of the merger agreement, a copy of which is attached as Annex A to this proxy statement and is incorporated into this proxy statement by reference. We urge you to read the merger agreement carefully and in its entirety.

The merger agreement contains representations and warranties made by and to the parties to the merger agreement as of specific dates. The assertions embodied in those representations and warranties were made for purposes of the merger agreement and are subject to qualifications, limitations and exceptions agreed by the respective parties in connection with negotiating the terms of the merger agreement. In addition, some representations and warranties were made as of a specified date, may be subject to a contractual standard of materiality different from what might be viewed as material to stockholders, or may have been used for the purpose of allocating risk between the respective parties rather than establishing matters as facts. For the foregoing reasons, you should not rely on the representations and warranties as statements of factual information at the time they were made or otherwise.

Structure of the Transactions

As a result of the transactions contemplated by the merger agreement, Acquisitions and its affiliates will acquire our entire company, including all of our restaurant operations, which include Lone Star Steakhouse & Saloon, Texas Land & Cattle Co., Sullivan s Steakhouse, Del Frisco s Double Eagle Steak House and Frankie s Italian Grille, and our stockholders will receive an aggregate of $27.10 per share in cash.

The merger agreement provides that, upon the terms and subject to the conditions of the merger agreement and the Delaware General Corporation Law, the transactions will occur as follows: (1) immediately prior to the effective time of the merger, we will, or will cause our applicable subsidiaries to, sell to Purchase Sub all of the shares of capital stock of the transferred subsidiaries; and (2) at the effective time of the merger, Merger Sub will be merged with and into us, the separate corporate existence of Merger Sub will cease, and we will continue as the surviving corporation and become an affiliate of Acquisitions. We sometimes refer to the surviving corporation in the merger as the surviving corporation.

Closing of the Transactions

The closing of the transactions will take place no later than the second business day after the date that all of the conditions to the completion of the transactions set forth in the merger agreement are satisfied or validly waived (other than those conditions that cannot be waived) or at such other time as the parties agree. The merger will become effective upon the filing of a certificate of merger with the Secretary of State of the State of Delaware.

Consideration to be Received by our Stockholders in the Transactions

At the effective time of the merger, each outstanding share of our common stock (other than shares held by Acquisitions, Merger Sub or us, and other than shares held by stockholders properly exercising appraisal rights pursuant to Section 262 of the DGCL) automatically will be converted into the right to receive an aggregate of $27.10 in cash, payable without interest, as follows:

the right to receive $20.77 in cash, payable without interest, as a result of the transfers, which we refer to in this proxy statement as the distribution consideration; and

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the right to receive $6.33 in cash, payable without interest, as a result of the merger, which we refer to in this proxy statement as the merger consideration .

All shares of our common stock held by Acquisitions, Merger Sub or us will be retired and cancelled and no payment will be made in respect of those shares.

Pursuant to Delaware law, holders of shares of our common stock will have the right to dissent from the transactions and receive the fair value of their shares. For a complete description of the procedures that must be followed to dissent from the transactions, see The Transactions Appraisal or Dissenters Rights as well as the text of Section 262 of the DGCL, set forth in Annex D.

Payment Procedures

Promptly after the effective time of the merger, Acquisitions and the surviving corporation will cause to be mailed to each holder of record as of the effective time of the merger whose shares of our common stock were converted into the right to receive the transaction consideration, a letter of transmittal and instructions for use in effecting the surrender of stock certificates in exchange for the transaction consideration to be received by each stockholder. Upon surrender of a certificate for cancellation to our transfer agent or to such other agent or agents as may be appointed by Acquisitions, together with a properly completed and duly executed letter of transmittal, the holder of the certificate will be entitled to receive in exchange therefor the transaction consideration for each share of common stock formerly represented by the certificate, and the surrendered certificate will be cancelled. No interest will be paid or accrued on the cash payable upon the surrender of the certificates.

If payment of the transaction consideration is to be made to a person other than the person in whose name the surrendered certificate is registered, it shall be a condition of payment that the surrendered certificate be properly endorsed or otherwise be in proper form for transfer and that the person requesting such payment shall have paid all transfer and other taxes required by reason of the issuance to a person other than the registered holder of the certificate surrendered or shall have established to the reasonable satisfaction of the surviving corporation that such tax either has been paid or is not applicable. Until surrendered, each certificate, other than certificates representing dissenting shares of common stock, will be deemed at any time after the effective time of the merger to represent only the right to receive the transaction consideration for each share in cash.

At any time following the nine-month anniversary of the effective time of the merger, the surviving corporation shall be entitled to require the transfer agent to deliver to it any funds, including any interest received with respect those funds, which had been made available to the transfer agent, and holders shall be entitled to look to the surviving corporation (subject to abandoned property, escheat or other similar laws) only as general creditors thereof with respect to the transaction consideration payable upon due surrender of their certificates, without interest.

In the event any certificate has been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate to be lost, stolen or destroyed and, if required by Acquisitions, the posting by such person of a bond in such sum as Acquisitions may reasonably direct as indemnity against any claim that may be made against any party to the merger agreement or the surviving corporation with respect to such certificate, the transfer agent will disburse the transaction consideration payable in respect of the shares represented by such lost, stolen or destroyed certificate.

Acquisitions, Merger Sub and we, as applicable, are entitled to deduct and withhold, or cause the transfer agent to deduct and withhold, from the transaction consideration payable to a holder of shares pursuant to the transactions any amounts as are required under any applicable provision of federal, state, local or foreign tax law. To the extent that amounts are withheld by Acquisitions, Merger Sub or us pursuant to applicable tax laws, the withheld amounts will be treated as having been paid to the holder of the shares in respect of which the deduction and withholding was made.

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Treatment of Stock Options

A holder of outstanding options to purchase shares of our common stock, whether or not then vested, at the effective time of the merger, will be entitled to receive a cash amount equal to (a) the product of (i) the amount, if any, by which $27.10 exceeds the exercise price per share of each option held by such person at the effective time of the merger, multiplied by (ii) the number of shares subject to such option held by such person, (b) less any applicable withholdings for taxes. No consideration will be paid in respect of any stock options for which the exercise price equals or exceeds $27.10 per share, and those options will be cancelled and all of the rights of the holders of those options will terminate at the effective time of the merger.

As of the effective time of the merger, all rights under any stock option and any plan, program or arrangement providing for the issuance or grant of any other interest in respect of our securities will be cancelled. As of and after the effective time of the merger, no person will have any right, whether to acquire any of our securities or the securities of any of our subsidiaries or otherwise, under any of our plans, programs or arrangements with respect to our securities, the securities of the surviving corporation or any subsidiary of the surviving corporation.

Certificate of Incorporation and Bylaws; Directors and Officers

Our certificate of incorporation in effect immediately prior to the effective time of the merger will continue to be the certificate of incorporation of the surviving corporation, and the bylaws of Merger Sub in effect immediately prior to the effective time of the merger will become the bylaws of the surviving corporation following the merger.

At the effective time of the merger, the directors of Merger Sub immediately prior to the effective time of the merger will be the initial directors of the surviving corporation, and our officers immediately prior to the effective time of the merger will be the officers of the surviving corporation.

Representations and Warranties

Our Representations and Warranties

In the merger agreement, we make representations and warranties to Acquisitions and Merger Sub with respect to us and our subsidiaries. These include representations and warranties regarding, among other things:

- corporate organization, existence, good standing, qualification and corporate power;
- capitalization;
- subsidiaries;
- authority relative to the merger agreement and the consummation of the transactions contemplated by the merger agreement;
- governmental and regulatory approvals required to complete the transactions contemplated by the merger agreement;
- ability to enter into and consummate the transactions contemplated by the merger agreement without violation of organizational and governing documents, contracts or applicable law or the creation of liens or other encumbrances or restrictions;
- documents filed with the SEC and the accuracy of information contained in those documents;
- financial statements;

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- absence of certain material changes since June 13, 2006;
- absence of undisclosed liabilities;
- compliance with laws and permits;
- litigation matters;
- restrictions on business activities;
- material contracts;
- intellectual property matters;
- employee benefit matters;
- tax matters;
- finders or brokers fees;
- fairness opinions;
- insurance matters;
- necessary actions to approve the merger and the sale of the transferred subsidiaries;
- title to properties;
- employee matters;
- environmental matters;
- disclosures by us in this proxy statement;
- franchise matters; and
- transactions with affiliates.

Many of our representations and warranties are qualified by the absence of a material adverse effect on us, which means, for purposes of the merger agreement, a material adverse effect on our and our subsidiaries business, financial condition or results of operations, taken as a whole, or our ability to consummate any of the transactions contemplated by the merger agreement, except in each case for any such effects resulting from, arising out of or relating to (a) the taking of any action or incurring of any expense in connection with the merger agreement or any of the transactions, (b) the entry into or the announcement of the merger agreement and the transactions, (c) any change in or interpretations of U.S. generally accepted accounting principles or any law, (d) any change in interest rates or general economic conditions in the industries or markets in which we or any of our subsidiaries operate or affecting the United States or foreign economies in general or in the United States or foreign financial, banking or securities markets (which changes do not affect us and our subsidiaries to a materially disproportionate degree), (e) any action taken by Acquisitions, Merger Sub, Purchase Sub or any of their respective affiliates, (f) any natural disaster or act of God, or (g) any act of terrorism or outbreak or escalation of hostilities or armed conflict, but does not include any changes, events, conditions or effects relating solely to Acquisitions or its subsidiaries financial condition, results of operations or business.

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Acquisitions and Merger Sub s Representations and Warranties

In the merger agreement, Acquisitions and Merger Sub, jointly and severally, make representations and warranties to us. These include representations and warranties regarding, among other things:

- limited liability company or corporate organization, existence, good standing, qualification and limited liability company and corporate power;
- authority relative to the merger agreement and the consummation of the transactions contemplated by the merger agreement;
- governmental and regulatory approvals required to complete the transactions contemplated by the merger agreement;
- ability to enter into and consummate the transactions contemplated by the merger agreement without violation of organizational and governing documents, contracts or applicable law or the creation of liens or other encumbrances or restrictions;
- finders or brokers fees;
- disclosures supplied to us for inclusion in this proxy statement;
- available financing to pay the aggregate transaction consideration;
- litigation matters;
- no prior business or other activities by Merger Sub; and
- matters with respect to the investigation of us conducted by Acquisitions and Merger Sub.

Principal Covenants

Conduct of Business of the Company Pending the Transactions

Unless Acquisitions otherwise agrees in writing or except as expressly contemplated by the merger agreement, during the period from the date of the merger agreement to the effective time of the merger:

- we and our subsidiaries will conduct our business in the ordinary course and consistent with past practice, and
- we and our subsidiaries will use our commercially reasonable efforts to preserve intact our business organizations, to keep available the services of our officers and employees, to perform all of our contractual obligations, to maintain satisfactory relationships with all persons with whom we do business, and to preserve the title, possession, control and condition of all of our assets.

We have further agreed that, except as expressly contemplated by the merger agreement or as separately disclosed to Acquisitions, during the period from the date of the merger agreement to the effective time of the merger, neither we nor any of our subsidiaries will, without the prior written consent of Acquisitions:

- amend or propose to amend our certificate of incorporation or bylaws (or comparable governing instruments) or alter through merger, liquidation, reorganization, restructuring or in any other fashion the corporate or organizational structure or ownership of us or any of our subsidiaries;
- authorize for issuance, issue, grant, sell, pledge, dispose of or propose to issue, grant, sell, pledge or dispose of

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any shares of, or any options, warrants, commitments, subscriptions or rights of any kind to acquire or sell any shares of, our capital stock or other securities or equity interests or any voting debt, including, but not limited to, any securities convertible into or exchangeable for shares of stock of any class, except for the issuance of shares of our common stock pursuant to the exercise of options outstanding on the date of the merger agreement in accordance with their present terms; or

any phantom stock, phantom stock rights, stock appreciation rights or stock based performance units;

split, combine, reclassify, alter or amend the terms of any shares of, or any options, warrants, commitments, subscriptions or rights of any kind to acquire or sell any shares of, our capital stock or other securities or equity interests or any voting debt, including, but not limited to, any securities convertible into or exchangeable for shares of stock of any class, or any phantom stock, phantom stock rights, stock appreciation rights or stock based performance units;

declare, pay or set aside any dividend or other distribution (whether in cash, stock or property or any combination thereof), other than the distribution consideration, in respect of any shares of, or any options, warrants, commitments, subscriptions or rights of any kind to acquire or sell any shares of, our capital stock or other securities or equity interests or any voting debt, including, but not limited to, any securities convertible into or exchangeable for shares of stock of any class, or any phantom stock, phantom stock rights, stock appreciation rights or stock based performance units, including any dividends or distributions to us from our subsidiaries or to a subsidiary of ours from its subsidiaries;

directly or indirectly redeem, purchase or otherwise acquire or offer to acquire any shares of, or any options, warrants, commitments, subscriptions or rights of any kind to acquire or sell any shares of, our capital stock or other securities or equity interests or any voting debt, including, but not limited to, any securities convertible into or exchangeable for shares of stock of any class, or any phantom stock, phantom stock rights, stock appreciation rights or stock based performance units;

create, incur, assume, forgive or make any changes to the terms or collateral of any debt or receivables (other than trade payables and receivables in the ordinary course of business consistent in type and amount with prior practice and the incurrence of debt in connection with capital expenditures made in accordance with our capital expenditure budget for the 2006 fiscal year), or any employee or officer loans or advances, except incurrences that constitute a refinancing of existing obligations on terms that are no less favorable to us and our subsidiaries than the existing terms;

assume, guarantee, endorse or otherwise become liable or responsible (whether directly, indirectly, contingently or otherwise) for the obligations of any person;

except in accordance with our capital expenditure budget for the 2006 fiscal year, make any capital expenditures or incur any opening or preopening expenses;

make any loans, advances or capital contributions to, or investments in, any other person, other than customary travel, relocation or business advances to employees consistent with past practices;

acquire stock or assets of, or merge or consolidate with, any other person;

incur any material liability or obligation (absolute, accrued, contingent or otherwise) other than trade payables in the ordinary course of business consistent in type and amount with prior practice;

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sell, transfer, mortgage, pledge, lease, encumber or otherwise dispose of, or agree to sell, transfer, mortgage, pledge, lease, encumber or otherwise dispose of, any assets or properties (real, personal or mixed, tangible or intangible) other than inventory held for sale or the disposition and replacement of obsolete personal property in the ordinary course of business, or to secure permitted indebtedness;

increase the wages, salaries, bonus, compensation or other benefits of any of our officers or employees (other than non-material increases granted to retain employees, other than officers, who have been offered employment by another person) or enter into, establish, amend or terminate any employment, consulting, retention, change in control, collective bargaining, bonus or other incentive compensation, profit sharing, health or other welfare, stock option or other equity, pension, retirement, vacation, severance, termination, deferred compensation or other compensation or benefit plan, policy, agreement, trust, fund or other arrangement with, for or in respect of any officer, director or employee other than as required by applicable law or pursuant to the terms of agreements in effect on the date of the merger agreement or in the ordinary course of business consistent with past practice with employees (other than officers) of us or any of our subsidiaries;

commence or settle any litigation or other proceedings with any governmental authority or other person in excess of amounts reserved for such litigation in our financial statements;

make, amend or rescind any election relating to taxes, settle any litigation, audit or controversy relating to taxes in excess of amounts reserved therefor in our financial statements, file any amended tax return or claim for refund, change any method of accounting or make any other change in its accounting or tax policies or procedures, agree to an extension of any statute of limitations related to any tax, enter into a closing agreement related to any tax, or surrender any right to claim a tax refund, except as required by applicable law or GAAP;

adopt or amend any resolution or agreement concerning indemnification of our directors, officers, employees or agents;

transfer or license to any person or entity or otherwise extend, materially amend or modify, permit to lapse or fail to preserve any of our intellectual property as currently maintained or disclose to any person who has not entered into a confidentiality agreement any trade secrets;

modify, amend or terminate any material contract, or waive, release or assign any rights or claims thereunder, enter into any agreement that would be a material contract, or enter into or materially amend any contract or agreement with any affiliate of ours;

modify, amend or terminate, or waive, release or assign any rights or claims with respect to, any confidentiality agreement or non-competition agreement to which we or any of our subsidiaries is a party;

fail to maintain our books, accounts and records in the usual manner on a basis consistent with that heretofore employed;

establish any subsidiary or enter into any new line of business;

permit any insurance policy naming us or any of our subsidiaries as a beneficiary or a loss payee to be cancelled or terminated unless we maintain substantially similar insurance coverage as is currently in place;

revalue any of our assets or make any change in accounting methods, principles or practices, except as required by GAAP;

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- fail to make in a timely manner any filings with the SEC required under the Securities Act of 1933, as amended, or the Exchange Act or the rules and regulations promulgated thereunder;
- discharge any obligations (including accounts payable) other than on a timely basis in the ordinary course of business consistent with past practice;
- close or materially reduce our or any subsidiary s activities, or effect any layoff or other Company-initiated personnel reduction or change, at any of our or any subsidiary s facilities; or
- authorize any of, or agree to commit to do any of, the foregoing actions.

We also agreed to use our commercially reasonable efforts to comply with all laws applicable to us or any of our properties, assets or business and maintain in full force and effect all of our material permits.

Special Meeting; Proxy Statement

As promptly as practicable following the execution of the merger agreement, we, acting through our board of directors, have agreed to:

- duly call, give notice of, convene and hold a special meeting of our stockholders for the purposes of considering and taking action upon the approval and adoption of the merger agreement and the transactions contemplated by the merger agreement, including adjourning such meeting for up to ten business days to obtain such approval; and
- declare advisable and recommend to our stockholders that they adopt the merger agreement and approve the transactions.

No Solicitation

We have agreed not to, directly or indirectly, and not to, directly or indirectly, authorize or permit any of our officers, directors, employees, agents or representatives to:

- solicit, encourage, initiate or facilitate the making, submission or announcement of any takeover proposal;
- furnish any non-public information regarding us or the transactions to any person in connection with or in response to a takeover proposal;
- engage in discussions or negotiations with any person with respect to any takeover proposal;
- withdraw or modify, or propose publicly to withdraw or modify, in a manner adverse to Acquisitions, the approval of the merger agreement or the transactions or the recommendation that holders of our common stock adopt the merger agreement;
- approve or recommend, or propose publicly to approve or recommend, any takeover proposal; or
- cause us to discuss, negotiate or enter into any letter of intent, agreement in principle, acquisition agreement or other similar agreement related to any takeover proposal.

For purposes of the merger agreement, takeover proposal means (other than the transactions) any inquiry, proposal or offer from any person relating to:

- any direct or indirect acquisition or purchase of assets representing 20% or more of the assets of us and our subsidiaries, including by way of the purchase of stock of our subsidiaries;

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- any issuance, sale or other disposition of (including by way of merger, consolidation, business combination, share exchange, joint venture or any similar transaction) securities (or options, rights or warrants to purchase, or securities convertible into or exchangeable for, such securities) representing 20% or more of our voting power;
- any tender offer, exchange offer or other transaction in which, if consummated, any person or group (as such term is defined under the Exchange Act) shall acquire beneficial ownership (as such term is defined in Rule 13d-3 under the Exchange Act), or the right to acquire beneficial ownership, of 20% or more of our voting power; or
- any merger, consolidation, share exchange, business combination, recapitalization, liquidation or dissolution involving us.

For purposes of the merger agreement, a superior offer means a takeover proposal on terms that the board of directors determines, in good faith, based upon consultations with its outside legal counsel and its financial advisors, are more favorable to our stockholders than the merger agreement and the transactions, taken as a whole, after giving effect to any adjustments to the terms and conditions of the merger agreement agreed to in writing by Acquisitions in response to such takeover proposal, and is reasonably likely to be consummated, taking into account all legal, financial and regulatory aspects of, and conditions to, the superior offer and the person making the superior offer, including any financing required by such person.

Nothing in the merger agreement prohibits or limits us, or our board of directors, prior to the date of the special meeting, from furnishing non-public information regarding us to, or entering into discussions or negotiations with, any person in response to an unsolicited, bona fide written takeover proposal if:

- the board of directors determines in good faith, after consultation with its outside legal counsel, that such action with respect to such takeover proposal is necessary for the board of directors to comply with its fiduciary duties to our stockholders;
- we receive from such person an executed confidentiality agreement with provisions no less favorable to us than those contained in the confidentiality agreement between us and Acquisitions; and
- contemporaneously with furnishing any such information to such person, we furnish such information to Acquisitions, to the extent not previously furnished.

We have agreed to notify Acquisitions as promptly as practicable (and in any event within one business day) of the receipt by us, or any of our representatives, of any bona fide inquiries, proposals or offers, requests for information or requests for discussions or negotiations regarding any takeover proposal or any bona fide inquiries, proposals or offers, requests for information or requests for discussions or negotiations that could reasonably be expected to result in a takeover proposal, specifying the terms and conditions thereof and the identity of the party making such inquiry, proposal, offer or request for information. We have agreed to keep Acquisitions informed of the status of any such discussions or negotiations and of any modifications to such inquiries, proposals, offers or requests for information. We have also agreed that we will not terminate, waive, amend or modify any provision of any existing standstill or confidentiality agreement to which we are a party and that relates to a takeover proposal, and we will use our commercially reasonable efforts to enforce the provisions of any such agreement. We have also agreed to immediately terminate any discussions or negotiations with any parties that may have been ongoing with respect to any takeover proposal as of the date of the merger agreement.

The board of directors may, at any time prior to the date of the special meeting, withdraw or modify its approval of the merger agreement or the transactions or its recommendation that holders of shares of our common stock adopt the merger agreement or approve or recommend a superior offer if:

- an unsolicited, bona fide written offer is made to us by a third party for a takeover proposal;

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- the board of directors determines in good faith, after consultation with its financial advisors, that such offer constitutes a superior offer; and
- following consultation with outside legal counsel, the board of directors determines that the withdrawal or modification of its approval of the merger agreement or the transactions or its recommendation that holders of shares of our common stock adopt the merger agreement is required to comply with the fiduciary duties of the board of directors to our stockholders

but only (1) after providing written notice to Acquisitions advising it that the board of directors has received a superior offer, specifying the material terms and conditions of the superior offer and identifying the person or persons making the superior offer, and (2) if Acquisitions does not, within three business days of its receipt of the that notice, make an offer that the board of directors determines in good faith, after consultation with its financial advisors, to be at least as favorable to our stockholders as the superior offer; provided that during such three business day period, we must, and must use commercially reasonable efforts to cause our financial and legal advisors to, negotiate in good faith with Acquisitions (to the extent Acquisitions wishes to negotiate) to enable Acquisitions to make such an offer.

In addition, the board of directors may, at any time prior to the date of the special meeting, and other than in connection with a takeover proposal, withdraw or modify its approval of the merger agreement or the transactions or its recommendation that holders of shares of our common stock adopt the merger agreement, if the board of directors reasonably determines (after consultation with outside legal counsel) that the withdrawal or modification of its approval or recommendation is required to comply with its fiduciary duties to our stockholders under applicable law.

State Takeover Laws

We have agreed that if any state takeover statute becomes, or purports to be, applicable to any of the transactions, we and the members of our board of directors will, and we will cause our subsidiaries to, grant the approvals and take the actions as are necessary so that the transactions may be consummated as promptly as practicable on the terms and conditions contemplated by the merger agreement.

Amendment of our Employee Plans

We have agreed, effective at or immediately before the effective time of the merger, to cause any of our or our subsidiaries employee benefit plans to be amended, to the extent reasonably requested by Acquisitions, for the purpose of permitting the employee benefit plans to continue to operate in conformity with the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986, and with the structure of us and our affiliates following the transactions.

Actions With Respect to the Transfers

Prior to the transfers, we have agreed that we and Acquisitions will join in making an election under Section 338(h)(10) of the Internal Revenue Code of 1986 with respect to the purchase and sale of the stock of each of the transferred subsidiaries.

Tax Sharing Agreements

To the extent permitted by the Internal Revenue Service, we have agreed that all tax sharing agreements or similar arrangements with respect to or involving us or any of our subsidiaries will be terminated as of the closing date of the merger, and, thereafter, we and our subsidiaries will not be bound thereby or have any liability thereunder.

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Certain Other Covenants

The merger agreement contains additional covenants, including covenants relating to our obligations with respect to:

- notifying Acquisitions of specified matters;
- providing Acquisitions access to personnel and information regarding us and our subsidiaries;
- using our commercially reasonable efforts to consummate the transactions contemplated by the merger agreement;
- issuing public announcements relating to the merger agreement and the transactions;
- compliance with laws; and
- filing required materials and obtaining early termination of applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

Indemnification and Insurance

The merger agreement requires the certificate of incorporation and bylaws of the surviving corporation to contain provisions no less favorable with respect to indemnification than are set forth in our certificate of incorporation and bylaws, respectively, and provides that these provisions may not be amended, repealed or otherwise modified for a period of six years from the effective time of the merger in any manner that would affect adversely the rights thereunder of individuals who, at or prior to the effective time of the merger, were directors, officers, employees, fiduciaries or agents of us or any of our subsidiaries. After the closing of the merger, the surviving corporation has agreed, to the fullest extent permitted under applicable law, to indemnify and hold harmless each present and former director and officer of ours and each of our subsidiaries at or prior to the effective time of the merger against all costs and expenses (including attorneys fees), judgments, fines, losses, claims, damages, liabilities and settlement amounts paid in connection with any claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative, arising out of or pertaining to any action or omission, in his or her capacity as an officer, director, employee, fiduciary or agent, occurring on or before the effective time of the merger, to the same extent as provided in our certificate of incorporation or bylaws, or any other applicable contract or agreement, in effect on the date of the merger agreement.

In the event of any such claim, action, suit, proceeding or investigation:

- the surviving corporation will pay the reasonable fees and expenses of counsel selected by the indemnified parties, which counsel shall be reasonably satisfactory to the surviving corporation, provided the applicable indemnified party provides an undertaking to repay all advanced expenses if it is finally judicially determined that such indemnified party is not entitled to indemnification; and the surviving corporation will cooperate in the defense of any such matter; provided, however, that:
  - the surviving corporation will not be liable for any settlement effected without the surviving corporation s written consent, not to be unreasonably withheld or delayed;
  - the surviving corporation shall not be obligated to pay the fees and expenses of more than one counsel for all indemnified parties in any jurisdiction with respect to any single action except to the extent that two or more of such indemnified parties shall have conflicting interests in the outcome of such action; and

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- in the event that any claim for indemnification is asserted or made within six years after the effective time of the merger, all rights to indemnification in respect of such claim will continue until the disposition of the claim.

The surviving corporation will either:

- cause to be obtained at the effective time of the merger tail insurance policies with a claims period of at least six years from the effective time of the merger with respect to directors and officers liability insurance in amount and scope at least as favorable as our existing policies for claims arising from facts or events that occurred on or prior to the effective time of the merger; or
- maintain in effect for six years from the effective time of the merger, if available, the current directors and officers liability insurance policies maintained by us (provided that the surviving corporation may substitute therefor policies of at least the same coverage containing terms and conditions that are not less favorable) with respect to matters occurring on or prior to the effective time of the merger; provided, however, that in no event shall the surviving corporation be required to expend in any year during such six-year period more than 300% of current annual premiums paid by us for current comparable insurance coverage; provided, however, that in the event of an expiration, termination or cancellation of the current policies, the surviving corporation shall be required to obtain as much coverage as is possible under substantially similar policies for such maximum annual amount.

If the surviving corporation or any of its successors or assigns:

- consolidates with or merges into any other person and shall not be the continuing or surviving corporation or entity of such consolidation or merger; or
- transfers all or substantially all of its properties and assets to any person,

then, and in each such case, proper provision shall be made so that the successors and assigns of the surviving corporation shall succeed to the obligations set forth above.

Benefit Plans and Employee Matters

Following the consummation of the transactions, Acquisitions will cause the transferred subsidiaries to, and the surviving corporation and its subsidiaries will, continue to honor, in accordance with their terms, all binding contracts, agreements, arrangements, policies, plans and commitments of us and our subsidiaries as in effect immediately prior to the closing that are applicable to any current or former employees or directors of us or any of our subsidiaries.

Employees of us and our subsidiaries as of the closing of the transactions will receive credit under any employee benefit plan, program or arrangement (including vacation plans, programs and arrangements) established or maintained by Purchase Sub or any of the transferred subsidiaries, or by the surviving corporation or any of its subsidiaries, for service with us and our subsidiaries through the closing. Each such employee will retain his or her current credit for service accrued or deemed accrued with us or any of our subsidiaries; provided, however, that such crediting of service will not operate to duplicate any benefit or the funding of any such benefit.

With respect to the welfare benefit plans, programs and arrangements maintained, sponsored or contributed to by Purchase Sub or any of the transferred subsidiaries, or by the surviving corporation or any of its subsidiaries, in which an employee of us or our subsidiaries may be eligible to participate on or after the closing of the transactions, Acquisitions will provide credit to each such employee for any co-payments, deductibles and out-of-pocket expenses paid by such employee under our employee benefit plans during the relevant plan year, up to and including the closing.

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Following the consummation of the transactions, Acquisitions will cause the transferred subsidiaries to, and the surviving corporation and its subsidiaries will, continue to honor, in accordance with their terms, all specified employment and retention agreements with our employees.

Conditions to the Transactions

The respective obligations of each party to effect the transactions are subject to the fulfillment or waiver of the following conditions:

- the approval of the merger agreement and the transactions contemplated thereby by our stockholders;
- the absence of legal prohibitions to the completion of the transactions; and
- the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 shall have expired or been terminated.

The obligations of Acquisitions to effect the purchase of the transferred subsidiaries are subject to the fulfillment of the following additional conditions, which may be waived by Acquisitions in writing in its sole discretion:

- the accuracy of our representations and warranties in the merger agreement, subject to exceptions which could not reasonably be expected to have a material adverse effect with respect to us;
- our performance in all material respects of our obligations and compliance in all material respects with our agreements or covenants to be performed or complied with by us under the merger agreement;
- the absence of any changes, conditions, events or developments that have had or that could reasonably be expected to have a material adverse effect with respect to us;
- we shall have furnished Acquisitions with a certificate signed on our behalf by our Chief Executive Officer certifying that the conditions relating to our representations, warranties and covenants have been satisfied;
- the absence of any judgment, order, injunction, ruling or decree which:
  - prohibits or materially limits the ownership or operation by the surviving corporation, Acquisitions or Purchase Sub of any material portion of the shares of stock (or other rights of ownership) or assets of us and our subsidiaries, taken as a whole; or
  - requires divestiture or rescission by Acquisitions, Merger Sub or Purchase Sub of any material portion of the shares of stock (or other rights of ownership) or assets of us and our subsidiaries, taken as a whole;
- all consents required in connection with the merger agreement or the transactions contemplated by the merger agreement (other than any consents that may be required under any of our real property leases or permits, including under any federal, state, city or local law governing the sale of liquor that may be applicable) shall have been obtained and shall be in full force and effect, except where the failure to do so could not reasonably be expected to have, in the aggregate, a material adverse effect with respect to us; and
- the holders of not more than 22.5% of the shares of our common stock shall have exercised dissenter s rights.

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The merger agreement expressly provides that our failure to obtain or have in effect consents that may be required under any of our real property leases or permits, including under any federal, state, city or local law governing the sale of liquor that may be applicable, will not constitute a material adverse effect with respect to us.

The obligations of Acquisitions and Merger Sub to effect the merger are subject to the fulfillment of the following additional conditions, which may be waived by Acquisitions in writing in its sole discretion:

- the closing of the sale of the transferred subsidiaries shall have occurred, and we shall have deposited the aggregate distribution consideration received from Acquisitions with the transfer agent;
- all of the conditions relating to the sale of the transferred subsidiaries shall be conditions to the obligation of Acquisitions and Merger Sub to effect the merger; and
- we shall have furnished Acquisitions with a certificate similar to the certificate furnished in connection with the closing of the sale of the transferred subsidiaries.

Our obligations to sell the transferred subsidiaries are subject to the fulfillment of the following additional conditions, which may be waived by us in writing in our sole discretion: