MORGANS FOODS INC
Form PRE 14A
May 24, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A

(RULE 14a-101)

SCHEDULE 14A INFORMATION

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

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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

MORGAN'S FOODS, 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:

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

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

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with 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:

MORGAN'S FOODS, INC.

4829 Galaxy Parkway, Suite S

Cleveland, Ohio 44128

_____

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD JULY 2, 2013

_____

TO THE SHAREHOLDERS:

You are hereby notified that the Annual Meeting of Shareholders of Morgan's Foods, Inc., an Ohio corporation (the "Company"), will be held at the Marriott Cleveland East, 26300 Harvard Road, Warrensville Heights, Ohio 44122, on Tuesday, July 2, 2013, at 10:00 a.m., Eastern Time, for the following purposes:

1. To elect seven directors, each for a term of one year

2. To ratify the appointment of Grant Thornton LLP

3. To approve the Amended and Restated Articles of Incorporation

4. To approve the Amended and Restated Code of Regulations

5. To vote on an advisory basis on a resolution approving executive compensation

6. To vote on an advisory basis on the frequency of holding an advisory vote on executive compensation

7. To vote on a proposal to terminate the Amended and Restated Shareholder Rights Agreement

8. To transact such other business as may properly come before the meeting or any adjournment thereof

Only shareholders of record at the close of business on May 8, 2013 will be entitled to notice of and to vote at the meeting or any adjournment thereof.

BY ORDER OF THE BOARD OF DIRECTORS,

KENNETH L. HIGNETT

Secretary

June 5, 2013

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON JULY 2, 2013:

This proxy statement and the Company's 2013 annual report to shareholders are also available at https://materials.proxyvote.com/616900.

SHAREHOLDERS WHO DO NOT EXPECT TO ATTEND THE MEETING IN PERSON ARE URGED TO VOTE BY TELEPHONE OR THE INTERNET OR TO COMPLETE, DATE AND SIGN THE ENCLOSED PROXY AND RETURN IT IN THE ENCLOSED POSTAGE-PAID ENVELOPE TO ENSURE THAT THEIR SHARES ARE REPRESENTED AT THE MEETING OR ANY ADJOURNMENT THEREOF.

MORGAN'S FOODS, INC.

4829 Galaxy Parkway, Suite S

Cleveland, Ohio 44128

_____

PROXY STATEMENT

_____

This proxy statement is furnished in connection with the solicitation of proxies by and on behalf of the Board of Directors of Morgan's Foods, Inc., an Ohio corporation (the "Company"), for use at the Annual Meeting of Shareholders of the Company (the "Meeting") to be held at the Marriott Cleveland East, 26300 Harvard Road, Warrensville Heights, Ohio 44122, on Tuesday, July 2, 2013 at 10:00 a.m., Eastern Time, and at any adjournment thereof.

This proxy statement and accompanying notice and form of proxy are being mailed to shareholders on or about June 5, 2013. A copy of the Company's Annual Report to Shareholders, including financial statements, for the fiscal year March 3, 2013 (the "2013 fiscal year") is enclosed with this proxy statement.

The presence of any shareholder at the Meeting will not operate to revoke his proxy. Any proxy may be revoked, at any time before it is exercised, in open meeting, or by giving notice to the Company in writing, or by filing a duly executed proxy bearing a later date.

If the enclosed proxy is executed and returned to the Company, the persons named therein will vote the shares represented by it at the Meeting. The proxy permits specification of a vote for the election of directors, or the withholding of authority to vote in the election of directors, or the withholding of authority to vote for one or more specified nominees and a vote for, against or abstain on the other proposals described in this proxy statement. Where a choice is specified in the proxy, the shares represented thereby will be voted in accordance with such specification. If no specification is made, such shares will be voted to elect as directors the nominees set forth herein under "Election of Directors" and FOR the other proposals included in this proxy.

Under Ohio law and the Company's Articles of Incorporation, broker non-votes and abstaining votes will not be counted in favor of or against election of any nominee.

The close of business on May 8, 2013, has been fixed as the record date for the determination of shareholders entitled to notice of and to vote at the Meeting. As of May 8, 2013, the Company's outstanding voting securities consisted of 4,039,147 Common Shares, without par value, each of which is entitled to one vote on all matters to be presented to the shareholders at the Meeting.

VOTING PRODEDURES

If you are a record holder:

You may vote by mail: complete and sign your proxy card and mail it in the enclosed, prepaid and addressed envelope
You may vote by telephone: call toll-free 1-800-652-VOTE (8683) on a touch tone phone and follow the instructions provide by the recorded message. You will need your proxy card available if you vote by telephone.
You may vote by Internet: access www.investorvote.com/MRFD and follow the steps outlined on the secure website.

You may vote in person at the meeting, however, you are encouraged to vote by mail, telephone or Internet even if you plan to attend the meeting.

If you are a "street name" holder:

You must vote your common shares through the procedures established by your bank, broker, or other holder of record. Your bank, broker, or other holder of record has enclosed or otherwise provided a voting instruction card for you to use in directing the bank, broker, or other holder of record how to vote your common shares.
You may vote at the meeting, however, to do so you will first need to ask your bank, broker or other holder of record to furnish you with a legal proxy. You will need to bring the legal proxy with you to the meeting and hand it in with a signed ballot that you can request at the meeting. You will not be able to vote your common shares at the meeting without a legal proxy and signed ballot.

PROPOSAL ONE: ELECTION OF DIRECTORS

At the Meeting, shares represented by proxies will be voted, unless otherwise specified in such proxies, for the election of the seven nominees to the Board of Directors named in this proxy statement and the enclosed proxy. These nominees were selected by the Board of Directors and will, if elected, serve as directors of the Company until the next annual meeting of the shareholders and until their successors are elected and qualified or until their earlier removal or resignation. All but one of the nominees are currently members of the Board of Directors and all nominees have consented to be nominated and to serve if elected. If, for any reason, any one or more nominees becomes unavailable for election, it is expected that proxies will be voted for the election of such substitute nominees as may be designated by the Board of Directors.

If notice in writing is given by any shareholder to the President or the Secretary of the Company, not less than 48 hours before the time fixed for holding the Meeting, that such shareholder desires that the voting for the election of directors shall be cumulative, and if an announcement of the giving of such notice is made upon the convening of the Meeting by the President or Secretary or by or on behalf of the shareholder giving such notice, each shareholder shall have the right to cumulate such voting power as he possesses at such election and to give one candidate an amount of votes equal to the number of directors to be elected multiplied by the number of his shares, or to distribute his votes on the same principle among two or more candidates, as he sees fit. If voting for the election of directors is cumulative, the persons named in the enclosed proxy will vote the shares represented by proxies given to them in such fashion as to elect as many of the nominees as possible.

The Board of Directors recommends that you vote FOR the following nominees:

Name	Age	Principal Occupation for the Past Five Years	Director of the Company Since
Marilyn A Eisele	55	President (2013 to present); Chief Financial Officer, NDI Medical, LLC (medical device commercialization firm) (2012 to present); Vice President – Finance, Chief Financial Officer, The PDI Group (munitions trailer & ground support systems manufacturer) (April 2011 to 2012); Chief Financial Officer, Five Star Technologies, Inc. (advanced materials supplier) (August 2002 – April 2011)	**2011**
Jefferson P. Gramm	37	Portfolio Manager, Managing Director and Managing Partner of Bandera Partners LLC.(2006-present)	2013

Steven S. Kaufman	63	Managing Member, Kaufman & Company, LLC (Law firm) (January 2011 to present); Partner, Thompson Hine, LLP (law firm) (June 2002 to January 2011)	1989
Bernard Lerner	86	Chief Executive Officer, Automated Packaging Systems, Inc. (manufacturer of packaging materials and machinery)	1989
James J. Liguori	64	Interim Chief Executive Officer (January 2013 to present) President and Chief Operating Officer of the Company (July 1988 to January 2013); Executive Vice President of the Company (August 1987 to July 1988)	1984
James C. Pappas	31	Managing Member of JCP Investment Management, LLC, (investment fund) (June 2009 to present); Private Investor, (July 2007 to May 2009); Investment Banker, The Goldman Sachs Group, Inc. (investment bank) (June 2005 to June 2007)	2012
Jacob J. Saour	32	Associate Director, Capital Markets, Cushman & Wakefield, (Global real estate services firm) (July 2010 to present); Houlihan Lokey (Global investment bank) (March 2007 to May 2010)	

In addition to the professional and occupational experience described above for each nominee, the Board has concluded that the skills, qualifications, experiences and attributes described below make the nominees persons who should serve as directors:

Marilyn A. Eisele – Ms. Eisele serves as president of a medical device commercialization firm and has served as chief financial officer of both public and privately held businesses, primarily in manufacturing, advanced materials, technology and the retail industries. She also has a background in public accounting with a national accounting firm and maintains an active CPA license in Ohio. Her education and experience give her strong expertise in the areas of operations and finance, including the raising of capital.

Jefferson P. Gramm – Mr. Gramm has been a Managing Director, Managing Partner and Portfolio Manager of Bandera Partners LLC, a value-oriented investment partnership, and Bandera Partners Management LLC, an affiliate general partner entity, since August 2006. Previous to Bandera Partners, Mr. Gramm was a Managing Director of Arklow Capital, LLC, a hedge fund manager focused on distressed and value investments. Mr. Gramm’s experience in finance, especially in areas of distressed and value investments are of great value to the Company in reviewing acquisition targets and negotiating and completing potential acquisitions.

Steven S. Kaufman – Mr. Kaufman has been a practicing attorney for many years, both as the head of a regional practice and a partner in a national law firm and member of its executive committee. He has strong expertise in the areas of risk management, conflict resolution and finance as well as business law and litigation.

Bernard Lerner – Mr. Lerner is the long-standing chief executive and founder of a multi-national producer of packaging materials and machinery. He brings to the Board of Directors expertise in all areas of business operations including human resources, administration and finance.

James J. Liguori – Mr. Liguori has been an officer and director of the Company since 1984 and has been responsible for all aspects of restaurant operations. He has expertise in restaurant operations, marketing and the operations of the franchisors.

James C. Pappas – Mr. Pappas has significant experience in the valuation and management of investment securities in addition to his experience in investment banking and corporate finance from his career with major investment banking firms. He has concentrated much of his efforts in the restaurant and retail business sectors and possesses a thorough understanding of the restaurant business in addition to his expertise in corporate finance.

Jacob J. Saour – Mr. Saour is an Associate Director in the Capital Markets Group of Cushman & Wakefield, a global real estate services firm based in New York. Prior to his current position, Mr. Saour worked for Houlihan Lokey, a Los Angeles based global investment bank, in the Tangible Asset Group. Mr. Saour's interdisciplinary knowledge of real estate, capital markets, finance and investments will allow him to contribute helpful insight in overseeing Company's real estate holdings.

Board Leadership

The Board does not have a formal policy regarding the separation of the roles of CEO and Chairman of the Board as the Board believes it is in the best interest of the Company and our shareholders to make that determination based on the position and direction of the Company and the membership of the Board. At this time, the Board has determined that having an independent director serve as Chairman is in the best interest of the Company and our shareholders. This structure ensures a greater role for the independent directors in the oversight of the Company and active participation of the independent directors in setting agendas and establishing Board priorities and procedures. Further, this structure permits our President and CEO to devote more time to focus on the strategic direction and management of our day-to-day operations. The Chairman is supported by independent directors who play pivotal roles and serve on the committees of the Board. The Board does not have a lead independent director.

Board's Role in Risk Oversight

It is management's responsibility to manage risk and bring to the Board of Directors' attention the most material risks to the Company. The Board of Directors has oversight responsibility of the processes established to report and monitor systems for material risks applicable to the Company. The Board's Audit Committee regularly reviews enterprise-wide risk management, which includes treasury risks, financial and accounting risks, legal and compliance risks and other risk management functions. The Compensation and Leadership Committee considers risks related to the attraction and retention of talent and related to the design of compensation programs tailored to the specific needs of the Company. The full Board considers strategic risks and opportunities and receives reports from management on risk.

Board of Directors Structure

The Board of Directors has determined that each of the following directors or director nominee is an “independent director” as defined by the listing standards of The Nasdaq Stock Market: Marilyn A. Eisele, Jefferson P. Gramm, Steven S. Kaufman, Bernard Lerner, James C. Pappas and Jacob J. Saour.

The Board of Directors has an Executive Committee, an Audit Committee, and a Compensation and Leadership Committee. The Company does not have a nominating committee or a nominating committee charter. The Board of Directors as a whole functions as the nominating committee due to the relatively small size of the Board and the smaller market capitalization of the Company.

The Executive Committee consists of James C. Pappas, Bernard Lerner and James J. Liguori. This committee has the authority, between meetings of the Board of Directors, to exercise substantially all of the powers of the Board in the management of the business of the Company.

The Audit Committee consists of Marilyn A. Eisele (Chairperson), Steven S. Kaufman and Bernard Lerner. This committee, as set forth in more detail in the Audit Committee Report below, approves the Company's retention of independent auditors and pre-approves any audit or non-audit services performed by them. It reviews with such accountants the arrangements for, and the scope of, the audit to be conducted by them. It also reviews with the independent accountants and with management the results of audits and various other financial and accounting matters affecting the Company. The Board has determined that Marilyn A. Eisele qualifies as an "audit committee financial expert" as defined in the rules of the Securities and Exchange Commission. The Audit Committee has a charter. A copy of that charter was attached to the Company's 2011 Proxy Statement.

The members of the Compensation and Leadership Committee are James C. Pappas (Chairman), Bernard Lerner, Marilyn A. Eisele and Steven S. Kaufman. This committee administers the Company's compensation, benefits and the Company's Long-Term Incentive Plan. The Board of Directors adopted a charter establishing the duties and responsibilities of the Compensation and Leadership Committee. A copy of that charter was attached to the Company's 2011 Proxy Statement. Our policies and overall compensation practices for all employees do not create risks that are reasonably likely to have a material adverse effect on the Company. In addition, incentive compensation (in the past generally in the form of stock options) is not designed, and does not create, risks that are reasonably likely to have a material adverse effect on the Company. Recommendations regarding compensation of officers (other than the CEO) are made to the Compensation and Leadership Committee by our CEO. The Compensation and Leadership Committee can exercise its discretion in modifying any amount presented by our CEO. During fiscal 2013, the Compensation and Leadership Committee did not retain the services of a compensation consultant.

While neither the charter of the Audit Committee or the Compensation and Leadership Committee are available on the Company's website, copies of the charters of the Audit Committee and of the Compensation and Leadership Committee were attached as exhibits to the proxy statement for the June 24, 2011 annual meeting of shareholders.

The Board of Directors met seven times, the Audit Committee met four times, the Compensation and Leadership Committee met six times and the Executive Committee did not meet, during the 2013 fiscal year. In 2013 the Board also established a Special Committee consisting of Steven S. Kaufman (chairman), Marilyn A. Eisele and Bernard Lerner, for the purpose of reviewing proposed equity transactions which met 18 times during the 2013 fiscal year. Each director currently serving on the Board attended 75% or more of the meetings held during such year by the Board and the committee(s) on which he or she served. The Company encourages the attendance of all directors at the annual shareholders meetings. All of the Company's directors attended the 2012 annual meeting of shareholders.

Nominations for Director are made by the Board of Directors as a whole. The Board determines the desired skills and characteristics for directors as well as the composition of the Board of Directors as a whole. This assessment considers the directors' qualifications and independence, as well as diversity, age, skill and experience in the context of the needs of the Board of Directors. At a minimum, directors should share the values of the Company and should possess the following characteristics: high personal and professional integrity; the ability to exercise sound business

judgment; an inquiring mind; and the time available to devote to Board of Directors' activities and the willingness to do so. The Board does not have a formal policy specifically focusing on the consideration of diversity; however, diversity is one of the many factors that the Board considers when identifying candidates. In addition to the foregoing considerations, generally with respect to nominees recommended by shareholders, the Board will evaluate such recommended nominees considering the additional information regarding them provided to the Board. When seeking candidates for the Board of Directors, the Board may solicit suggestions from incumbent directors, management and third-party search firms. Ultimately, the Board will recommend prospective nominees who the Board believes will be effective, in conjunction with the other members of the Board of Directors, in collectively serving the long-term interests of the Company's shareholders. The Board will review any candidate recommended by shareholders of the Company in light of its criteria for selection of new directors. If a shareholder wishes to recommend a candidate to the Board of Directors, he or she should send his or her recommendation, with a description of the candidate's qualifications, to the Secretary of the Company, Kenneth L. Hignett, 4829 Galaxy Parkway, Suite S, Cleveland, Ohio 44128. Please note that if our shareholders approve Proposal Four our Code of Regulations will be amended to provide certain advance notice and disclosure requirements for shareholder nominees for election as directors.

PROPOSAL TWO: RATIFICATION OF THE APPOINTMENT OF

GRANT THORNTON LLP

The Audit Committee of the Board currently anticipates appointing Grant Thornton LLP as our independent registered public accounting firm for the fiscal year ending March 2, 2014. For fiscal year 2013, Grant Thornton was engaged by us to audit our annual financial statements. Representatives of Grant Thornton are expected to be present at the Meeting, will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

The Board seeks an indication from shareholders of their approval or disapproval of the Audit Committee's anticipated appointment of Grant Thornton as the Company's independent registered public accounting firm for the 2014 fiscal year. The submission of this matter for approval by shareholders is not legally required, however, the Board believes that the submission is an opportunity for the shareholders to provide feedback to the Board on an important issue of corporate governance. If the shareholders do not approve the appointment of Grant Thornton, the appointment of the Company's independent registered public accounting firm will be re-evaluated by the Audit Committee but will not require the Audit Committee to appoint a different accounting firm. If the shareholders do approve the appointment of Grant Thornton, the Audit Committee in its discretion may select a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interest of the Company and its shareholders. Approval of the proposal to ratify the selection of Grant Thornton as our independent registered public accounting firm requires the affirmative vote of a majority of the common shares present in person or by proxy and entitled to be voted on the proposal at the Meeting. Abstentions will have the same effect as votes against the proposal. Broker non-votes will not be considered common shares present and entitled to vote on the proposal and will not have a positive or negative effect on the outcome of this proposal, however, there will be no broker non-votes on this proposal because brokers have the discretion to vote uninstructed common shares on this proposal.

The Board of Directors recommends that you vote FOR Proposal Two.

PROPOSAL THREE: PROPOSAL TO AMEND AND RESTATE THE ARTICLES OF INCORPORATION TO ELIMINATE CUMULATIVE VOTING IN THE ELECTION OF DIRECTORS

Our Board of Directors recommends that the shareholders approve amendment and restatement of the Amended and Restated Articles of Incorporation to eliminate cumulative voting in the election of directors as discussed below. Under Ohio law, because our Amended and Restated Articles of Incorporation currently do not address cumulative voting, our shareholders have the right to elect cumulative voting in any election of directors.

6

Cumulative voting enables a shareholder to cumulate his or her voting power to give one nominee a number of votes equal to the number of directors to be elected multiplied by the number of shares he or she holds, or to distribute the votes among two or more nominees as he or she sees fit. Thus, with cumulative voting, shareholders can cast all of their votes “for” one nominee, instead of voting each share “for” or “against” or “abstain” for each nominee, and thereby may be able to elect one or more nominees that have not been supported by the holders of a majority of the shares voting on the election of directors. Coupled with the annual election of directors, cumulative voting increases the chances that a minority shareholder could take disruptive actions to the detriment of the majority of shareholders. Finally, eliminating cumulative voting would be consistent with the general trend away from cumulative voting for public companies. Consequently, we are submitting this proposal to eliminate cumulative voting.

The elimination of cumulative voting might under certain circumstances render more difficult or discourage a merger, tender offer or proxy contest, the assumption of control by a holder of a large block of our common shares or the removal of incumbent management. Neither management nor our Board is aware of any attempt by any shareholder to accumulate sufficient shares to obtain control of the Company.

If the shareholders approve this proposal, the following will be added as a new Article SEVENTH of the Company’s Amended and Restated Articles of Incorporation:

Notwithstanding any provision of the General Corporation Law of Ohio now or hereafter in effect, no shareholder shall have the right to vote cumulatively in the election of directors.

The proposed amendment and restatement of the Amended and Restated Articles of Incorporation would also add a provision providing for severability, which would allow any of the remaining articles to remain in full force and effect if an individual article is held to be invalid, prohibited, or unenforceable. The full text of the proposed amendment and restatement of the Amended and Restated Articles of Incorporation is attached as Appendix A; underlined text denotes proposed additions and strikethrough text denotes proposed deletions. The previous description of the amendment and restatement of the Articles of Incorporation is qualified in its entirety by reference to Appendix A.

Under Ohio corporation law, the affirmative vote of two-thirds of our outstanding common shares is required for approval of the proposal to adopt the Amended and Restated Articles of Incorporation. Abstentions and unvoted shares (including broker non-votes) will have the same effect as votes against the proposal.

The Board of Directors recommends that you vote FOR Proposal Three.

PROPOSAL FOUR: PROPOSAL TO APPROVE THE AMENDMENT AND RESTATEMENT OF THE AMENDED CODE OF REGULATIONS TO REQUIRE ADVANCE NOTICE AND DISCLOSURE RELATED TO BUSINESS TO BE CONDUCTED AT SHAREHOLDER MEETINGS

Our Board of Directors recommends that the shareholders approve amendment and restatement of the Amended Code of Regulations to require advance notice and disclosure related to business to be conducted at shareholder meetings.

Our current Amended Code of Regulations does not contain provisions governing procedural or disclosure requirements governing (a) shareholder proposals made in connection with an Annual Meeting of Shareholders, (b) shareholder nominations for directors, or (c) shareholder proposals made in connection with a Special Meeting of Shareholders. The proposed Amended and Restated Code of Regulations would establish procedural and disclosure requirements for these three cases. Approval of this amendment would have no effect on a shareholder's right to make proposals under Rule 14a-8 ("Rule 14a-8") under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

(a)Advance Notice and Disclosures in Connection with Annual Meetings

Reasons For and Effects of Proposed Amendment

Our Code of Regulations currently does not contain any notice or disclosure requirements that apply to proposals made by a shareholder in connection with our Annual Meeting of Shareholders. As a result, if a shareholder is not seeking to include such a proposal in the Company's proxy materials pursuant to Rule 14a-8, the shareholder is not required to provide to the Company and other shareholders any advance notice of its intended proposal or any information regarding its holdings of the Company's stock or its interests in the proposal. Therefore, for example, if such a proposal were to be brought late in the proxy season (for instance, after we have delivered our Proxy Statement to shareholders), it could cause shareholders unnecessary confusion and create uncertainty about the proxy process and our Annual Meeting of Shareholders. In this situation and other similar situations, the shareholders might not have enough time, or the necessary information, to make an informed judgment about how to vote on such proposal.

Advance Notice Requirements

To remedy this deficiency, the amendment being proposed creates an advance notice provision that would require shareholders seeking to bring such proposals to give the Company advance notice of their intent to do so at least 90 days, but no more than 120 days, before the first anniversary of the immediately preceding year's Annual Meeting of Shareholders. This provision is intended to provide reasonable advance notice of a shareholder's intention to submit a proposal. To understand how this would apply, if the proposed notice period had been in place for the 2012 proxy season, the shareholder would have been required to provide notice of the proposal and related disclosures to the Company on or after February 23, but before March 25, of 2012.

Such notice would give the Company a brief time to consider the proposal and to determine whether to include appropriate information regarding the matter in our Proxy Statement. Shareholders also would benefit from the adoption of this advance notice provision because it would allow the Company to supply such information to shareholders, and shareholders would have the time necessary to decide how they would like to vote on the proposal. In addition, by adopting the proposed advance notice provision, no "surprise" proposals would be raised at Annual Meetings of Shareholders and meeting efficiency and clarity would be enhanced.

Disclosure Requirements

Because no Code of Regulations disclosure requirements currently apply to shareholder proposals, shareholders who bring such proposals for consideration at Annual Meetings of Shareholders are not required to supply to the Company or the shareholders any information about themselves, their interests in the Company, or their reasons for bringing the proposals. This amendment would require these types of disclosures from proposing shareholders in order to allow the Company to provide other shareholders with the information necessary to make an informed decision on the proposal. For example, such a proposing shareholder would be required to disclose, with respect to each record or beneficial owner of the Company's shares making the proposal, or on whose behalf the proposal is made, as applicable (both are referred to as "holders"), a description of each holder's economic and voting interests in the Company, including a description of:

- the holder's name and address;
- the number of shares of the Company that are owned of record or beneficially by such holder, and the number of shares as to which the holder has or will have a right to acquire ownership;
- any derivative, swap, or other transactions engaged in by the holder, the purpose or effect of which is to give such holder economic risk similar to ownership of the Company's shares or voting power with respect to the Company's shares;
- any agreement or relationship pursuant to which the holder has or shares a right to vote shares of the Company;
- any repurchase, "stock borrowing," or similar arrangement engaged in by the holder the purpose or effect of which is to reduce the holder's economic risks of holding, increase or decrease the holder's voting power with respect to, or provide the holder with the opportunity to profit from any decrease in the price or value of, the Company's shares;
- any rights to dividends on the shares of the Company owned beneficially by the holder that are separated or separable from the underlying shares;
- any performance-related fees that the holder is entitled to based on any change in the price or value of the Company's shares; and
- any other information that the holder must disclose in a proxy statement or other filings required in connection with solicitations of proxies for such proposal pursuant to Section 14 of the Exchange Act and applicable rules and regulations;

Each holder would also be required to disclose the following:

- a statement of the course of action proposed for the Company to follow; the text of the proposal; the reasons for making the proposal; and any material interest in the matter proposed by the holder;
- a description of all arrangements or understandings with any other person or entity (naming such person or entity) pursuant to which the proposal is to be made;
- certain interests in the Company's shares held by partnerships and limited liability companies in which the holder has a direct or indirect interest; and
- certain arrangements relating to, or rights or other interests in the Company's shares held by each holder's immediate family members;

These disclosures would give Company shareholders and the Company the information they need to understand the purpose of the proposal and what the Company is being asked to do, and to assess the interests of the proposing shareholder in making the proposal. The disclosures also would allow shareholders to make an informed decision about how to vote on the proposal.

Refusal to Acknowledge Submission of Proposals

This proposed amendment also would provide that the officer presiding over the Annual Meeting of Shareholders may refuse to acknowledge the submission of any proposal not made in accordance with the provisions of Section 2(e) of Article I of the Code of Regulations and declare at such meeting that any such proposal has not been brought properly before the meeting and therefore will not be considered.

Effect on Shareholder Proposal Procedures under Rule 14a-8

The provisions of proposed new Section 2 of Article I of the Code of Regulations expressly apply to proposals that are not made pursuant to Rule 14a-8. Nothing in proposed new Section 2 of Article I of the Code of Regulations is intended to affect the rights of shareholders to request inclusion of proposals in the Company's Proxy Statement pursuant to and in accordance with the requirements of Rule 14a-8.

(b)Advance Notice and Disclosures for Shareholder Nominations

Currently there are no procedural requirements in our Code of Regulations that apply to shareholders who seek to nominate candidates for election to the Board of Directors, and such shareholders are not required to supply to the Company or shareholders much information about themselves or their interests in the Company. This amendment would add procedural requirements and require disclosures from such nominating shareholders in order to provide other shareholders and the Company with useful information. These provisions mirror the requirements that we propose to apply to other shareholder proposals described above.

This amendment also would require that nominating shareholders give the Company notice of their intention to make a nomination between 90 and 120 days before the first anniversary of the immediately preceding year's Annual Meeting. By contrast, the Code is currently silent on shareholder nomination procedures, providing no guidance on how to nominate a director. By basing the timing requirement on the anniversary of the prior year's Annual Meeting date, shareholders would know when they must furnish notice of a nomination in connection with an Annual Meeting over a year in advance of the meeting. Further, the proposed advance notice window for director nominations aligns with the proposed advance notice window for proposals at annual meetings.

If this amendment is adopted, a shareholder seeking to make a director nomination would be required to disclose, with respect to each shareholder of record of the Company that is making the nomination and, if applicable, any beneficial owner of the Company's shares on whose behalf the nomination is being made, a description of each holder's economic and voting interests in the Company as described above in connection with the annual meeting proposal.

(c)Advance Notice and Disclosures for Special Meetings of the Shareholders

Our Code of Regulations currently contains limited disclosure requirements that apply to shareholder calls for Special Meeting of Shareholders. To remedy this deficiency, the amendment being proposed creates an advance notice obligation that would require shareholders seeking to call a Special Meeting to give the Company advance notice of their intent to do so and a description of the business to be conducted. This will allow the secretary to set a record date to be set for the purpose of determining the shareholders entitled to demand the secretary of the Company call a Special Meeting, and to communicate the purpose of the meeting to the Company's shareholders.

This advanced notice would give the Company a brief time to consider the proposal. Shareholders should also benefit from the adoption of this advance notice provision because it would allow the Company to supply such information to shareholders and shareholders would have the time necessary to decide how they would like to vote at the Special Meeting.

Furthermore, because no Code of Regulations requirements currently apply to calls for special meetings beyond the requirement to specify the time, place and purpose of a Special Meeting, shareholders who call for a Special Meetings are not required to supply to the Company or the shareholders any information about themselves, their interests in the Company, or their reasons for bringing the proposals. This proposed amendment would also require these types of disclosures from proposing shareholders in order to allow the Company to provide other shareholders with the information necessary to make an informed decision at the Special Meeting. These provisions mirror the requirements that we propose to apply to other shareholder proposals at annual meetings (see above).

If this amendment is adopted, a shareholder seeking to call a Special Meeting would be required to disclose, with respect to each shareholder of record of the Company that is calling the meeting, and, if applicable, any beneficial owner of the Company's shares on whose behalf the call is being made, a description of all types of each holder's economic and voting interests in the Company as described above in connection with the annual meeting proposal.

Other Changes to Modernize the Code of Regulations

Our Board of Directors unanimously recommends other changes that would modernize the Code of Regulations. These proposed changes would add a provision allowing uncertificated shares; provide that the chairman of any meeting of the shareholders shall determine the order of business and have the authority and discretion to regulate the conduct of the meeting; and other non-substantive changes.

The full text of the proposed Amended and Restated Code of Regulations is attached as Appendix B; underlined text denotes proposed additions and strikethrough text denotes proposed deletions. The previous description of the amendment and restatement of the Amended Code of Regulations is qualified in its entirety by reference to Appendix B.

Under Ohio corporation law and our current Amended Code of Regulations, the affirmative vote of two-thirds of our outstanding common shares is required for approval of the proposal to adopt the Amended and Restated Code of Regulations. Abstentions and unvoted shares (including broker non-votes) will have the same effect as votes against the proposal.

The Board of Directors recommends a vote FOR proposal 4

PROPOSAL 5: SAY-ON-PAY

Pursuant to the requirements of the Dodd-Frank Act the Company provides its shareholders with the opportunity to cast an advisory non-binding vote to approve the compensation of its Named Executive Officers as disclosed pursuant to the SEC's compensation disclosure rules (a "say-on-pay proposal"). The Company believes that it is appropriate to seek the views of shareholders on the design and effectiveness of the Company's executive compensation program.

The Company's goal for its executive compensation program is to attract, motivate, and retain a talented, entrepreneurial and creative team of executives who will provide leadership for the Company's success in competitive markets. The Company seeks to accomplish this goal in a way that rewards performance and is aligned with its shareholders' long-term interests.

The Board recommends that shareholders vote for the following resolution:

"RESOLVED that the compensation paid to the Company's Named Executive Officers, as disclosed pursuant to Item 402 of Regulation S-K compensation tables and narrative discussion, is hereby APPROVED."

Because the vote is advisory, it will not be binding upon the Board or the Compensation and Leadership Committee. The Board and the Compensation and Leadership Committee value the opinions of our shareholders and will take into account the outcome of the vote when considering future executive compensation arrangements.

The affirmative vote of a majority of the common shares present or represented by proxy and voting at the annual meeting will constitute approval of this non-binding resolution. If you own common shares through a bank, broker or other holder of record, you must instruct your bank, broker or other holder of record how to vote in order for them to vote your common shares so that your vote can be counted on this proposal. Abstentions will have the same effect as votes against the proposal. Broker non-votes will not be considered common shares present and entitled to vote on this proposal and will not have a positive or negative effect on the outcome of this proposal.

The Board of Directors recommends that you vote FOR Proposal 5.

PROPOSAL 6: SAY ON PAY FREQUENCY

Rules mandated by the Dodd-Frank Act also require the Company to seek a non-binding advisory shareholder vote every six years regarding the frequency (annually, every other year, or every three years) at which the Company will ask its shareholders to provide the advisory vote on executive compensation.

After careful consideration, the Board recommends that future advisory votes on executive compensation occur every year because the Board believes it is important to hear from its shareholders frequently regarding its compensation practices and philosophy.

As an advisory vote this proposal is non-binding. The Board and the Compensation and Leadership Committee value the opinions of our shareholders and understand that executive compensation is an important matter, and they will consider the outcome of the vote when making future decisions on the frequency of the Company's executive compensation advisory votes.

Shareholders may cast their votes in favor of one year, two years or three years or abstain from voting on this proposal. The choice selected by the greatest number of votes will be deemed the shareholders' choice on frequency of the Company's executive compensation advisory vote. If you own common shares through a bank, broker or other holder of record, you must instruct your bank, broker or other holder of record how to vote in order for them to vote your common shares so that your vote can be counted on this proposal. Abstentions and broker non-votes will have no effect on the outcome of this proposal.

The Board of Directors recommends a vote of ONE YEAR on Proposal 6.

PROPOSAL 7: TERMINATION OF AMENDED AND RESTATED SHAREDHOLDERS RIGHTS AGREEMENT

The Board of Directors at a meeting held on April 9, 2013 approved putting before the Company's shareholders a proposal to terminate the Amended and Restated Shareholder Rights Agreement (the "Rights Plan").

Background

The Company disclosed on a Form 8-K filing with the Securities and Exchange Commission on April 15, 2013 that on April 12, 2013 the Company entered into and closed a Share Purchase Agreement (the "SPA") with Bandera Master Fund L.P., a Cayman Islands exempted limited partnership ("Bandera), for the sale of 1,052,250 common shares, without par value, of the Company at $2 per share, for a total of $2,104,500. The Company agreed pursuant to the SPA that the Company would, at a meeting of shareholders to be held no later than July 15, 2013, submit to its shareholders a proposal to terminate the Rights Plan or to amend the Rights Plan such that it expires immediately under its terms.

The SPA and the agreements related to it were negotiated by and approved by a Special Committee of the Board of Directors (the "Special Committee"). The Special Committee, comprised of three independent directors, Steven S. Kaufman (chairman), Marilyn Eisele and Bernard Lerner, was formed in October 2012 to, among other things, evaluate and negotiate the possible addition of equity capital to the Company to improve the Company's capital structure.

The Company's Rights Plan has been in existence since 1999. The purpose of the Company's Rights Plan, also known as a poison pill, is to bring potential bidders to the negotiating table by increasing the bargaining power that the Company's Board has against a hostile bidder. In support of shareholders rights agreements generally it is assumed that while shareholders should have a right to participate in unsanctioned offers made by bidders, shareholders may not always be in the best position to bargain for their interests.

There have been recent changes in the Company's Board of Directors and management. On December 6, 2012 the Board of Directors (1) accepted the resignation of Leonard R. Stein-Sapir from his positions as Chairman of the Board of Directors and Chief Executive Officer, effective December 31, 2012, (2) appointed James J. Liguori to the position of interim Chief Executive Officer, effective January 1, 2013, and (3) elected James C. Pappas as the Chairman of the Board of Directors, effective January 1, 2013. In addition, on April 11, 2013, as a result of a new Board of Directors' policy (adopted in connection with the Special Committee's approval of SPA) to have only one management director (the Chief Executive Officer) serve on the Board of Directors, Kenneth L. Hignett, the Company's Senior Vice President, Chief Financial Officer and Secretary, voluntarily resigned from the Company's Board of Directors. Mr. Hignett continues to serve the Company in his capacity as Senior Vice President, Chief Financial Officer and Secretary. On April 12, 2013, Jefferson P. Gramm, Bandera's Managing Partner, was elected to the Board of Directors following the Bandera investment.

The SPA requires that the Company put before the shareholders a vote on whether to terminate the Rights Plan. The Company believes that Rights Plans are generally now disfavored by institutional shareholders and that the prevalence of poison pills has been generally decreasing over the past several years. In addition, the Company believes that shareholder proposals calling for the redemption or termination of rights plans are increasingly common in recent years because rights plans may be viewed negatively by institutional shareholders and the stock market as a means to entrench current management instead of a means to maximize shareholder value.

Additionally, the Company is afforded protection against unsolicited takeover bids under Ohio law (Ohio Revised Code Section 1704), which is applicable to the Company. Under Section 1704 no bidder may acquire 10% or more of the outstanding stock without the advance approval of a company's board of directors if it wishes to be able to acquire all of the stock or assets of the company in a follow-on transaction.

If the shareholders approve the proposal to terminate the Rights Plan the Company's Board of Directors would approve the termination of the Rights Plan by entering into an amendment to change the Final Expiration Date (as defined

therein) of the Rights Plan by accelerating it from April 7, 2014 to a date as soon as practical after the Annual Meeting of Shareholders.

This proposal is not required to be submitted to a vote of the Company's shareholders. As stated above, the Company has agreed under the SPA to submit the termination proposal to the Company's shareholders. The Board of Directors currently has the authority to terminate the Rights Plan without prior shareholder approval, however, if the shareholders do not approve the termination of the Rights Plan it will not be terminated and will remain in place until April 7, 2014.

Our Board of Directors was informed in the winter of 2013 that our Chairman, James C. Pappas had conducted preliminary discussions with Leonard Stein-Sapir, the Company's former Chairman and Chief Executive Officer, about the possible sale by Mr. Stein-Sapir of his Company common shares (see "Security Ownership of Certain Beneficial Owners and Management" on page 15) to Mr. Pappas or his company, JCP Investment Management. Currently under the Rights Plan Mr. Pappas is limited to owning 27% without becoming an Acquiring Person. If the Rights Plan is terminated, it will no longer be an impediment to Mr. Pappas or his investment company (or any other person) acquiring beneficial ownership of Company common shares without limitation, whether from Mr. Stein-Sapir, from other shareholders, or from the open market; provided, however, no inference or expectation regarding a possible transaction should be drawn from those discussions.

The affirmative vote of a majority of the common shares present or represented by proxy and voting (excluding the common shares beneficially owned by Bandera and its associates and affiliates from both the shares voting and the shares present or represented) at the Annual Meeting will constitute approval by the Company's shareholders of the termination of the Rights Plan. If you own common shares through a bank, broker or other holder of record, you must instruct your bank, broker or other holder of record how to vote in order for them to vote your common shares so that your vote can be counted on this proposal. Abstentions will have the same effect as votes against the proposal. Broker non-votes will not be considered common shares present and entitled to vote on this proposal and will not have a positive or negative effect on the outcome of this proposal.

The Board of Directors recommends a vote of FOR Proposal 7.

AUDIT COMMITTEE REPORT

The Audit Committee is composed of three directors, all of whom are independent under the Sarbanes-Oxley Act. The Committee's responsibilities include oversight of the Company's independent auditors as well as oversight of management's conduct in the Company's financial reporting process. The Committee also approves the Company's retention of independent auditors and pre-approves any audit or non-audit services performed by them. Management is responsible for the Company's internal controls and the financial reporting process. The independent auditors are responsible for performing an independent audit of the Company's consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and issuing a report thereon. For fiscal 2013, the Committee met and held discussions with management and the independent auditors. Management represented to the Committee that the Company's consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, and the Committee has reviewed and discussed the consolidated financial statements with management and the independent auditors. The Committee discussed with the independent auditors matters required to be discussed by Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1, AU section 380), as adopted by the Public Company Oversight Board in Rule 3200T. The Company's independent auditors also provided to the Committee the written disclosures and letter required by the applicable requirements of the Public Company Accounting Oversight Board regarding the

independent auditor's communication with the Committee concerning independence. The Committee discussed with the independent auditors their firm's independence.

Based on the Committee's discussion with management and the independent auditors and the report of the independent auditors to the Committee, the Committee recommended that the Board of Directors include the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended March 3, 2013 for filing with the Securities and Exchange Commission.

The Audit Committee

Marilyn A. Eisele, Chairwoman

Steven S. Kaufman

Bernard Lerner

INDEPENDENT AUDITOR FEES

The aggregate audit fees billed or to be billed to the Company by the Company's independent auditors, Grant Thornton LLP, are $166,930 for the fiscal year ended March 3, 2013 and $173,448 for the fiscal year ended February 26, 2012. There were no tax, audit-related or other fees paid to our independent auditors for the years ended March 3, 2013 and February 26, 2012.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of our common shares as of May 9, 2013, by: (a) our directors and nominees for election as directors; (b) each other person who is known by us to own beneficially more than 5% of our outstanding common shares; (c) the executive officers named in the Summary Compensation Table; and (d) all of our executive officers and directors as a group. The percentages in the table are calculated on the basis of the amount of outstanding securities plus securities deemed outstanding pursuant to Rule 13d-3(d)(1) under the Exchange Act (e.g., exercisable options).

Name of Beneficial Owner	**Number of Shares**	**Percent of Class**
Jefferson P. Gramm (1)	1,052,250	25.3%
Leonard R. Stein-Sapir (2)	826,517	19.8%
FCMI Financial Corp., et al (3)	576,482	13.8%
James C. Pappas (4)	368,825	11.7%
Bernard Lerner	103066	3.3%
Kenneth L. Hignett (5)	62,855	1.5%
James J. Liguori (6)	52,873	1.3%
Ramesh J. Gursahaney (5)	21,583	*
Steven S. Kaufman	12,971	*
Marilyn A. Eisele	8,285	*
Jacob J. Saour	-	-
All Officers and Directors as a Group (7) Nine persons	1,597,892	38.35%

* Less than one percent of the outstanding Common Shares of the Company.

(1) Based on Schedule 3 filing dated April 22, 2013.

(2) Includes 21,334 shares subject to exercisable options, 1,666 shares owned by Mr. Stein-Sapir's wife and 60,000 shares held in trusts for which Mr. Stein-Sapir is advisor. Mr. Stein-Sapir disclaims any beneficial interest in the shares owned by his wife or by the trusts.
(3) Based on Form 5 filing dated March 11, 2009.
(4) Based on Form 4 filing dated April 12, 2013.
(5) Includes 21,333 shares subject to exercisable options.
(6) Includes 83 shares owned by his wife and 21,334 shares subject to exercisable options. Mr. Liguori disclaims any beneficial interest in the shares owned by his wife.
(7) Includes 106,667 shares subject to exercisable options.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth for each of the Company's last two fiscal years the compensation for the Company's Principal Executive Officer and each of the Company's other two most highly compensated officers:

Name and Principal Position	Year	Salary	All Other Compensation (1)	Total Compensation
Leonard R. Stein-Sapir	2013	$114,423	$ 22,412	$ 136,835
Chairman and Chief Executive Officer	2012	$121,154	$ 20,468	$ 141,622
James J. Liguori	2013	229,115	24,819	253,934
President and Chief Executive Officer	2012	222,923	24,606	247,529
Ramesh J. Gursahaney	2013	145,094	2,320	147,414
Vice President, Operations Services	2012	145,385	2,320	147,705
Kenneth L. Hignett	2013	101,923	31,163	133,086
Sr. Vice President, Chief Financial Officer & Secretary	2012	100,000	31,163	131,163

(1) Represents the value of insurance premiums paid by the Company with respect to term life insurance for the benefit of the named executives and automobile allowances inclusive of gross ups for taxes.

The Company and each named executive officers ("NEO") in the Summary Compensation Table are parties to a Change in Control Severance Agreement (the "CIC Agreement"). The CIC Agreement is a "double trigger" agreement. In order for a NEO to receive the payments and benefits set forth in the CIC Agreement there first must occur both (i) a change in control in the Company, as defined in the CIC Agreement, and (ii) a termination of such NEO's employment by the Company without cause, or a voluntary termination by the officer for good reason within two years of the change in control or before the executive dies or becomes disabled. After the triggering events, if the NEO delivers a release to the Company, the NEO will be paid in a lump sum within 60 days from the separation of service equal to three times the NEO's annual base compensation and three times the NEO's average annual bonus. In addition, each NEO is entitled to 18 months of continued health benefits.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

The following table sets forth certain information about the number of unexercised nonqualified stock options held as of March 3, 2013 by each executive named in the Summary Compensation Table. There were no stock options exercised during fiscal 2013.

Unexercised Options as of March 3, 2013

Name	Exercisable	Unexercisable	Exercise Price	Expiration Date
Leonard R. Stein-Sapir	21,334	-	$ 1.50	November 5, 2018
James J. Liguori	21,334	-	$ 1.50	November 5, 2018
Ramesh J. Gursahaney	21,333	-	$ 1.50	November 5, 2018
Kenneth L. Hignett				