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

TABLE OF CONTENTS

Back to Contents

Back to Contents

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.

Back to Contents

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.

Back to Contents

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.

Back to Contents

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.

Back to Contents

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.

Back to Contents

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;

Back to Contents

- 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;

Back to Contents

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.

Back to Contents

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.

Back to Contents

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.

Back to Contents

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.

Back to Contents

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.

Back to Contents

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.

Back to Contents

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.

Back to Contents

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.

Back to Contents

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.

Back to Contents

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.

Back to Contents

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.

Back to Contents

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.

Back to Contents

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.

Back to Contents

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.

Back to Contents

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.

Back to Contents

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.

Back to Contents

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.

Back to Contents

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.

Back to Contents

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;

Back to Contents

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;

Back to Contents

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.

Back to Contents

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.

Back to Contents

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.

Back to Contents

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.

31

Back to Contents

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

Back to Contents

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