

MORGANS FOODS INC  
Form DEF 14A  
June 06, 2008

**Table of Contents**

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.

## Edgar Filing: MORGANS FOODS INC - Form DEF 14A

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:

---

**TABLE OF CONTENTS**

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

PROXY STATEMENT

ELECTION OF DIRECTORS

AUDIT COMMITTEE REPORT

INDEPENDENT AUDITOR FEES

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

EXECUTIVE COMPENSATION

OUTSTANDING OPTION AWARDS AT FISCAL YEAR END AND OPTION EXERCISES IN FISCAL 2008

SELECTION OF INDEPENDENT AUDITORS

SHAREHOLDER PROPOSALS

COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934

EXPENSES OF SOLICITATION

SHAREHOLDER COMMUNICATIONS WITH THE BOARD

OTHER MATTERS

---

**Table of Contents**

**MORGAN S FOODS, INC.**  
4829 Galaxy Parkway, Suite S  
Cleveland, Ohio 44128

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD JUNE 27, 2008**

**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 Rd., Warrensville Heights, OH 44122, on Friday, June 27, 2008, at 10:00 a.m., Eastern Daylight Time, for the following purposes:

1. To elect the Board of Directors of the Company.
2. 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 14, 2008 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 6, 2008

SHAREHOLDERS WHO DO NOT EXPECT TO ATTEND THE MEETING IN PERSON ARE URGED 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.

---

**Table of Contents**

**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 Rd., Warrensville Heights, Ohio 44122, on Friday, June 27, 2008 at 10:00 a.m., Eastern Daylight 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 6, 2008. A copy of the Company's Annual Report to Shareholders, including financial statements, for the fiscal year ended March 2, 2008 (the "2008 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.

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 at the Meeting FOR the election as directors of the nominees set forth herein under "Election of Directors".

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 14, 2008, 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 14, 2008, the Company's outstanding voting securities consisted of 2,934,995 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.

**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 shall qualify. All 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

**Table of Contents**

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 table below sets forth, as of May 14, 2008, certain information about each of the nominees for director. **The Board of Directors recommends that you vote for the following nominees:**

<b>Name</b>	<b>Age</b>	<b>Principal Occupation for the Past Five Years</b>	<b>Director of the Company Since</b>
Lawrence S. Dolin	64	Chairman and Chief Executive Officer, Noteworthy Medical Systems, Inc. (electronic health records software)	1981
Bahman Guyuron, M.D., F.A.C.S.	62	Kiehn-DesPrez Professor and Chief Division of Plastic Surgery University Hospitals Case Medical Center and Case Western Reserve University	2003
Kenneth L. Hignett	61	Senior Vice President, Chief Financial Officer and Secretary of the Company (March 1992 to present); Vice President, Secretary and Treasurer of the Company (January 1991 to March 1992); Vice President and Treasurer of the Company (June 1989 to January 1991)	1993
Steven S. Kaufman	58	Partner and Executive Committee Member, Thompson Hine LLP (law firm)	1989
Bernard Lerner	81	President and Chief Executive Officer, Automated Packaging Systems, Inc. (manufacturer of packaging materials and machinery)	1989
James J. Liguori	59	President and Chief Operating Officer of the Company (July 1988 to present); Executive Vice President of the Company (August 1987 to July 1988); Vice President of the Company (June 1979 to August 1987)	1984
Leonard R. Stein-Sapir	69	Chairman of the Board and Chief Executive Officer of the Company (April 1989 to present)	1981

**Table of Contents**

Lawrence S. Dolin also serves as a director of Falconstor Software, Inc., a company in the business of providing software IP storage.

The Board of Directors has determined that each of the following members is an independent director as defined by the listing standards of The Nasdaq Stock Market: Lawrence S. Dolin, Bernard Lerner, Steven S. Kaufman and Bahman Guyuron.

The Board of Directors has an Executive Committee, an Audit Committee, and a Compensation and Human Resources Committee. The Company does not have a nominating committee. 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 J. Liguori, Lawrence S. Dolin, Bernard Lerner and Leonard R. Stein-Sapir. 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 Lawrence S. Dolin (Chairman), Steven S. Kaufman and Bernard Lerner. This committee, as set forth in more detail in the Audit Committee Charter which is attached to this Proxy Statement as Exhibit A, 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 Lawrence S. Dolin qualifies as an audit committee financial expert, as defined in the rules of the Securities and Exchange Commission.

The members of the Compensation and Human Resources Committee are Steven S. Kaufman, Bernard Lerner (Chairman), Bahman Guyuron and Lawrence S. Dolin. This committee administers the Company's compensation, benefits and stock option plans. At its meeting on June 22, 2007, the Board of Directors of the Company adopted a charter establishing the duties and responsibilities of the Compensation and Human Resources Committee of the Board of Directors. The charter of the Compensation and Human Resources Committee is attached to this Proxy Statement as Exhibit B.

The Board of Directors met four times, the Audit Committee met four times, the Compensation and Human Resources Committee met once and the Executive Committee did not meet, during the 2008 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 meetings of the committee(s) on which he served. The Company encourages the attendance of all directors at the annual shareholders meetings. Four of the Company's directors attended the annual shareholders meeting last year.

Nominations for Director are made by the Board as a whole. When selecting new Director nominees, the Board considers any requirements of applicable law, as well as a candidate's strength of character, judgment, business experience, specific areas of expertise, and factors relating to the composition of the Board (including its size and structure). 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, 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 Pkwy., Suite S, Cleveland, Ohio 44128.

**AUDIT COMMITTEE REPORT**

The Audit Committee is composed of three directors, all of whom are independent under the Sarbanes-Oxley Act. The Committee operates under a written charter adopted on June 23, 2000, reviewed annually and ratified most recently on June 22, 2007 (a copy of the charter is attached as Exhibit A to this Proxy Statement). 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

**Table of Contents**

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 2008, 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 the statement on 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 required by Independence Standards Board Standard No. 1 (Independence Standards Board Standard No.1, Independence Discussions with Audit Committees), as adopted by the Public Company Accounting Oversight Board in Rule 3600T and the Committee discussed with the independent auditors their firm's independence. The Audit Committee has considered whether the provision of non-audit services by the independent auditors is compatible with maintaining the auditor'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 2, 2008 filed with the Securities and Exchange Commission.

The Audit Committee

Lawrence S. Dolin, Chairman

Steven S. Kaufman

Bernard Lerner

**INDEPENDENT AUDITOR FEES**

The aggregate audit fees billed or to be billed to the Company for the fiscal year ended March 2, 2008 by the Company's independent auditors, Grant Thornton LLP, are \$173,342 and for the fiscal year ended February 25, 2007 by the Company's independent auditors were \$11,672 for Deloitte & Touche LLP and \$174,684 for Grant Thornton LLP. There were no tax, audit-related or other fees paid to our independent auditors for the years ended March 2, 2008 and February 25, 2007.

**Table of Contents****SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

**Security Ownership of Certain Beneficial Owners.** The following table sets forth certain information with respect to all persons known to the Company to be the beneficial owners of more than 5% of the Company's outstanding Common Shares as of May 14, 2008.

<b>Name and Address of Beneficial Owner</b>	<b>Number of Shares</b>	<b>Percent of Class</b>
Leonard R. Stein-Sapir (1) 4829 Galaxy Pkwy., Suite S Cleveland, OH 44128	805,281	26.8%
Moab Partners LP (2) 152 East 62 <sup>nd</sup> Street New York, NY 10021	322,376	10.9%
Blackhorse Capital Advisors LLC (2) 45 Rockefeller Center, 20 <sup>th</sup> Floor New York, NY 10111	340,200	11.5%
Hoak Public Equities LP (3) 500 Crescent Court, Suite 220 Dallas TX 75201	150,000	5.1%

(1) Includes 98 shares owned by Mr. Stein-Sapir's children and 1,666 shares owned by his wife. Mr. Stein-Sapir disclaims any beneficial interest in the shares owned by his wife and children.

(2) Based on the most recent filings of SEC Form 4 by the reporting parties.

(3) Based on Schedule 13G filing dated March 27, 2008.

**Security Ownership of Management.** The following table sets forth information as of May 14, 2008, with respect to Common Shares beneficially owned by all directors and nominees for election as directors of the Company and by all officers and directors of the Company as a group. Each person owns beneficially and of record the shares indicated and has sole voting and investment power with respect thereto, except as otherwise set forth in the footnotes to the table.

<b>Name</b>	<b>Number of Shares</b>	<b>Percent of Class</b>
Lawrence S. Dolin (1)	106,125	3.6%
Bahman Guyuron	90,823	3.0%
James J. Liguori (2)	81,539	2.7%
Steven S. Kaufman	4,686	*
Leonard R. Stein-Sapir (3)	805,281	26.8%
Bernard Lerner	103,066	3.5%
Kenneth L. Hignett	41,522	1.4%
Barton J. Craig (4)	20,000	*
Ramesh J. Gursahaney	250	*
All officers and directors as a group (11 persons) (5)	1,254,729	41.8%

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

(1) Includes 43,000 shares owned by a partnership of which Mr. Dolin is a general partner and 625 shares owned by Mr. Dolin's wife. Mr. Dolin disclaims any beneficial interest in the shares owned by his wife.

**Table of Contents**

- (2) Includes 83 shares owned by his wife. Mr. Liguori disclaims any beneficial interest in the shares owned by his wife and 50,000 shares subject to exercisable options.
- (3) Includes 98 shares owned by Mr. Stein-Sapir's children and 1,666 shares owned by his wife. Mr. Stein-Sapir disclaims any beneficial interest in the shares owned by his wife and children.
- (4) Includes 20,000 shares subject to exercisable options.
- (5) Includes 70,000 shares subject to exercisable options.

**EXECUTIVE COMPENSATION**

**Compensation Discussion and Analysis**

*Administration of the Compensation Plan* - The proxy statement disclosure rules of the Securities and Exchange Commission require the Company to provide certain information concerning the compensation of the Principal Executive Officer and the other executive officers of the Company. The Company's compensation plan is administered by the Compensation and Human Resources Committee of the Board of Directors and decisions on the compensation of the Company's Officers are made by the Committee.

*Objectives of the Compensation Program* The objective of the Company's compensation program is to provide competitive compensation to retain key management and to reward them for success in increasing shareholder value.

*Principles of the Compensation Program* The Company's compensation program is formulated to recognize the abilities and experience which each executive brings to his position. The annual review is expected to reward

executives for the successful performance of their duties and to provide an incentive for future performance.

*Elements of Compensation* - Compensation of the Company's executive officers and officers consists primarily of base salary and stock option grants. The Company also provides a matching contribution to deferred compensation under a 401(k) Plan described in a separate section of this proxy statement. Stock options are used by the Company to align the interests of executives more closely with those of the shareholders. The granting of stock options also aids in the retention of high quality executives by providing long-term incentives. The Company has no formal bonus plan for executives. The Board of Directors has in the past authorized discretionary bonuses for executives. The Company does not provide ret