

KONA GRILL INC
Form PREC14A
February 25, 2010

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ☐

Filed by a Party other than the Registrant ☐

Check the appropriate box:

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

Kona Grill, Inc.

(Name of Registrant as Specified In Its Charter)

(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:

KONA GRILL, INC.
NOTICE OF 2010 ANNUAL MEETING OF STOCKHOLDERS
April __, 2010

To Our Stockholders:

The 2010 Annual Meeting of Stockholders of Kona Grill, Inc., a Delaware corporation, will be held at 2:00 p.m., on _____, April _____, 2010, at the offices of Greenberg Traurig, LLP, 2375 East Camelback Road, Suite 700, Phoenix, Arizona, for the following purposes:

1. To elect to your Board of Directors as Class II directors, each of Messrs. Douglas G. Hipskind, Anthony L. Winczewski, and Mark A. Zesbaugh, each of whom has been nominated by your Board to serve for a three-year term expiring in 2013.
2. To transact such other business as may properly come before the meeting or any adjournment(s) or postponement(s) thereof.

These items of business are more fully described in the proxy statement accompanying this notice.

All stockholders are cordially invited to attend the meeting and vote in person. Please note that you will be asked to present proof that you are a stockholder of the company as well as valid picture identification, such as a current driver's license or passport, in order to attend the meeting. The use of cameras, recording devices, and other electronic devices will be prohibited at the meeting.

Whether or not you plan to attend the meeting, and regardless of the number of shares of common stock you own, you are requested to sign, date and return the enclosed white company proxy card promptly. A return envelope, which requires no postage if it is mailed in the United States, is enclosed for your convenience. Stockholders who sign, date and return proxy cards have the right to revoke them at any time before your proxy is voted by: (i) delivering written notice of such revocation to the secretary of the company; (ii) by submitting to the secretary of the company a duly signed proxy card bearing a later date than your previously signed, returned and dated proxy card; or (iii) by attending the meeting and voting in person thereat. Attendance at the meeting will not, in and of itself, constitute revocation of a signed, completed and dated proxy card previously returned. All later-dated proxy cards or written notices revoking a proxy card should be sent to Kona Grill, Inc., 7150 East Camelback Road, Suite 220, Scottsdale, Arizona 85251, Attention: Mark S. Robinow, Secretary.

Please read carefully and in its entirety the enclosed proxy statement, which explains the proposals to be considered by you and acted upon at the meeting.

Your Board has fixed the close of business on March _____, 2010 as the record date for the determination of holders of record of the company's common stock entitled to notice of, and to vote at, the meeting. A list of stockholders of the company as of the record date will remain open for inspection during the meeting until the closing of the polls thereat. If you have any questions about the procedures for admission to the meeting, please contact our proxy solicitors, The Altman Group, Inc., toll free at (877) 864-5055 or collect at (201) 806-7300 or via e-mail at ProxyInfo@altmangroup.com.

Sincerely,

Mark S. Robinow
*Executive Vice President,
Chief Financial Officer, and Secretary*

Scottsdale, Arizona
March _____, 2010

ALL HOLDERS OF RECORD OF THE COMPANY S COMMON STOCK (WHETHER YOU INTEND TO ATTEND THE ANNUAL MEETING OR NOT) ARE STRONGLY ENCOURAGED TO COMPLETE, SIGN, DATE AND RETURN PROMPTLY THE WHITE COMPANY PROXY CARD ENCLOSED WITH THE ACCOMPANYING PROXY STATEMENT.

KONA GRILL, INC.
7150 East Camelback Road, Suite 220
Scottsdale, Arizona 85251
PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS
April _____, 2010

This proxy statement is being furnished to all holders of record, as of March _____, 2010, of the common stock of Kona Grill, Inc., in connection with the solicitation of proxies by the Company's Board of Directors for the 2010 Annual Meeting of Stockholders to be held at the offices of Greenberg Traurig, LLP, 2375 East Camelback Road, Suite 700, Phoenix, Arizona 85016, on _____, April _____, 2010, at 2:00 p.m., local time, and at any adjournment(s) or postponement(s) of the meeting, solely for the purposes stated in the accompanying Notice of 2010 Annual Meeting of Stockholders.

The principal executive office of the company is located at 7150 East Camelback Road, Suite 220, Scottsdale, Arizona 85251.

The approximate date of mailing to stockholders of the Notice of the 2010 Annual Meeting of Stockholders, this proxy statement, the enclosed white company proxy card, and our 2009 Annual Report to Stockholders, is March _____, 2010.

Householding of Annual Meeting Materials

Certain brokers and other nominee record holders may be participating in the practice of "householding" this proxy statement and other proxy materials. This means that only one copy of this proxy statement and other proxy materials may have been sent to multiple stockholders in a stockholder's household. The company will promptly deliver additional copies of the proxy statement and other proxy materials to any stockholder who contacts the company's principal corporate office at 7150 East Camelback Road, Suite 220, Scottsdale, Arizona 85251 or by calling (480) 922-8100, requesting such additional copies. If a stockholder is receiving multiple copies of the proxy statement and other proxy materials at the stockholder's household and would like to receive in the future only a single copy of the proxy statement and other proxy materials for a stockholder's household, such stockholders should contact their broker, other nominee record holder, or the company's investor relations department to request the future mailing of only a single copy of the company's proxy statement and other proxy materials.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS

This proxy statement, the form of the white company proxy card, our 2009 Annual Report to Stockholders, and our Annual Report on Form 10-K for our fiscal year ended December 31, 2009, are available to you on our website at www.konagrill.com. Stockholders may also obtain a copy of these materials by writing to Kona Grill, Inc., 7150 East Camelback Road, Suite 220, Scottsdale, Arizona 85251, Attention: Mark S. Robinow, Secretary. Upon payment of a reasonable fee, stockholders may also obtain a copy of the exhibits to our Annual Report on Form 10-K for our fiscal year ended December 31, 2009.

THE 2010 ANNUAL MEETING

Who is Entitled to Vote at the Annual Meeting

Only holders of record of the company's stock, par value \$.01 per share, as of the close of business on March _____, 2010, are entitled to notice of, and to vote at, the meeting. On the record date, there were 9,160,445 shares of our common stock outstanding. Each outstanding share of common stock is entitled to one vote upon all matters to be acted upon at the meeting.

How You May Vote

If you are a holder of record of common stock as of the record date, you may vote by completing, signing and returning by mail the enclosed white company proxy card. Please mark, sign and date the enclosed white company proxy card and return it in the pre-addressed, postage-paid envelope enclosed for such purpose. If you are a holder of record of common stock as of the record date, you may also vote in person by attending the meeting. Votes at the meeting will be taken by written ballot. At the commencement of the meeting, we will distribute a written ballot to any stockholder of record who attends the meeting and wishes to vote thereat in person.

If your shares are held in street name, whether through a broker, bank or other nominee, only they can sign a white company proxy card with respect to your shares. You are therefore urged to contact the person(s) responsible for your account and give them instructions for how to complete a white company proxy card representing your shares so that a white company proxy card can be timely returned on your behalf. You also should confirm in writing your instructions to the person responsible for your account and provide a copy of those instructions to our proxy solicitor, The Altman Group, Inc., so that they can attempt to ensure that your instructions are followed. If you wish instead to vote in person at the meeting, you must obtain a valid proxy from your broker, bank or other nominee.

If you are a holder of record of common stock as of the record date and plan to attend the meeting, please be sure to bring with you valid government-issued personal identification with a picture (such as a current driver's license or passport) in order to gain admission to the meeting. If your shares are held in street name through a bank, broker or other nominee, you will have to bring evidence of your ownership of common stock as of the record date, in addition to valid government-issued personal identification, if you wish to attend the meeting. Examples of proof of common stock ownership include: a signed letter from your bank or broker stating that you owned your shares as of the record date; a brokerage account statement indicating that you owned your shares as of the record date; or a copy of the voting instruction card provided by your broker indicating that you owned your shares as of the record date. If you hold a proxy on behalf of a holder of record of common stock as of the record date, then you must also bring the validly executed proxy naming you as the proxy holder, signed by the stockholder of record who owned such shares of common stock as of the record date.

If you have any questions about the procedures for admission to the Annual Meeting, please contact our proxy solicitors, The Altman Group, Inc., toll free at (877) 864-5055 or collect at (201) 806-7300 or via e-mail at ProxyInfo@altmangroup.com. Please see **Revocation of Proxies** below for a discussion of how to revoke your proxy.

Quorum; Vote Required

The holders of a majority of the outstanding shares of common stock as of the record date must be present in person or by proxy at the meeting to constitute a quorum for the transaction of business at the meeting.

The election at the meeting of your Board of Directors three Class II director-nominees Messrs. Douglas G. Hipkind, Anthony L. Winczewski, and Mark A. Zesbaugh requires a plurality of votes cast. This means, in the context of your Board's Class II director-nominees, and with respect to any insurgent, opposition director-nominees not nominated or approved by your Board that may have been properly nominated by a stockholder of the company in connection with the meeting, that so long as a quorum is present in person or represented by proxy at the meeting for the transaction of business, the three director-nominees receiving the most affirmative votes for their election will be elected to serve as Class II directors of the company. Stockholders can either vote for or withhold their vote for director-nominees. A properly executed proxy card marked withhold with respect to a director-nominee will not be voted with respect to the election of that director-nominee, although such withhold indication and any broker non-vote will be counted for purposes of determining whether there is a quorum present at the meeting for the transaction of business. As a result, such withhold indications and broker non-votes will have no effect on the election of any director-nominee because only votes affirmatively cast for a director-nominee will be counted towards the election of such director-nominee. Whether or not you plan to attend the meeting in person, if you are a holder of record as of the close of business on the record date, please sign, date and return your white company proxy card as soon as possible.

Important: If you hold your shares through (i.e., they are registered in the name of) a bank, broker or other nominee in street name, but you do not provide the firm that so holds your shares with your specific voting instructions, such firm is only allowed to vote your shares on your behalf in its discretion on routine matters; it cannot vote your shares in its discretion on your behalf on any non-routine matters.

Under applicable rules of the New York Stock Exchange, at the meeting, the election to your Board of your Board's three Class II director-nominees Messrs. Douglas G. Hipskind, Anthony L. Winczewski, and Mark A. Zesbaugh, and the election of any non-Board approved and recommended, insurgent opposition nominees, that may have been properly nominated by a stockholder of the company in connection with the meeting is considered a non-routine matter.

Accordingly, if you do not give specific voting instructions to your bank, broker or other nominee how to vote your shares on your behalf with respect to the election of Class II directors at the meeting before the 10th day prior to the meeting, your broker will have no discretionary authority to vote your shares on your behalf with respect to the election of Class II directors. Such uninstructed shares are commonly referred to as broker non-votes and, although such shares will be counted towards the determination of whether a quorum is present, in person or represented by proxy, at the meeting, with respect to the election of Class II directors, such uninstructed shares (or broker non-votes) will have the same effect as a withhold vote in the election of Class II directors.

Proxy ballots will be received, tabulated and certified at the meeting by the inspector of election appointed for the meeting. The inspector will also determine whether a quorum is present at the meeting.

Revocation of Proxies

If you are a stockholder of record on the record date and have signed, dated and returned to the company a proxy card, you may revoke such proxy card in your discretion at any time before your proxy is voted at the meeting by:

delivering written notice of such revocation to the secretary of the company;

by attending the meeting and voting, in person thereat, the shares represented by your proxy card (but your attendance at the meeting will not, in and of itself, constitute revocation of your previously signed, dated and returned proxy card); or

by submitting to the secretary of the company a duly signed, dated and completed proxy card bearing a later date than the proxy card you previously submitted.

All such later-dated proxy cards or written notices of revocation of a proxy card, as described above, should be sent to Kona Grill, Inc., 7150 East Camelback Road, Suite 220, Scottsdale, Arizona 85251, Attention: Mark S. Robinow, Secretary. If you hold shares in street name, you must contact the firm that holds your shares to change or revoke any prior voting instructions.

Voting

The persons named as proxies in the enclosed white company proxy card will vote the shares for which such persons were thereby appointed in accordance with the voting indications marked thereon by the stockholders who signed, dated and returned such proxy card. If, however, such white company proxy card is signed, dated and returned to the company but no voting indications are marked thereon, all shares represented by such proxy card will be voted by the proxies named therein **FOR the election of each of the Board of Directors three Class II director-nominees**, and will be voted on any other matters as may come before the meeting in the best judgment and discretion of the persons named as proxies.

RECENT DEVELOPMENTS

Mill Road Capital, L.P. Stockholder Nomination Correspondence

By letter dated January 28, 2010, Mill Road Capital, L.P. (MRC), a 9.8% stockholder of the Company, submitted a letter to the Company's Secretary, wherein it sought to notify the Company of its purported nomination of an opposition slate of three insurgent Class II directors for election to the Company's Board at the Annual Meeting (the January 28th MRC Letter). The letter purported to include the information required under the Company's amended and restated by-laws currently in effect (the By-laws). MRC identified the three individuals it intended to nominate for election to the Board at the Annual Meeting and also requested that the Company name the three purported opposition director-candidates in the Company's 2010 proxy statement (the Proxy Statement) as director-nominees for election to the Board at the Annual Meeting.

By letter dated February 2, 2010 (the February 2nd Company Letter), the Company advised MRC that the Company's Nominating Committee (the Committee) determined that the January 28th MRC Letter omitted certain required technical disclosures, and, therefore, did not comply with the By-laws. In good faith, the Company provided MRC with a non-exhaustive list of such omitted disclosures. Notwithstanding such technical noncompliance, the Committee and Board advised MRC that they determined that the January 28th MRC Letter substantially complied on its face with the By-laws, and that subject to and assuming the accuracy and completeness of all information, representations and undertakings made by MRC in the January 28th MRC Letter and further subject to and assuming MRC's compliance with Rule 14a-9, the Company was not rejecting and would accept the validity of MRC's opposition (advance notice) stockholder nomination letter for purposes of the By-laws.

By letter dated February 5, 2010 (the February 5th MRC Letter), MRC acknowledged receipt of the February 2nd Company Letter, and recognized the Company's acknowledgment of the validity of the January 28th MRC Letter for purposes of complying with the Company's By-laws.

On February 6, 2010 (the February 6th Company Letter), the Company reiterated its acceptance of the validity of the January 28th MRC Letter for purposes of the By-laws subject to and assuming MRC's compliance with Rule 14a-9.

On February 22, 2010, MRC submitted a letter to the Company wherein it made a demand to inspect and make copies of the Company's stocklist materials pursuant to Section 220 of the Delaware General Corporation Law (the MRC Section 220 Demand Letter), in connection with MRC's announced intention to solicit proxies for its three insurgent opposition, non-Board nominated director-candidates. Also on such date, MRC filed an amended Schedule 13D with the SEC, which included as exhibits the MRC Section 220 Demand Letter, the February 2nd Company Letter, the February 5th MRC Letter, and the February 6th Company Letter.

Marcus E. Jundt Stockholder Nomination Correspondence

On May 15, 2009, Mr. Marcus E. Jundt, the former Chairman, President and Chief Executive Officer, resigned as an officer and as a director of the Company. On August 6, 2009, the Company entered into a Separation Agreement (the Agreement) with Mr. Jundt relating to Mr. Jundt's resignation from the Company. Pursuant to the terms of the Agreement, for a period of 12 months following Mr. Jundt's termination, Mr. Jundt receives severance compensation equal to his base salary in effect at the time of termination, paid in the manner and at such times as the base salary otherwise would have been payable, and continuation of medical and dental benefits in effect under COBRA. In addition, pursuant to the Agreement, all unvested portions of Mr. Jundt's stock options that were scheduled to vest over a period of 12 months following the date of termination became vested and immediately exercisable for a period of three months following the separation date. The Agreement contains customary confidentiality provisions and a full release of any claims, known or unknown, that Mr. Jundt may have had against the Company.

On January 25, 2010, Mr. Jundt, a stockholder of the Company, submitted to the Company a letter dated such date, which was addressed to the Company's Secretary, wherein Mr. Jundt sought to notify the Company of his purported self-nomination as an insurgent Class II director for election to the Company's Board at the Company's Annual Meeting (January 25th Jundt Letter). The January 25th Jundt Letter purported to include the information required under the By-laws, including Mr. Jundt's biographical information, certain information regarding his beneficial ownership of the Company's common stock, and a statement of his intent to appear in person or by proxy at the Annual Meeting to nominate myself as a director at the next annual meeting of the shareholders. The January 25th Jundt Letter also contained a description of certain provisions of the Separation Agreement described above.

By letter dated January 28, 2010 (the January 28th Company Letter), the Company responded to the January 25th Jundt Letter. The Company noted that the January 25th Jundt Letter was not clear as to Mr. Jundt's intentions. Specifically, the Company requested that Mr. Jundt clarify whether he was (a) requesting the Committee to consider his qualifications and suitability as a potential Board candidate and recommend him to the Board as a potential Board-nominated director-candidate; (b) formally notifying the Company of his intention to oppose the Board's nominees and to self-nominate himself as an insurgent opposition director-candidate and commence his own opposition solicitation of votes for his election to the Board; or (c) indicating his intention to take some alternative corporate action at the Annual Meeting with respect to the election of the Company's directors. The Company advised Mr. Jundt that if his intention was to nominate himself as an insurgent opposition director-candidate, that the January 25th Jundt Letter failed to comply with the provisions of the By-laws, which expressly establish and govern the procedural and substantive requirements for advance notice to the Company of stockholder nominations of director-candidates for election to the Board (the Advance Notice Requirements). Accordingly, the Company advised Mr. Jundt that the Nominating Committee and the Board determined that the January 25th Jundt Letter was defective and of no effect. However, in good faith, the Company provided a description of the relevant section of the By-laws and of the applicable regulations of the Securities and Exchange Commission, which are incorporated by reference therein, to give Mr. Jundt an opportunity to address the defects in the January 25th Jundt Letter. The Company specifically referred Mr. Jundt to the disclosure requirements in Rule 14a-9 under the Securities Exchange Act of 1934, as amended (the Exchange Act) and noted that Mr. Jundt was required to deliver any additional information to the Company's Secretary no later than February 6, 2010.

On February 3, 2010, Mr. Jundt responded to the January 28th Company Letter (the February 3rd Jundt Letter). Mr. Jundt disagreed that the January 25th Jundt Letter was defective under the By-laws. Mr. Jundt contended that all of the Advance Notice Requirements were provided, although he acknowledged that no information was provided in the January 25th Jundt Letter in response to certain items contained in Regulation 14A under the Exchange Act. Mr. Jundt provided certain additional information to the Company regarding the purpose of the January 25th Jundt Letter without acknowledging any deficiencies in such letter. Mr. Jundt requested that the Nominating Committee and the Board recommend him for election as a director at the Annual Meeting, and include his name and background information in the Proxy Statement and on the Company's proxy card with the Board-nominated director-candidates (the Proxy Card). In addition, Mr. Jundt reserved his right to solicit proxies for his election as a director for use at the Annual Meeting.

By letter dated February 4, 2010 (the February 4th Company Letter), the Committee and the Board reiterated to Mr. Jundt that his prior letters omitted disclosures required under the By-laws, and, therefore, the January 25th Jundt Letter and the February 3rd Jundt Letter, collectively, were defective and of no effect under the By-laws. The Committee and the Board further notified Mr. Jundt that the Company, therefore, (a) would not recognize his purported self-nomination as an insurgent, non-Board nominated director-candidate, and that any attempt to present himself as an insurgent, opposition director-candidate at the Annual Meeting would be disregarded; (b) that his name would not appear on any ballot as a director-candidate for election at the Annual Meeting; and (c) that any stockholder votes for his election as an insurgent, opposition director-candidate would be void and of no effect. The Committee and the Board notified Mr. Jundt of their unanimous determination not to nominate him as a director-candidate. With respect to his purported self-nomination, the Company, in good faith, expressly furnished to Mr. Jundt a non-exhaustive list of 15 disclosure defects (omissions) in the January 25th Jundt Letter and February 3rd Jundt Letter required under the By-laws to give Mr. Jundt yet another opportunity to cure the defects in his putative nomination letters. The Company reiterated its reference to the disclosure requirements of Rule 14a-9 under the Exchange Act.

On February 5, 2010 (the February 5th Jundt Letter), Mr. Jundt responded to the February 4th Company Letter, and once again disagreed that the January 25th Jundt Letter and February 3rd Jundt Letter were collectively defective under the By-laws. Mr. Jundt, however, provided in response to each of the 15 omitted disclosure items recited in the February 4th Company Letter, the information requested by the Company therein without acknowledging any deficiencies in his prior letters. Mr. Jundt also repeated his request that the Company include him as a director-nominee in the Company's Proxy Statement and on the Company's Proxy Card, and reiterated his reservation of the right to solicit proxies for his election as a director for use at the Annual Meeting.

By letter dated February 6, 2010, the Company advised Mr. Jundt that the Committee determined that Mr. Jundt's correspondences to date, as a whole, continued to omit certain disclosures, and, therefore, they did not comply in all technical respects with the By-laws. However, the Committee and Board advised Mr. Jundt that, collectively, his correspondences substantially complied on their face with the By-laws, and that subject to the accuracy and completeness of all information, representations and undertakings made by Mr. Jundt in his correspondences, and further subject to and assuming his compliance with the requirements of Rule 14a-9, the Company was not rejecting and would accept the validity of Mr. Jundt's opposition (advance notice) stockholder nomination letter for purposes of the By-laws. For purposes of clarification and in response to Mr. Jundt's previous requests, the Company reiterated that neither the Committee nor the Board would nominate him as a Board nominee or recommend him as a candidate for election as a Company director at the Annual Meeting. The Committee and the Board also confirmed that Mr. Jundt would not appear as an insurgent opposition, non-Board nominated director-candidate in the Company's Proxy Statement or Proxy Card for the Annual Meeting.

On February 16, 2010, Mr. Jundt first filed with the SEC a report on Schedule 13D relating to his ownership of common stock of the Company. Mr. Jundt also filed such information with the SEC under cover of Schedule 14A pursuant to Rule 14a-12 under the Exchange Act, wherein he advised the holders of the Company's common stock to read his opposition proxy statement and related proxy solicitation materials, if, and when, they may in fact be so filed and become available. These filings included as exhibits the January 25th Jundt Letter, the February 3rd Jundt Letter, and the February 5th Jundt Letter, and stated Mr. Jundt's intention to appear at the Annual Meeting to place his name into nomination as an insurgent opposition, non-Board nominated director-candidate.

THE BOARD'S THREE DIRECTOR-NOMINEES FOR ELECTION AS CLASS II DIRECTORS MESSRS. DOUGLAS G. HIPSKIND, ANTHONY L. WINCZEWSKI, AND MARK A. ZESBAUGH AT THE MEETING HAVE BEEN RECOMMENDED TO THE BOARD BY THE NOMINATING COMMITTEE AND HAVE BEEN UNANIMOUSLY APPROVED BY THE COMPANY'S INCUMBENT DIRECTORS, AND THE COMPANY'S DIRECTORS HEREBY UNANIMOUSLY RECOMMEND THAT YOU AFFIRMATIVELY VOTE FOR THE ELECTION OF EACH OF MESSRS. DOUGLAS G. HIPSKIND, ANTHONY L. WINCZEWSKI, AND MARK A. ZESBAUGH TO SERVE AS CLASS II DIRECTORS OF THE COMPANY UNTIL THEIR TERM EXPIRES IN 2013.

Each of the company's directors who are owners of the company's common stock have indicated to the Board that they will vote all of their shares for the election of each of Messrs. Douglas G. Hipkind, Anthony L. Winczewski, and Mark A. Zesbaugh as Class II directors and, in connection therewith, that they intend to actively solicit on behalf of the Board votes from the holders of the company's common stock for the election of such Board-nominees. Please see Information Concerning Persons Who May Be Deemed Participants in the Board of Directors Solicitation of Proxies below for additional information.

YOUR BOARD RECOMMENDS THAT YOU DO NOT VOTE FOR ANY INSURGENT DIRECTOR-CANDIDATE NOMINATED BY MILL ROAD CAPITAL, L.P., AND THAT YOU DO NOT VOTE FOR MR. MARCUS E. JUNDT, IN OPPOSITION TO YOUR BOARD-APPROVED NOMINEES MESSRS. DOUGLAS G. HIPSKIND, ANTHONY L. WINCZEWSKI, AND MARK A. ZESBAUGH AND YOUR BOARD STRONGLY URGES YOU NOT TO RETURN ANY NON-WHITE COMPANY PROXY CARD MILL ROAD CAPITAL, L.P. OR MR. MARCUS E. JUNDT MAY SEND TO YOU OR WHICH YOU OTHERWISE MAY RECEIVE.

Your Board of Directors recommends that you carefully review and read in its entirety this proxy statement, together with all other communications that you may receive in advance of the meeting, regarding the company and your Board of Directors three Class II director-nominees Messrs. Douglas G. Hipkind, Anthony L. Winczewski, and Mark A. Zesbaugh.

If you have any questions about any of the foregoing, please contact The Altman Group, Inc., toll free at (877) 864-5055 or collect at (201) 806-7300 or via e-mail at ProxyInfo@altmangroup.com.

ANNUAL REPORT

Our 2009 Annual Report to Stockholders, which includes our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, was made available to stockholders with or preceding this proxy statement. Such 2009 Annual Report to Stockholders contains financial and other information about our company, but is not incorporated into this proxy statement and is not to be considered a part of these proxy soliciting materials or subject to Regulations 14A or 14C or to the liabilities of Section 18 of the Exchange Act. The information contained in the Compensation Committee Report on Executive Compensation and the Report of the Audit Committee shall not be deemed filed with the SEC or subject to Regulations 14A or 14C or to the liabilities of Section 18 of the Exchange Act.

We will provide, without charge to each person being solicited by this proxy statement, upon request, a printed copy of our 2009 Annual Report to Stockholders, which includes our Annual Report on Form 10-K for the year ended December 31, 2009 as filed with the SEC. Upon payment of a reasonable fee, stockholders may also obtain a copy of the exhibits to our Annual Report on Form 10-K for the year ended December 31, 2009. All such requests should be directed to Kona Grill, Inc., 7150 East Camelback Road, Suite 220, Scottsdale, Arizona 85251, Attention: Mark S. Robinow, Secretary.

ELECTION OF DIRECTORS

Nominees

The company has three (3) classes of directors, each of which serves for a term of three (3) years. At the meeting, the company's Class II directors will be elected to hold office for a term of three (3) years or until their respective successors are elected and qualified. Unless otherwise instructed, the shares represented by validly submitted white company proxy cards will be voted for the election of each of the below-listed Board approved and recommended nominees to serve as Class II directors. The Board has no reason to believe that the below-listed Board approved and recommended nominees will not be candidates or will be unable or will decline to serve as company directors if they are elected at the meeting. However, in the event that any of the below-listed Board approved and recommended nominees should become unable or unwilling to serve as a company director, the form of proxy will be voted for the election of such alternate person as shall be designated by the remaining incumbent directors of our current Board of Directors to fill the vacancy.

YOUR BOARD'S RECOMMENDED AND APPROVED CLASS II DIRECTOR-NOMINEES TO SERVE UNTIL THE 2013 ANNUAL MEETING, IF ELECTED:

Class II: Term to Expire in 2013

Name	Age	Year First Became a Director
Douglas G. Hipkind	41	2003
Anthony L. Winczewski	54	2005
Mark A. Zesbaugh	45	2007

Douglas G. Hipkind has served as a director of our company since November 2003. Mr. Hipkind has served as President of Gaia Leasing, LLC, a commercial leasing company which services the restaurant and other industries, since September 2007. Prior to this role, Mr. Hipkind was a Partner of Black Diamond Resorts, a hotel development company engaged in designing and developing the Four Seasons Resort in Vail, Colorado. Mr. Hipkind also served as a Managing Director of Jundt Associates, Inc. from January 2001 to November 2006. From August 1999 to January 2001 he served as Controller of Jundt Associates, Inc. From December 1993 to August 1999, Mr. Hipkind served in the Financial Services practice of KPMG LLP, where he was responsible for tax and consulting matters for his mutual fund and investment partnership clients. Mr. Hipkind is a Certified Public Accountant (inactive license holder). Mr. Hipkind has extensive experience in corporate finance and accounting and commercial leasing.

Anthony L. Winczewski has served as a director of our company since April 2005. Mr. Winczewski has served as President and Chief Executive Officer of Commercial Partners Title, LLC, a midwestern title insurance agency engaged in providing commercial, residential, and tax deferred exchange solutions since January 1995. Prior to forming Commercial Partners in 1995, Mr. Winczewski served as a manager and sales officer for Chicago Title Insurance Company from May 1984 until January 1995. Mr. Winczewski served as a Vice President and Principal of Winona County Abstract and Title, Inc. from July 1975 until May 1984, and as a paralegal for Title Insurance Company of Minnesota from June 1974 until July 1975. Mr. Winczewski has a strong executive background in real estate finance and has over 35 years of experience in management and ownership positions.

Mark A. Zesbaugh has served as a director of our company since October 2007. Mr. Zesbaugh is a strategic consultant and currently serves as the owner of Green Creek Consulting. Prior to this role, Mr. Zesbaugh served as Chief Executive Officer of Lennox Holdings, a start-up reinsurance company. Mr. Zesbaugh also served as Chief Executive Officer of Allianz Life Insurance Company of North America from 2002 to 2007 and has over 20 years of experience in the insurance industry. Mr. Zesbaugh is a Certified Public Accountant (inactive license holder) and a Chartered Financial Analyst. Mr. Zesbaugh also serves on the board of trustees for the University of St. Thomas, as well as the board of directors of Inside Edge Commercial Flooring, a private company. Mr. Zesbaugh is an experienced leader of large organizations and also has extensive experience in business strategy, corporate finance and insurance.

THE BOARD S THREE DIRECTOR-NOMINEES FOR ELECTION AS CLASS II DIRECTORS MESSRS. DOUGLAS G. HIPSKIND, ANTHONY L. WINCZEWSKI, AND MARK A. ZESBAUGH AT THE MEETING HAVE BEEN RECOMMENDED TO THE BOARD BY THE NOMINATING COMMITTEE AND HAVE BEEN UNANIMOUSLY APPROVED BY THE COMPANY S INCUMBENT DIRECTORS, AND THE COMPANY S DIRECTORS HEREBY UNANIMOUSLY RECOMMEND THAT YOU AFFIRMATIVELY VOTE FOR THE ELECTION OF EACH OF MESSRS. DOUGLAS G. HIPSKIND, ANTHONY L. WINCZEWSKI, AND MARK A. ZESBAUGH TO SERVE AS CLASS II DIRECTORS OF THE COMPANY UNTIL THEIR TERM EXPIRES IN 2013.

YOUR BOARD RECOMMENDS THAT YOU DO NOT VOTE FOR ANY INSURGENT DIRECTOR-CANDIDATE NOMINATED BY MILL ROAD CAPITAL, L.P., AND THAT YOU DO NOT VOTE FOR MR. MARCUS E. JUNDT, IN OPPOSITION TO YOUR BOARD-APPROVED NOMINEES MESSRS. DOUGLAS G. HIPSKIND, ANTHONY L. WINCZEWSKI, AND MARK A. ZESBAUGH AND YOUR BOARD STRONGLY URGES YOU NOT TO RETURN ANY NON-WHITE COMPANY PROXY CARD MILL ROAD CAPITAL, L.P. OR MR. MARCUS E. JUNDT MAY SEND TO YOU OR WHICH YOU OTHERWISE MAY RECEIVE.

DIRECTORS WHO ARE CONTINUING IN OFFICE:

Class I: Term to Expire in 2012

Name	Age	Year First Became a Director
Marc A. Buehler	40	2009

Class III: Term to Expire in 2011

Name	Age	Year First Became a Director
Berke Bakay	31	2009
Richard J. Hauser	48	2004

DIRECTORS AND EXECUTIVE OFFICERS

The biographies of each of the nominees and continuing directors below contains information regarding the person s service as a director, business experience, director positions held currently or at any time during the last five years, information regarding involvement in certain legal or administrative proceedings, if applicable, and the experiences, qualifications, attributes or skills that caused the Board to determine that the person should serve as a director for the company. The current directors and executive officers of the company are identified in the table below.

Name	Age	Year First Became a Director or Executive Officer	Position
Anthony L. Winczewski (1)(2)(3)	54	2005	Acting Chairman of the Board
Marc A. Buehler	40	2009	President, Chief Executive Officer, and Director
Berke Bakay	31	2009	Director
Richard J. Hauser (2)	48	2004	Director
Douglas G. Hipskind (1)	41	2003	Director
Mark A. Zesbaugh (1)	45	2007	Director
Mark S. Robinow	53	2004	Executive Vice President, Chief Financial Officer, and Secretary
Larry J. Ryback	41	2010	Senior Vice President of Operations

(1) Member of the
Audit
Committee

(2) Member of the
Compensation
Committee

(3) Member of the
Nominating
Committee

Biographical Information Regarding Directors and Executive Officers

Anthony L. Winczewski has served as a director of our company since April 2005. Mr. Winczewski has served as President and Chief Executive Officer of Commercial Partners Title, LLC, a midwestern title insurance agency engaged in providing commercial, residential, and tax deferred exchange solutions since January 1995. Prior to forming Commercial Partners in 1995, Mr. Winczewski served as a manager and sales officer for Chicago Title Insurance Company from May 1984 until January 1995. Mr. Winczewski served as a Vice President and Principal of Winona County Abstract and Title, Inc. from July 1975 until May 1984, and as a paralegal for Title Insurance Company of Minnesota from June 1974 until July 1975. Mr. Winczewski has a strong executive background in real estate finance and has over 35 years of experience in management and ownership positions.

Marc A. Buehler has served as our President and Chief Executive Officer and as a director of our company since November 2009. Prior to joining our company, Mr. Buehler was the Chief Executive Officer of LS Management, Inc., the owner and operator of the Lone Star Steakhouse & Saloon/Texas Land and Cattle Steak House restaurant concepts, as well as Lone Star Business solutions, where he served from July 2007 to May 2009. From July 2002 to July 2007, Mr. Buehler worked at Romacorp, which operates and franchises more than 200 Tony Roma's casual dining locations, as the Vice President of Marketing and was promoted to Chief Executive Officer, President, and Director of Romacorp during July 2006. Mr. Buehler served as an officer of Romacorp during its Chapter 11 reorganization. From March 1999 to July 2002, Mr. Buehler served as Vice President of Marketing at Eateries, Inc. and Marketing Manager at Applebee's International, Inc. from February 1996 to March 1999. Mr. Buehler also serves as a Board Member of Share Our Strength and is a co-chairperson of the National Restaurant Association's Marketing Executives

Group. In addition he is a member of the Young Presidents Organization. Mr. Buehler has a strong executive background in the restaurant industry, with extensive experience in marketing

Berke Bakay has served as a director of our company since October 2009. Mr. Bakay is the founder and managing member of BBS Capital Management, LP, a Texas limited partnership that serves as the investment manager to the BBS Capital Fund, LP. BBS Capital Fund, LP currently focuses its investments mainly in the United States and the People's Republic of China in the consumer discretionary, education, and media industries. BBS Capital Fund, LP is currently the second largest shareholder of Kona Grill, Inc. Prior to forming BBS Capital Management, LP, Mr. Bakay was the co-founder and co-portfolio manager of Patara Capital Management, LP (an investment management firm based in Dallas, Texas) from 2006 to 2007. Prior to co-founding Patara Capital Management, LP, Mr. Bakay worked as an equity analyst at Southwest Securities, a division of SWS Group (NYSE: SWS), where he covered the specialty retail industry. Mr. Bakay has a strong background in business and finance with experience as a buy side portfolio manager covering publicly traded restaurant companies.

Richard J. Hauser has served as a director of our company since December 2004. Mr. Hauser serves as the President and owner of Capital Real Estate, Inc., a commercial real estate development company based in Minneapolis, Minnesota, which he founded in 2001. In addition, Mr. Hauser is the Manager and owner of Net Lease Development, LLC, which is a controlled operating company under Capital Real Estate, Inc., as well as a member and managing partner of several other partnerships formed for real estate and related ventures. Prior to founding Capital Real Estate, Inc. and Net Lease Development, LLC, Mr. Hauser served as a partner with Reliance Development Company, LLC from 1992 to 2001, where he was responsible for the management, development, and sale of retail properties. Mr. Hauser has a strong executive background in commercial real estate and finance, with extensive experience in business operations and strategic planning.

Douglas G. Hipskind has served as a director of our company since November 2003. Mr. Hipskind has served as President of Gaia Leasing, LLC, a commercial leasing company which services the restaurant and other industries, since September 2007. Prior to this role, Mr. Hipskind was a Partner of Black Diamond Resorts, a hotel development company engaged in designing and developing the Four Seasons Resort in Vail, Colorado. Mr. Hipskind also served as a Managing Director of Jundt Associates, Inc. from January 2001 to November 2006. From August 1999 to January 2001 he served as Controller of Jundt Associates, Inc. From December 1993 to August 1999, Mr. Hipskind served in the Financial Services practice of KPMG LLP, where he was responsible for tax and consulting matters for his mutual fund and investment partnership clients. Mr. Hipskind is a Certified Public Accountant (inactive license holder). Mr. Hipskind has extensive experience in corporate finance and accounting and commercial leasing.

Mark A. Zesbaugh has served as a director of our company since October 2007. Mr. Zesbaugh is a strategic consultant and currently serves as the owner of Green Creek Consulting. Prior to this role, Mr. Zesbaugh served as Chief Executive Officer of Lennox Holdings, a start-up reinsurance company. Mr. Zesbaugh also served as Chief Executive Officer of Allianz Life Insurance Company of North America from 2002 to 2007 and has over 20 years of experience in the insurance industry. Mr. Zesbaugh is a Certified Public Accountant (inactive license holder) and a Chartered Financial Analyst. Mr. Zesbaugh also serves on the board of trustees for the University of St. Thomas, as well as the board of directors of Inside Edge Commercial Flooring, a private company. Mr. Zesbaugh is an experienced leader of large organizations and also has extensive experience in business strategy, corporate finance and insurance.

Mark S. Robinow has served as our Executive Vice President, Chief Financial Officer, and Secretary since October 2004. Prior to joining our company, Mr. Robinow served as the Chief Financial Officer of Integrated Decisions and Systems, Inc. (IDeaS) from July 2000 until October 2004. Mr. Robinow served as the Senior Vice President and Chief Financial Officer of Rainforest Cafe, Inc. from November 1995 until January 2000. Mr. Robinow served as the Chief Financial Officer of Edina Realty, Inc. from 1993 until 1995, and as Chief Financial Officer, Secretary, and Treasurer of Ringer Corporation from 1986 until 1993. Mr. Robinow also served as a senior auditor with Deloitte & Touche from 1980 until 1983. Mr. Robinow is a Certified Public Accountant (inactive license holder).

Larry J. Ryback was appointed as Senior Vice President of Operations in February 2010. Mr. Ryback oversees the day-to-day restaurant operations for our brand, culinary operations, training and recruiting. Mr. Ryback brings more than 20 years of restaurant operations experience to the company. Prior to joining our company, Mr. Ryback served as the President and Chief Operating Officer of Redstone American Grill, Inc., a \$35 million privately held company with five high-volume, upscale restaurants in four states. Before joining Redstone during 2005, Mr. Ryback spent 10 years with Champps Entertainment in various operations roles including three years as a Regional Vice President of Operations overseeing 26 restaurants that together generated over \$130 million in revenue.

On May 15, 2009, Mr. Marcus E. Jundt, the former Chairman, President and Chief Executive Officer, resigned as an officer and as a director of the company. On August 6, 2009, the company entered into a Separation Agreement with Mr. Jundt relating to Mr. Jundt's resignation from the company. The terms of such agreement are set forth in the section titled "Marcus E. Jundt Stockholder Nomination Correspondence."

There are no family relationships among any of our directors or executive officers.

Classification of Our Board of Directors

Our certificate of incorporation provides for a Board of Directors consisting of three classes serving three-year staggered terms. Marc A. Buehler serves as our Class I director, with the term of office of the Class I directors expiring at the annual meeting of stockholders in 2012. The Class II directors consist of Douglas G. Hipkind, Anthony L. Winczewski, and Mark A. Zesbaugh, with the term of office of the Class II directors expiring at the annual meeting of stockholders in 2010. Class III directors consist of Berke Bakay and Richard J. Hauser, with the term of office of Class III directors expiring at the annual meeting of stockholders in 2011. Officers serve at the pleasure of the Board of Directors.

The Nominating Committee continues to review actively nominees for director to fill the Class III vacancy created by the resignation of W. Kirk Patterson. The Nominating Committee identifies and evaluates nominees for our Board of Directors, including nominees recommended by stockholders, based on numerous factors it considers appropriate, which are described under Information Relating to Corporate Governance and the Board of Directors Nominating Committee.

Information Relating to Corporate Governance and the Board of Directors

The Board of Directors has determined that having an independent director serve as Chairman of the Board is in the best interests of stockholders at this time. This structure has been particularly useful given the company's relatively new CEO. The 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 priorities and procedures for the Board's work. This leadership structure also is preferred by a significant number of the company's stockholders. Mr. Winczewski currently serves as our Acting Chairman of the Board.

The Board is actively involved in oversight of risks that could affect the company. This oversight is conducted primarily through committees of the Board, as disclosed in the descriptions of each of the committees below and in the charters of each of the committees, but the full Board has retained responsibility for general oversight of risks. The Board satisfies this responsibility through full reports by each committee chair regarding the committee's considerations and actions, as well as through regular reports directly from officers responsible for oversight of particular risks within the company.

Our Board of Directors has determined, after considering all the relevant facts and circumstances, that each of our directors, with the exception of Mr. Buehler who currently serves as our Chief Executive Officer, are independent directors, as independence is defined by NASDAQ and the SEC, because they have no relationship with us that would interfere with their exercise of independent judgment in carrying out their responsibilities as a director. W. Kirk Patterson served as an independent director of our company and as a member of the Audit, Compensation, and Nominating Committees prior to his resignation in October 2009. We regularly schedule executive sessions at which independent directors meet without the presence or participation of management.

Our bylaws authorize our Board of Directors to appoint among its members one or more committees, each consisting of one or more directors. Our Board of Directors has established an Audit Committee, Compensation Committee, and Nominating Committee, each consisting entirely of independent directors. From December 2008 to June 2009, the Board of Directors also appointed a Special Committee, comprised entirely of independent directors, to pursue various sources of external financing to supplement our operating cash flows and fund capital expenditure requirements. The Special Committee worked closely with management and our outside professional advisors to identify, review, and oversee the structuring, negotiation, and execution of the Note and Warrant Purchase Agreement issued during March 2009 and the Rights Offering completed during June 2009.

Our Board of Directors has adopted charters for the Audit, Compensation, and Nominating Committees describing the authority and responsibilities delegated to each committee by our Board of Directors. Our Board of Directors has also adopted a Code of Business Conduct and Ethics and a Code of Ethics for the CEO and Senior Financial Officers. We post on our website at www.konagrill.com, the charters of our Audit, Compensation, and Nominating Committees; our Code of Business Conduct and Ethics, and Code of Ethics for the CEO and Senior Financial Officers; and any other corporate governance materials contemplated by SEC or NASDAQ regulations. These documents are also available in print to any stockholder requesting a copy in writing from our corporate secretary at our executive offices set forth in this proxy statement.

Interested parties may communicate with our Board of Directors or specific members of our Board of Directors, including our independent directors and the members of our various board committees, by submitting a letter addressed to the Board of Directors of Kona Grill, Inc. c/o any specified individual director or directors to our corporate office. Any such letters are sent to the indicated directors.

Audit Committee

The purpose of the Audit Committee is to oversee the financial and reporting processes and the audits of the financial statements of our company and to provide assistance to our Board of Directors with respect to the oversight of the integrity of the financial statements, our company's compliance with legal and regulatory matters, the independent auditor's qualifications and independence, and the performance of our company's independent auditor. The primary responsibilities of the Audit Committee are set forth in its charter. The Audit Committee also selects the independent auditor to conduct the annual audit of the financial statements of our company; reviews the proposed scope of such audit; reviews accounting and financial controls of our company with the independent auditor and our financial accounting staff; and reviews and approves transactions between us and our directors, officers, and their affiliates.

The Audit Committee currently consists of Messrs. Hipkind, Winczewski, and Zesbaugh, each of whom is an independent director of our company under the NASDAQ rules as well as under rules adopted by the SEC pursuant to the Sarbanes-Oxley Act of 2002. The Board of Directors has determined that each of Messrs. Hipkind and Zesbaugh (whose backgrounds are detailed above) qualifies as an audit committee financial expert in accordance with applicable rules and regulations of the SEC. Mr. Zesbaugh serves as the Chairman of the Audit Committee.

Nominating Committee

The purpose of the Nominating Committee includes the selection or recommendation to the Board of Directors of nominees to stand for election as directors at each election of directors, the oversight of the selection and composition of committees of the Board of Directors, the oversight of the evaluations of the Board of Directors and management, and the development and recommendation to the Board of Directors of a set of corporate governance principles applicable to our company. The Nominating Committee currently consists of Mr. Winczewski serving as Chairman.

The Board of Directors periodically reviews the diversity of specific skills and characteristics necessary for the optimal functioning of the Board in its oversight of the company. The Nominating Committee has adopted a policy regarding the director selection process that requires the committee to assess the skill areas currently represented on the Board against the target skill areas, as well as recommendations of directors regarding skills that could improve the overall quality and ability of the Board to carry out its function. The Nominating Committee then establishes the specific target skill areas or experiences that are to be the focus of a director search, if necessary.

The Nominating Committee will consider persons recommended by stockholders for inclusion as nominees for election to our Board of Directors if the names, biographical data, and qualifications of such persons are submitted in writing in a timely manner addressed and delivered to our company's secretary at the address listed herein. The Nominating Committee identifies and evaluates nominees for our Board of Directors, including nominees recommended by stockholders, based on numerous factors it considers appropriate. Specific qualities or experiences could include matters such as experience in the restaurant industry, financial or technical expertise, strength of character, mature judgment, and the extent to which the nominee would fill a present need on our Board of Directors. As discussed above, the members of the Nominating Committee are independent, as that term is defined by NASDAQ.

Compensation Committee

The purpose of the Compensation Committee includes determining, or recommending to our Board of Directors for determination, the compensation of the Chief Executive Officer and other executive officers of our company and discharging the responsibilities of our Board of Directors relating to compensation programs of our company. The Compensation Committee currently consists of Messrs. Hauser and Winczewski.

Compensation Committee Interlocks and Insider Participation

As of December 31, 2009, our Compensation Committee consisted of Messrs. Hauser and Winczewski, both non-employee directors (as defined in Rule 16b-3 under the Exchange Act). Mr. Patterson also served as a member of the Compensation Committee until his resignation from the Board of Directors in October 2009. None of these committee members was an officer or employee of the company, a former officer of the company or any of our subsidiaries or had a relationship requiring disclosure under Item 404 of Regulation S-K. Certain members of our Board of Directors or their affiliates have entered into transactions with us during the past fiscal year which transactions are described in *Certain Relationships and Related Transactions* included elsewhere in this proxy statement.

Board and Committee Meetings

Our Board of Directors held a total of ten meetings during the year ended December 31, 2009. During the year ended December 31, 2009, the Audit Committee held five meetings, the Compensation Committee held four meetings, and the Nominating Committee held 12 meetings. No director attended fewer than 75% of the aggregate of (i) the total number of meetings of our Board of Directors, and (ii) the total number of meetings held by all committees of our Board of Directors on which he was a member. We encourage each of our directors to attend our annual meeting of stockholders. Accordingly, and to the extent reasonably practicable, we regularly schedule a meeting of the Board of Directors on the same day as the annual meeting of stockholders. All of our directors then serving at the time attended our 2009 annual meeting of stockholders.

Director Compensation

We use a combination of cash and stock-based incentive compensation to attract and retain qualified candidates to serve on our Board of Directors. In setting director compensation, we consider the amount of time that directors spend fulfilling their duties as a director, including committee assignments.

Cash Compensation Paid to Board Members

We paid each non-employee director of our company an annual cash retainer of \$15,000 and the Chairman of the Audit Committee was paid an additional cash retainer of \$5,000. Members of the Audit and Compensation Committees each receive an annual cash retainer of \$3,000 for each committee on which they serve during the year. We also reimburse each non-employee director for travel and related expenses incurred in connection with attendance at board and committee meetings. Employees who also serve as directors receive no additional compensation for their services as a director. In consideration of their services as members of the Special Committee, Messrs. Patterson, Winczewski, and Zesbaugh each received a \$3,000 cash payment. In addition, Messrs. Patterson and Winczewski each received an option grant of 5,000 shares of common stock for their role as committee members and Mr. Zesbaugh received an option grant of 10,000 shares of common stock for his role as Chairman of the Special Committee.

During 2010, the Board of Directors reviewed the cash and stock-based compensation components paid to each non-employee director based upon benchmark cash and stock-based compensation for similar size public companies in our industry. Based upon this review, beginning in fiscal 2010 the Board of Directors increased the annual cash retainer from \$15,000 to \$17,500.

Stock-Based Compensation

Non-employee directors also are eligible to receive grants of stock options or awards pursuant to the discretion of the Compensation Committee or the entire Board of Directors. Upon joining the Board of Directors, each new non-employee director is granted an option to purchase 10,000 shares of common stock at a price equal to the fair market value on the date of such member's appointment to the Board of Directors. Such option awards vest immediately. Each subsequent year, non-employee directors receive an annual stock option grant to purchase 5,000 shares of our common stock that vests 25% each quarter over a period of one year, while new non-employee directors receive a pro-rata portion of the annual stock option grant in their first full year of service.

The following table summarizes information regarding compensation for non-employee directors during 2009.

Name (1)	Fees Earned or Paid in Cash (\$)	Option Awards (\$ (2)	Total (\$)
Berke Bakay (3)	2,500	13,239	15,739
Richard J. Hauser	15,000	4,400	19,400
Douglas G. Hipskind	15,000	4,400	19,400
W. Kirk Patterson (4)	20,500	8,800	29,300
Anthony L. Winczewski	22,875	8,800	31,675
Mark A. Zesbaugh	23,000	13,200	36,200

(1) Directors who are also our employees receive no additional compensation for serving on the Board of Directors. The compensation of Marc A. Buehler, our President and Chief Executive Officer, is reflected in the Summary Compensation Table.

(2) The amounts reflect the grant date fair value of awards issued pursuant to the 2005 Stock

Award Plan during 2009 computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718. As of December 31, 2009, each director had the following number of options outstanding: Berke Bakay (10,000); Richard J. Hauser (26,800); Douglas G. Hipkind (30,000); W. Kirk Patterson (30,900); Anthony L. Winczewski (31,800); and Mark A. Zesbaugh (26,000).

(3) Mr. Bakay was appointed to the Board of Directors on October 29, 2009 and received an initial option grant to purchase 10,000 shares of common stock.

(4) Mr. Patterson resigned from the Board of

Directors on
October 31,
2009.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL
OWNERS AND MANAGEMENT**

The following table sets forth certain information regarding the beneficial ownership of our common stock on March _____, 2010, except as indicated, by (1) each director and each named executive officer of our company, (2) all directors and executive officers of our company as a group, and (3) each person known by us to own more than 5% of our common stock.

Name of Beneficial Owner	Shares Beneficially Owned (1)	Percentage of Class (2)
Directors and Executive Officers:		
Marc A. Buehler (3)	52,243	*
Mark S. Robinow (4)	114,851	1.2%
Larry J. Ryback		*
Berke Bakay (5)	1,149,312	12.5%
Richard J. Hauser (6)	713,352	7.8%
Douglas G. Hipskind (7)	31,250	*
Anthony L. Winczewski (8)	33,050	*
Mark A. Zesbaugh (9)	27,250	*
All directors and executive officers as a group (8 persons)	2,121,308	22.5%
5% Stockholders:		
William Blair & Company, L.L.C. (10)	1,242,859	13.6%
BBS Capital Fund, LP (5)	1,139,000	12.5%
Mill Road Capital, L.P. (11)	899,330	9.8%
James R. Jundt (12)	758,611	8.2%
Marcus E. Jundt (13)	611,531	6.7%

* Less than 1%

(1) Except as otherwise indicated, each person named in the table has sole voting and dispositive power with respect to all common stock beneficially owned, subject to applicable community property law. Except as otherwise indicated, each

person may be reached as follows: c/o Kona Grill, Inc., 7150 East Camelback Road, Suite 220, Scottsdale, Arizona 85251.

- (2) The percentages shown are calculated based upon 9,160,445 shares of common stock outstanding on March _____, 2010. In accordance with SEC rules, percent of class as of March _____, 2010 is calculated for each person and group by dividing the number of shares beneficially owned by the sum of the total shares outstanding plus the number of shares subject to securities exercisable by that person or group within 60 days.
- (3) Includes 25,000 shares of common stock issuable upon exercise of vested stock options.

- (4) Includes 109,839 shares of common stock issuable upon exercise of vested stock options.
- (5) The number of shares of common stock beneficially owned by Mr. Bakay includes common stock beneficially owned by the following
- (i) BBS Capital Fund, LP,
 - (ii) BBS Capital Management, LP, (iii) BBS Capital, LLC, and (iv) Berke Bakay, which together are referred to as the BBS Management Group. The BBS Management Group has sole voting and dispositive power over all such shares of common stock. The address of BBS Management Group is 4975 Preston Park Boulevard, Suite 775W, Plano, TX 75093. Also included in Mr. Bakay's

beneficial
ownership
amount is
10,312 shares of
common stock
issuable upon
exercise of
vested stock
options held by
Mr. Bakay.

- (6) The number of
shares of
common stock
beneficially
owned by
Mr. Hauser
includes
- (a) 383,407
shares of
common stock
held by his
spouse;
 - (b) 200,000
shares of
common stock
beneficially
owned by Kona
MN, LLC, of
which
Mr. Hauser and
his spouse are
control persons;
 - (c) 11,500
shares held by a
trust for the
benefit of
Mr. Hauser's
children;
 - (d) 10,000
shares issuable
upon the
exercise of a
stock warrant
held by
Mr. Hauser's
spouse; and
 - (e) 28,050
shares of
common stock
issuable upon

exercise of
vested stock
options. Of such
shares, 200,000
shares have
been pledged by
Kona MN, LLC
as security for a
loan.

(7) Includes 31,250 shares of common stock issuable upon exercise of vested stock options.

(8) Includes 33,050 shares of common stock issuable upon exercise of vested stock options.

(9) Includes 27,250 shares of common stock issuable upon exercise of vested stock options.

(10) Based on the statement on Schedule 13G (Amendment No. 3) filed with the SEC on February 5, 2010, William Blair & Company, L.L.C. has sole voting and dispositive power over all such shares of common stock. The address of William Blair & Company, L.L.C. is 222 W. Adams, Chicago, IL 60606.

- (11) Based on the joint statement on Schedule 13D (Amendment No. 10) filed with the SEC on February 22, 2010, by the following
- (i) Thomas E. Lynch, (ii) Scott P. Scharfman, (iii) Mill Road Capital GP LLC, and (iv) Mill Road Capital, L.P. Messrs. Lynch, Scharfman, Charles M. B. Goldman and Justin C. Jacobs (each, a Manager and, collectively, the Managers) are the management committee directors of the sole general partner of Mill Road Capital, L.P. Each of Messrs. Lynch and Scharfman has shared power to vote and dispose of all such shares of common stock. The address of Mill Road Capital, L.P. is 382 Greenwich Avenue, Suite One, Greenwich, CT 06830.

(12) Based on the statement on Schedule 13D filed with the SEC on June 18, 2009, James R. Jundt has sole voting and dispositive power over all such shares of common stock, which includes 62,000 shares issuable upon exercise of warrants to purchase common stock. The shares reported exclude 190,689 shares, beneficially owned by a trust for the benefit of Mr. Jundt's adult children, which Mr. Jundt's spouse is the trustee, and 8,820 shares owned directly by Mr. Jundt's spouse. The address of James R. Jundt is 33717 North Scottsdale Road, Suite 120, Scottsdale, AZ 85266.

(13) Based on the statement on Schedule 13D filed with the SEC on February 16, 2010, Marcus E. Jundt has sole

voting and
dispositive
power of
600,731 shares
of common
stock and shared
voting and
dispositive
power of 10,800
shares of
common stock
that are held in
trusts for the
benefit of his
children.

Mr. Jundt
purchased
60,000 shares
on
November 21,
2007 upon
exercise of a
stock option at
\$6.00 per share.

In connection
with this
purchase,
Mr. Jundt
borrowed
\$360,000 from
Crown Bank
and pledged the
60,000 shares to
Crown Bank in
connection with
the loan.

Mr. Jundt has
also pledged
540,731 shares
of common
stock to
Prosperan Bank
in connection
with a loan. The
address of
Marcus E. Jundt
is 1360 12th
Street
Northeast,
Watertown, SD
57201.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview of Compensation Philosophy and Objectives

The objective of our executive compensation program is to attract, retain, and reward executive officers who are critical to our long-term success. The executive compensation program of our company seeks to provide a level of compensation that is competitive with companies of similar size in the restaurant industry. We align executive officer compensation with both company performance and individual performance and provide incentives to motivate executive officers to achieve our business objectives and reward them for achieving these objectives. We compensate our executive officers through a mix of compensation designed to be competitive within our industry and to align management's incentives with the long-term interests of our stockholders.

The Compensation Committee believes that executive compensation should be closely aligned with the performance of the company on both a short-term and a long-term basis. Our executive compensation is comprised of three principal components:

- Annual base salary;

- Performance-based annual cash incentive bonuses, which are dependent upon our annual financial performance and individual performance; and