

Goldman Charles
Form PRRN14A
March 23, 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 p

Check the appropriate box:

p 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)

Mill Road Capital, L.P.

Mill Road Capital GP LLC

Mill Road Capital Management LLC

Thomas E. Lynch

Scott P. Scharfman

Charles M. B. Goldman

Justin C. Jacobs

Craig S. Miller

Lawrence F. Harris

(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.

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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:

2010 ANNUAL MEETING OF STOCKHOLDERS

OF

KONA GRILL, INC.

PROXY STATEMENT

OF

MILL ROAD CAPITAL, L.P.

MILL ROAD CAPITAL GP LLC

MILL ROAD CAPITAL MANAGEMENT LLC

THOMAS E. LYNCH

SCOTT P. SCHARFMAN

CHARLES M. B. GOLDMAN

JUSTIN C. JACOBS

CRAIG S. MILLER

LAWRENCE F. HARRIS

This proxy statement relates to the 2010 annual meeting of stockholders of Kona Grill, Inc. The annual meeting will take place as follows:

Date: April 28, 2010

Time: 2:00 p.m.

Place: Greenberg Traurig, LLP
2375 East Camelback Road
Suite 700
Phoenix, Arizona 85016

This proxy statement and the accompanying Gold proxy card are being furnished to the stockholders (Stockholders) of Kona Grill, Inc. (Kona) in connection with the solicitation of proxies by Mill Road Capital, L.P. (Mill Road) and the Participants (as hereinafter defined), to be used at the 2010 annual meeting of Stockholders of Kona, or any other meeting of Stockholders held in lieu thereof, and any adjournments, postponements, reschedulings or continuations thereof (the Annual Meeting), which is scheduled to be held at 2:00 p.m., local time, on April 28, 2010, at the offices of Greenberg Traurig, LLP at 2375 East Camelback Road, Suite 700, Phoenix, Arizona 85016. Kona s principal executive office is located at 7150 East Camelback Road, Suite 220, Scottsdale, Arizona 85251. Mill Road is mailing this proxy statement and the enclosed Gold proxy card to Stockholders on or about March [___], 2010.

ANNUAL MEETING OF STOCKHOLDERS

Purpose of the Annual Meeting:

The Annual Meeting is being held for the following purposes:

Purpose 1: To elect three Class II directors for three-year terms.

Purpose 2: To transact such other business as may properly come before the Annual Meeting or any adjournment(s) or postponement(s) thereof.

At the Annual Meeting, Mill Road and the Participants (as hereinafter defined) will seek to elect to the Board of Directors of Kona (the Board) the following persons (each a Nominee and collectively, the Nominees):

Thomas E. Lynch

Craig S. Miller

Lawrence F. Harris

Each of the Nominees has consented to being named in this proxy statement and, if elected, to serve as a director of Kona.

According to Kona's definitive proxy statement dated March 9, 2010, the Board has nominated Douglas G. Hipskind, Anthony L. Winczewski and Mark A. Zesbaugh for election as Class II directors. In addition, according to Kona's definitive proxy statement, Marcus E. Jundt, Kona's former Chairman, President and Chief Executive Officer and a former director of Kona, has stated his intention to appear at the Annual Meeting to place his name into nomination for election as a Class II director. Kona's definitive proxy statement indicates that Kona has accepted the validity of Mr. Jundt's (advance notice) stockholder nomination for purposes of Kona's by-laws, but that Kona would neither nominate Mr. Jundt as a Board nominee nor recommend him as a candidate for election as a director at the Annual Meeting.

MILL ROAD AND THE PARTICIPANTS URGE YOU TO VOTE THE GOLD PROXY CARD FOR THOMAS E. LYNCH, CRAIG S. MILLER AND LAWRENCE F. HARRIS AS DIRECTORS.

Record Date:

The Board has fixed the close of business on March 1, 2010 as the record date for the Annual Meeting. Only Stockholders of record at the close of business on that date are entitled to receive notice of the Annual Meeting and to vote at the Annual Meeting. At the close of business on the record date, there were issued and outstanding 9,160,445 shares of Kona's common stock, par value \$0.01 per share (Common Stock), which are entitled to cast 9,160,445 votes.¹

¹ This information is derived from Kona's definitive proxy statement dated March 9, 2010.

Quorum:

Kona s by-laws provide that the presence in person or by proxy of the holders of shares of stock having a majority of the votes that could be cast by the holders of all outstanding shares of stock entitled to vote at the Annual Meeting shall constitute a quorum.

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 Annual 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.

If your shares are held in street name, whether through a broker, bank or other nominee, only such bank, broker or other nominee can sign the Gold proxy card with respect to your shares. A broker non-vote occurs if you do not give specific voting instructions to your broker, bank or other nominee regarding how to vote your shares on your behalf with respect to the election of Class II directors at the Annual Meeting before the 10th day prior to the Annual Meeting. The election of directors at the Annual Meeting is a non-routine matter and brokers do not have discretionary authority to vote your shares of Common Stock on non-routine matters. If you fail to provide voting instructions, your broker will have no discretionary authority to vote your shares on your behalf with respect to the election of Class II directors and your shares will not be voted for any of the Nominees. We strongly encourage you to contact the person(s) responsible for your account and give them instructions for how to complete a Gold proxy card representing your shares so that a Gold proxy card can be timely returned on your behalf.

Vote Required:

The election of each Class II director will require the affirmative vote of a plurality of the shares of Common Stock properly cast at the Annual Meeting if a quorum is present. Plurality means that the individuals who receive the largest number of votes cast are elected as directors, up to the maximum number of directors to be chosen at the Annual Meeting.

Methods of Voting:

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 Gold proxy card. Please mark, sign and date the enclosed Gold 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 Annual Meeting. Votes at the Annual Meeting will be taken by written ballot. At the commencement of the Annual Meeting, a written ballot will be distributed to any Stockholder of record who attends the Annual 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 such bank, broker or other nominee can sign the Gold 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 Gold proxy card representing your shares so that a Gold proxy card can be timely returned on your behalf. You also should confirm in writing your instructions to the person(s) responsible for your account and provide a copy of those instructions to our proxy solicitor, InvestorCom, Inc., 65 Locust Avenue, Third Floor, New Canaan, CT 06840, so that they can attempt to ensure that your instructions are followed. If you wish instead to vote in person at the Annual 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 Annual 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 Annual Meeting. If your shares are held in street name through a broker, bank 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 Annual Meeting. Examples of proof of Common Stock ownership include: a signed letter from your broker or bank 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, InvestorCom, Inc., toll free at 877-972-0090. Please see the section below entitled Revocation of Proxies for a discussion of how to revoke your proxy.

Revocation of Proxies:

MILL ROAD AND THE PARTICIPANTS URGE YOU NOT TO SIGN ANY PROXY CARD SENT TO YOU BY KONA OR MARCUS E. JUNDT. IF YOU HAVE ALREADY DONE SO, YOU MAY REVOKE YOUR PROXY AS FOLLOWS.

A Stockholder who has executed a proxy may revoke the proxy at any time before it is exercised at the Annual Meeting in three ways:

by giving written notice of revocation to Mill Road at the following address:

Mill Road Capital, L.P.

c/o InvestorCom, Inc.

65 Locust Avenue, Third Floor

New Canaan, CT 06840

by signing and returning another proxy with a later date; or

by attending the Annual Meeting and voting, in person thereat, the shares represented by your proxy card.

Although a revocation is effective if delivered to Kona, Mill Road and the Participants request that either the original or a copy of any revocation be mailed to Mill Road c/o InvestorCom, Inc., 65 Locust Avenue, Third Floor, New Canaan, CT 06840.

Mere attendance at the Annual Meeting will not in and of itself revoke the proxy. Accordingly, Stockholders who have executed and returned proxies in advance of the Annual Meeting may change their votes at any time before or at the Annual Meeting pursuant to one of the methods set forth above.

PARTICIPANTS IN SOLICITATION OF PROXIES

In addition to the Nominees (who are Thomas E. Lynch, Craig S. Miller and Lawrence F. Harris), the participants in the solicitation of proxies (the Participants) from the Stockholders of Kona include the following: Mill Road, Mill Road Capital GP LLC (MRCGP), Mill Road Capital Management LLC (MRCM), Scott P. Scharfman, Charles M. B. Goldman, and Justin C. Jacobs.

Mill Road is a Delaware limited partnership. The principal business of Mill Road is to operate as an investment firm that focuses on investments in publicly traded companies under \$250 million in size. The address of the principal business and principal office of Mill Road is 382 Greenwich Avenue, Suite One, Greenwich, Connecticut 06830. Mill Road beneficially owns 899,330 shares of Common Stock, 1,000 of which are held of record.

The general partner of Mill Road is MRCGP, and the principal business of MRCGP is to act as the sole general partner of Mill Road. The address of MRCGP is 382 Greenwich Avenue, Suite One, Greenwich, Connecticut 06830. The name, business address, present principal occupation and employment history of each person controlling MRCGP are set forth below. Each of Mr. Lynch and Scott P. Scharfman, Management Committee Directors of MRCGP, has shared power to vote and dispose of the 899,330 shares of Common Stock beneficially owned by Mill Road.

MRCM is a Delaware limited liability company. The principal business of MRCM is to provide advisory and administrative services to MRCGP. The address of MRCM is 382 Greenwich Avenue, Suite One, Greenwich, Connecticut 06830.

Set forth below are the name, present principal occupation or employment, and material occupations, positions, offices or employment for the past five years of each person controlling

MRCGP. The principal business address of each person controlling MRCGP is c/o Mill Road Capital, L.P., 382 Greenwich Avenue, Suite One, Greenwich, Connecticut 06830.

Thomas E. Lynch is a Management Committee Director of MRCGP. Mr. Lynch's present principal occupation or employment is as a Management Committee Director of MRCGP and of MRCM, which provides advisory and administrative services to MRCGP. Mr. Lynch is also the Senior Managing Director of Mill Road. Prior to forming Mill Road, Mr. Lynch was the founder and a Managing Director of Lazard Capital Partners. Prior to Lazard, Mr. Lynch was a Managing Director at The Blackstone Group.

Scott P. Scharfman is a Management Committee Director of MRCGP. Mr. Scharfman's present principal occupation or employment is as a Management Committee Director of MRCGP and of MRCM, which provides advisory and administrative services to MRCGP. Mr. Scharfman is also a Managing Director of Mill Road. Prior to joining Mill Road, Mr. Scharfman was the Senior Manager of the Equity Capital Markets Origination Group at Robertson Stephens.

Charles M. B. Goldman is a Management Committee Director of MRCGP. Mr. Goldman's present principal occupation or employment is as a Management Committee Director of MRCGP and of MRCM, which provides advisory and administrative services to MRCGP. Mr. Goldman is also a Managing Director of Mill Road. Prior to joining Mill Road, Mr. Goldman was the executive vice president of acquisitions and development for Ascend Media, a company focused on acquiring and integrating business-to-business magazines, journals and tradeshow.

Justin C. Jacobs is a Management Committee Director of MRCGP. Mr. Jacobs' present principal occupation or employment is as a Management Committee Director of MRCGP and of MRCM, which provides advisory and administrative services to MRCGP. Mr. Jacobs is also a Managing Director of Mill Road. Prior to joining Mill Road, Mr. Jacobs worked at LiveWire Capital, an investment and management group in which he held interim operational positions in portfolio companies and was involved in investment activities. Prior to joining LiveWire, Mr. Jacobs was an investment professional at The Blackstone Group.

Transactions with Kona as Related Persons:

Mill Road first acquired shares of Common Stock of Kona in 2007, and has beneficially owned more than 5% of the Common Stock since 2008. Mill Road has acquired shares of Common Stock based on its belief that Kona has not realized its full value and has significant growth potential.

On June 9, 2009, Kona completed a rights offering pursuant to which each Stockholder received one non-transferrable subscription right for every 2.5 shares of Common Stock owned by such Stockholder as of April 17, 2009 (the Rights Offering). Each subscription right entitled such Stockholder to purchase one share of Common Stock at a purchase price of \$1.35 per share. The expiration date of the Rights Offering was June 5, 2009. Mill Road purchased 259,268 shares of Common Stock in the Rights Offering for an aggregate purchase price of \$350,011.80. At the time of this transaction, Mill Road was the beneficial owner of more than

5% of the Common Stock. Each of Messrs. Lynch and Scharfman, Management Committee Directors of MRCGP, the sole general partner of Mill Road, acquired shared power to vote and dispose of such 259,268 shares of Common Stock purchased by Mill Road in the Rights Offering and had an interest of \$350,011.80 in Mill Road's purchase of such shares of Common Stock.

ELECTION OF DIRECTORS

One purpose of the Annual Meeting is to elect three Class II directors to the Board. In compliance with Kona's by-laws, Mill Road and the Participants have nominated Thomas E. Lynch, Lawrence F. Harris and Craig S. Miller for election as Class II directors. The Class II directors elected at the Annual Meeting will hold office until the Annual Meeting of Stockholders in 2013 and until their successors are duly elected and qualified.

According to Kona's definitive proxy statement dated March 9, 2010, the Board has nominated Douglas G. Hipskind, Anthony L. Winczewski and Mark A. Zesbaugh for election as Class II directors. All three such nominees are incumbent directors of Kona. In addition, according to Kona's definitive proxy statement, Marcus E. Jundt, Kona's former Chairman, President and Chief Executive Officer and a former director of Kona, has stated his intention to appear at the Annual Meeting to place his name into nomination for election as a Class II director. Kona's definitive proxy statement indicates that Kona has accepted the validity of Mr. Jundt's (advance notice) stockholder nomination for purposes of Kona's by-laws, but that Kona would neither nominate Mr. Jundt as a Board nominee nor recommend him as a candidate for election as a director at the Annual Meeting.

Set forth below is the Performance Graph included in Kona's Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (the Form 10-K) filed with the Securities and Exchange Commission on March 4, 2010, which compares Kona's cumulative total stockholder returns for the period from August 16, 2005 through December 31, 2009 for (1) the Common Stock; (2) the NASDAQ Composite (U.S.) Index; and (3) a restaurant peer group consisting of P.F. Chang's China Bistro, Inc., The Cheesecake Factory Incorporated, McCormick & Schmick's Seafood Restaurants, Inc., Benihana, Inc., BJ's Restaurants, Inc., Granite City Food & Brewery Ltd., and J. Alexander's Corporation. According to the Form 10-K, the graph assumes an investment of \$100 on August 16, 2005, which was the first day on which the Common Stock was listed on the NASDAQ Global Market. Also, according to the Form 10-K, the calculations of cumulative stockholder return for the NASDAQ Composite (U.S.) Index and the restaurant peer group include reinvestment of dividends, but the calculation of cumulative stockholder return on Kona's Common Stock does not include reinvestment of dividends because Kona did not pay any dividends during the measurement period.

Mill Road and the Participants believe that the experience of Mr. Harris, Mr. Miller and Mr. Lynch make them desirable candidates for the Board. Mill Road and the Participants further believe that the Nominees' election to the Board would help Kona address its declining stockholder return and improve its performance. Accordingly, Mill Road and the Participants urge the Stockholders to read the biographical information of Thomas E. Lynch, Lawrence F. Harris and Craig S. Miller provided herein and to vote for their election.

As of the record date, Mill Road, the Participants and their affiliates beneficially owned an aggregate of 899,330 shares of Common Stock, representing approximately 9.8% of the outstanding shares of Common Stock. Mill Road, the Participants and their affiliates intend to vote such shares of Common Stock FOR the election of Thomas E. Lynch, Lawrence F. Harris and Craig S. Miller.

Information regarding each of the Nominees is set forth below. The Nominees would not be barred from being considered independent under the independence requirements of NASDAQ OMX Group, Inc. and the independence standards applicable to Kona under paragraph (a)(1) of Item 407 of Regulation S-K under the Securities Exchange Act of 1934, as amended.

MILL ROAD AND THE PARTICIPANTS RECOMMEND THAT YOU VOTE FOR THE ELECTION OF THOMAS E. LYNCH, LAWRENCE F. HARRIS AND CRAIG S. MILLER, AS CLASS II DIRECTORS OF KONA.

Biographical Information Regarding the Nominees:

Thomas E. Lynch:

Mr. Lynch, 50, is the Senior Managing Director of Mill Road Capital, L.P. which is an investment firm that focuses on investments in publicly traded companies under \$250 million in size and where he has worked since 2006. Mr. Lynch is also a Management Committee Director of Mill Road Capital GP LLC, which is the sole general partner of Mill Road Capital, L.P. and where he has worked since 2006. Mr. Lynch is also a Management Committee Director of Mill Road Capital Management LLC, which provides advisory services to Mill Road Capital GP LLC and where he has worked since 2004. Mr. Lynch has over two decades of investing, management consulting and operating experience. Prior to Mill Road, Mr. Lynch was the founder and a managing director of Lazard Capital Partners, where he created the fund's strategy and recruited the investment team. Prior to Lazard, Mr. Lynch was a managing director at The Blackstone Group. Mr. Lynch came to Blackstone from the Monitor Company, a management-consulting firm where he worked with companies in the retail, chemicals, plastics, coatings and packaging industries. Mr. Lynch began his career as an advertising executive at the Interpublic Group of Companies. Mr. Lynch served as a member of the Board of Directors of Panera Bread Company, a publicly traded company, from 2003 to 2006 and was re-appointed to the Panera Board in March 2010. Mr. Lynch served as a member of the Board of Directors of Galaxy Nutritional Foods, Inc. from May 2009 to June 2009, then a publicly traded company. Mr. Lynch has extensive, relevant experience in strategy, finance, the restaurant industry, and public company boards.

Business address of the Nominee and the name, principal business and address of the organizations in which the Nominee's present principal occupation or employment is carried on:

Thomas E. Lynch, c/o Mill Road Capital, L.P., 382 Greenwich Avenue, Suite One, Greenwich, Connecticut, 06830. Mill Road Capital, L.P. is an investment firm that focuses on investments in publicly traded companies under \$250 million in size, and its business address is 382 Greenwich Avenue, Suite One, Greenwich, Connecticut, 06830. Mill Road Capital GP LLC's principal business is to act as the sole general partner of Mill Road, and its business address is c/o Mill Road Capital, L.P., 382 Greenwich Avenue, Suite One, Greenwich, Connecticut, 06830. Mill Road Capital Management LLC's principal business is to provide advisory and administrative services to Mill Road Capital GP LLC, and its business address is c/o Mill Road Capital, L.P., 382 Greenwich Avenue, Suite One, Greenwich, Connecticut, 06830.

Ownership of securities of Kona:

Mr. Lynch, a Management Committee Director of Mill Road Capital GP LLC, the sole general partner of Mill Road Capital, L.P., has shared power to vote and dispose of the 899,330 shares of Common Stock beneficially owned by Mill Road Capital, L.P., of which 1,000 shares are held of record by Mill Road Capital, L.P. Except with regard to Mill Road's participation in the Rights Offering described above, Mr. Lynch has not been a party to any transaction requiring disclosure pursuant to Item 404(a) of Regulation S-K.

Lawrence F. Harris:

Mr. Harris, 50, is the Chief Executive Officer, Chairman of the Board and a Partner of Food Management Partners, Inc., a restaurant management company where he has worked since 2005. Mr. Harris has been the owner and Chief Executive Officer of R&H Food Services, Ltd. since

1999, Chief Executive Officer and a Partner of Alamo Wing, LLC and Rio Wing, LLC since 2001 and a Partner of Zio's Restaurant Company since 2007. Mr. Harris is a seasoned restaurant industry executive with more than 30 years of public and private restaurant experience at all levels. Mr. Harris' experience in the restaurant industry includes ten years with Pizza Hut, Inc. and PepsiCo Foods International, during which he served as the Chief Operations Officer for Pizza Hut operations in Mexico, as well as employment as the Vice President of Operations for Boston Chicken, Inc. (currently named Boston Market Corporation) and the President of the Harvest Restaurant Group, Inc. Mr. Harris does not hold any directorships in any company with a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, or subject to the requirements of Section 15(d) of such Act or any company registered as an investment company under the Investment Company Act of 1940, as amended. Mr. Harris has in-depth experience in all aspects of restaurants including strategy, operations, and growth. Mr. Harris also has extensive experience in turnaround work for restaurants.

Business address of the Nominee and the name, principal business and address of the corporation or other organization in which the Nominee's present principal occupation or employment is carried on:

Lawrence F. Harris, c/o Food Management Partners, Inc., 1723 N. Loop 1604 E., Suite 209, San Antonio, Texas 78232. Food Management Partners, Inc.'s principal business is to operate as a restaurant management company, and its address is 1723 N. Loop 1604 E., Suite 209, San Antonio, Texas 78232.

Ownership of securities of Kona:

Mr. Harris does not beneficially own or own of record any securities of Kona.

Craig S. Miller:

Mr. Miller, 60, is the Managing Partner of Miller-Sinton Capital Partners LLC, a restaurant investment advisory firm, where he has worked since 2008. Mr. Miller is also the owner of Miller Partners Restaurant Solutions, a family-owned restaurant management company, where he has served as an officer since 1989. Mr. Miller has extensive restaurant experience including serving as the President and Chief Executive Officer of Ruth's Chris Steak House, Inc. (currently named Ruth's Hospitality Group, Inc.) from 2004 to 2008, and he also served as the Chairman of the Board of Ruth's Chris Steak House, Inc. from 2006 to 2008. Mr. Miller served as the President of UNO Restaurants, Inc. from 1986 to 2001 and served as its Chief Executive Officer from 1996 to 2001. Mr. Miller also served as the President and Chief Executive Officer of Furr's Restaurant Group from 2001 to 2002. Mr. Miller serves on the Board of Directors of Tim Hortons Inc., a publicly traded restaurant chain. Mr. Miller has in-depth experience in all aspects of restaurants including strategy, operations, and growth. Mr. Miller also has extensive experience with public company boards.

Business address of the Nominee and the name, principal business and address of the corporation or other organization in which the Nominee's present principal occupation or employment is carried on:

Mr. Miller's principal business address is c/o Alan Weinstein CPA, PO Box 940385, Maitland, Florida 32794. Miller-Sinton Capital Partners LLC's principal business is to operate as a restaurant investment advisory firm and its address is c/o Alan Weinstein CPA, PO Box 940385, Maitland, Florida 32794. Miller Partners Restaurant Solutions' principal business is to operate as a restaurant management company, and its address is c/o Alan Weinstein CPA, PO Box 940385, Maitland, Florida 32794.

Ownership of securities of Kona:

Mr. Miller does not beneficially own or own of record any securities of Kona.

Mill Road has entered into agreements with each of the Nominees other than Thomas E. Lynch, pursuant to which, among other things, such Nominees will be indemnified against certain potential liabilities that might arise in connection with being named as a director-nominee and related matters. Mill Road also intends to reimburse such Nominees for certain expenses incurred by such Nominees in the performance of their responsibilities as Nominees. Except for such agreements, there is no arrangement or understanding between Mill Road and any Nominee or other person or persons pursuant to which the Nominees are to be nominated by Mill Road.

As reported in Kona's definitive proxy statement dated March 9, 2010:

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. As we previously announced and publicly disclosed in our press release and Current Report on Form 8-K dated May 15, 2009, Mr. Jundt's resignation followed the substantial vote of no confidence (represented by withheld authority votes from the holders of 53% of our common stock), he received from our stockholders at the 2009 annual meeting of stockholders. 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.

On March 10, 2010, Mill Road demanded, pursuant to the applicable provisions of the Delaware General Corporation Law, the opportunity to inspect and make copies of certain books and records of Kona related to the resignation of Mr. Jundt or the preparation, negotiation and execution of the Executive Employment Agreement dated as of May 11, 2009 or the Separation Agreement dated as of August 6, 2009, each between Kona and Mr. Jundt. On March 17, 2010, Mill Road received a letter from Kona's legal counsel in response to the March 10, 2010 demand letter, which stated that the Board intends to accommodate Mill Road to the extent legally required. However, the March 17 letter indicated that prior to making available for inspection and copying books and records of Kona responsive to Mill Road's request, the Board will require

Mill Road to execute a confidentiality agreement acceptable to the Board. As of March 22, 2010 Mill Road had not received a proposed confidentiality agreement from Kona. Mill Road believes that obtaining the information requested in its demand letter is important for purposes of determining the suitability of Mr. Jundt and the Board's nominees (Messrs. Hipskind, Winczewski and Zesbaugh) to stand for election as Class II directors at the Annual Meeting and for purposes of determining the adequacy and accuracy of the disclosures contained in Kona's definitive proxy statement dated March 9, 2010. Although Mill Road believes that this information is relevant to all Stockholders in deciding how to vote with respect to the election of directors at the Annual Meeting, Mill Road may be prohibited under the confidentiality agreement from sharing this information with the other Stockholders.

Except as set forth in this proxy statement, to the knowledge of Mill Road and the Participants as of the date hereof (i) no Participant is, or was within the past year, a party to any contract, arrangements or understandings with any person with respect to any securities of Kona, including, but not limited to, joint ventures, loan or option arrangements, puts or calls, guarantees against loss or guarantees of profit, division of losses or profits, or the giving or withholding of proxies; (ii) there is no transaction or series of similar transactions since January 1, 2007, or currently proposed transaction or series of similar transactions, in which Kona or any of its subsidiaries was or is to be a participant, in which the amount involved exceeds \$120,000 and in which any Participant or any associate of any Participant, or any member of the immediate family (including any person (other than a tenant or employee) sharing the same household) of any Participant or of any associate of any Participant, had or will have a direct or indirect material interest; (iii) no Participant or associate of any Participant has any arrangement or understanding with any person (a) with respect to any future employment by Kona or its affiliates (except in the capacity as a director) or (b) with respect to any future transactions to which Kona or any of its affiliates will or may be a party; (iv) no Participant has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon at the Annual Meeting, except each Nominee's interest in being nominated for election as a director, and certain of the Participants' beneficial ownership of Kona's Common Stock as reported herein; (v) except for the stockholder derivative suit described in Note 14 to the consolidated financial statements of Kona contained in the Form 10-K, there are no material proceedings to which any Nominee or any associate of any Nominee is a party adverse to Kona or any of its subsidiaries or has a material interest adverse to Kona or any of its subsidiaries; (vi) no occupation or employment (including positions or offices with Kona) is or was, during the last five years, carried on by any Nominee with Kona or any corporation or organization which is or was a parent, subsidiary or other affiliate of Kona; (vii) there exist no family relationships between any Nominee and any other Nominee, or any director or executive officer of Kona or any person nominated or chosen by Kona to become a director or executive officer of Kona; (viii) during the last five years, no Nominee was involved in any of the events described in Item 401(f) of Regulation S-K and that are material to an evaluation of the ability or integrity of such Nominee to become a director of Kona; and (ix) no Nominee or associate of any Nominee has been awarded or paid, earned or received any cash compensation, cash bonuses, deferred compensation, compensation pursuant to plans, or other compensation from, or in respect of services rendered to or on behalf of, Kona and its subsidiaries that is required to be disclosed under, or is subject to any arrangement described in, Item 402 of Regulation S-K.

SECURITY OWNERSHIP OF MILL ROAD AND THE PARTICIPANTS

Certain information regarding the securities of Kona held by Kona's directors, management and 5% Stockholders is contained in Kona's definitive proxy statement dated March 9, 2010. Mill Road and the Participants take no responsibility for the accuracy or completeness of the information contained in Kona's public filings.

Beneficial Ownership of Kona Securities by Mill Road and the Participants:

As of the record date, Mill Road, the Participants and their associates beneficially owned an aggregate of 899,330 shares of Common Stock, representing approximately 9.8% of the outstanding shares of Common Stock. The following table provides information about the beneficial ownership of Common Stock by Mill Road, MRCGP, Mr. Lynch and Mr. Scharfman as of March [], 2010. The other Participants and the associates of Mill Road and the Participants do not beneficially own any shares of Common Stock. Mill Road and the Participants do not beneficially own any securities of any parent or subsidiary of Kona.

In accordance with Securities and Exchange Commission rules, beneficial ownership includes any shares for which a person has sole or shared voting power or investment power and any shares of which the person has the right to acquire beneficial ownership within 60 days after March [], 2010 through the exercise of any option or otherwise. Except as noted below, Mill Road and the Participants believe that the persons named in the table have sole voting and investment power with respect to the shares of Common Stock set forth opposite their names. The inclusion of shares listed as beneficially owned does not constitute an admission of beneficial ownership. Percentage of beneficial ownership is based on 9,160,445 shares of Common Stock outstanding as of March 1, 2010.² In calculating a person's percentage ownership, Mill Road and the Participants have treated as outstanding any shares that the person has the right to acquire within 60 days of March [], 2010.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership			Percent of Class
		Shares Held	Right to Acquire	Total Number	
Common Stock	Mill Road Capital, L.P. (1) 382 Greenwich Avenue, Suite One, Greenwich, Connecticut 06830	899,330	0	899,330	9.8%
Common Stock	Mill Road Capital GP LLC (2) 382 Greenwich Avenue, Suite One, Greenwich, Connecticut 06830	899,330	0	899,330	9.8%

² This information is derived from Kona's definitive proxy statement dated March 9, 2010.

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Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership			Percent of Class
		Shares Held	Right to Acquire	Total Number	
Common Stock	Thomas E. Lynch (2) c/o Mill Road Capital GP LLC 382 Greenwich Avenue, Suite One, Greenwich, Connecticut 06830	899,330	0	899,330	9.8%
Common Stock	Scott P. Scharfman (2) c/o Mill Road Capital GP LLC 382 Greenwich Avenue, Suite One, Greenwich, Connecticut 06830	899,330	0	899,330	9.8%

- (1) Mill Road Capital, L.P. beneficially owns 899,330 shares of Common Stock, 1,000 of which are held of record.
(2) Mill Road Capital GP LLC, and Mr. Lynch and Mr. Scharfman as the Management Committee Directors of Mill Road Capital GP LLC, each has shared power to vote and dispose of the 899,330 shares of Common Stock beneficially owned by Mill Road Capital, L.P.

TRANSACTIONS IN SECURITIES OF KONA GRILL, INC.

DURING THE PAST TWO YEARS BY MILL ROAD CAPITAL, L.P.

Common Stock Purchased or Sold by Mill Road Capital, L.P.:

Date of Purchase/Sale	Shares of Common Stock Purchased/(Sold)	Price per Share	Total Cost*
03/04/08	8,830	9.45	83,467.34
03/07/08	4,139	8.77	36,284.54
03/07/08	3,004	8.62	25,895.68
03/10/08	4,151	8.59	35,651.28
03/25/08	150	8.90	1,335.00
03/26/08	8,010	8.92	71,444.39
04/01/08	1,900	8.77	16,659.96
06/11/08	2,500	7.00	17,499.50
06/16/08	143,858	6.21	892,753.98
06/17/08	12,518	7.02	87,848.82
06/18/08	15,100	6.99	105,559.57
06/19/08	1,400	7.03	9,836.96
06/20/08	16,100	7.18	115,588.34
06/23/08	15,500	7.23	112,071.20
06/24/08	4,000	7.20	28,811.60
06/25/08	8,191	7.44	60,928.75
06/26/08	2,000	7.32	14,640.00
06/26/08	510	7.38	3,764.41
07/16/08	1,030	6.91	7,119.57
07/25/08	2,406	6.87	16,528.02
07/25/08	365	6.85	2,500.25
07/29/08	900	6.60	5,940.00
07/30/08	5,000	6.25	31,266.00
07/30/08	5,000	5.95	29,750.00
08/01/08	5,000	5.50	27,500.00
09/05/08	100	6.31	630.80

Date of Purchase/Sale	Shares of Common Stock Purchased/(Sold)	Price per Share	Total Cost*
09/09/08	3,000	6.31	18,926.10
09/10/08	1,620	6.20	10,044.00
09/16/08	228	5.79	1,319.12
09/16/08	100	5.79	579.00
10/06/08	11,700	4.94	57,793.32
10/07/08	3,150	4.60	14,490.00
10/09/08	4,335	3.95	17,122.38
10/10/08	8,200	3.55	29,083.76
11/12/08	800	2.02	1,618.48
11/12/08	10,000	2.01	20,100.00
11/13/08	12,500	1.98	24,750.00
11/13/08	8,000	1.85	14,800.00
11/14/08	10,000	1.83	18,300.00
11/14/08	8,000	1.87	14,937.60
04/15/09	(18,109)	2.36	42,726.37
04/30/09	10,000	2.10	20,982.00
06/05/09	259,268	1.35	350,011.80**

All purchases of Common Stock were funded by working capital which may, at any given time, include margin loans made by brokerage firms in the ordinary course of business. As of March [___], 2010 there was no indebtedness outstanding related to Mill Road's purchase of Common Stock.

* Excludes commissions and other execution-related costs.

** This purchase is in connection with Kona's Rights Offering. The date reflects Mill Road's prime broker's records. The subscription occurred on June 3, 2009 and Kona's records indicate that the offering was completed on June 9, 2009.

STOCKHOLDER PROPOSALS

Pursuant to Kona's definitive proxy statement dated March 9, 2010, (i) any Stockholder that wishes to present any proposal for Stockholder action at Kona's annual meeting of Stockholders to be held in 2011 must notify Kona at their principal offices no later than November 20, 2010 in order for such proposal to be included in Kona's proxy statement and form of proxy relating to that meeting and (ii) under Kona's by-laws, Stockholders must follow certain procedures to nominate persons for election as directors or to introduce an item of business at the annual meeting of Stockholders. Mill Road and the Participants take no responsibility for the accuracy or completeness of the information contained in Kona's proxy statement regarding stockholder proposals.

COST AND METHOD OF SOLICITATION

In connection with the solicitation of proxies in support of the Nominees, the Nominees may make solicitations of proxies. It is anticipated that certain regular employees of Mill Road

will participate in any solicitation of proxies that Mill Road and the Participants may undertake in support of the Nominees. Such employees will receive no additional consideration if they assist in the solicitation of proxies. It is anticipated that any proxies would be solicited by mail, courier services, telephone, facsimile or in person. Mill Road has retained InvestorCom, Inc. as a proxy solicitor who will assist with the solicitation of proxies for which InvestorCom, Inc. is to receive a fee not to exceed \$25,000, plus reimbursement for its reasonable out-of-pocket expenses. Mill Road has entered into an agreement with InvestorCom, Inc., pursuant to which, among other things, InvestorCom, Inc. will be indemnified against certain potential liabilities that might arise in connection with InvestorCom, Inc.'s service as proxy solicitor. It is anticipated that InvestorCom, Inc. will employ up to 15 persons to solicit proxies from Stockholders for the Annual Meeting. The costs related to any solicitation of proxies, including expected expenditures for attorneys, accountants, public relations and financial advisors, proxy solicitors, advertising, printing, transportation and related expenses, will be borne by Mill Road. The total expenditures in furtherance of, or in connection with the solicitation of proxies is approximately \$140,000 to date, and is estimated to be \$250,000 in total. To the extent legally permissible, Mill Road will seek reimbursement from Kona for those expenses if one or more of the Nominees is elected. Mill Road does not currently intend to submit the question of such reimbursement to a vote of the Stockholders.

KONA GRILL, INC.

2010 ANNUAL MEETING OF STOCKHOLDERS

t; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">**Occupation**

Name	Director
Age	
During Past Five Years	Since
Karen F. Myers	
54	
President, Mountaineer Log & Siding Co., Inc. President, Recreational Industries Inc.; Member, DC Development LLC; Real Estate Broker, Deep Creek Mountain Resort.	
	1991
I. Robert Rudy	
53	
President, Rudy's Inc., Retail Apparel and Sporting Goods, Member, DC Development LLC.	
	1992
Richard G. Stanton	
66	
Retired. Served as Chairman, President and Chief Executive Officer of First United Corporation and First United Bank & Trust until 1996.	
	1985
Robert G. Stuck	
59	
Vice President, Oakview Motors, Inc. - Retired. Realtor, Long & Foster Real Estate, Inc.	
	1995

Family Relationships Among Directors, Nominees and Executive Officers

Director I. Robert Rudy and Senior Vice President Jeannette R. Fitzwater are siblings.

Committees of the Board of Directors

The Board of Directors has an Audit Committee, an Asset and Liability Management Committee, an Executive Committee, a Strategic Planning Committee, a Compensation Committee, and a Nominating and Governance Committee (the “Nominating Committee”) These committees are discussed below.

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Audit Committee - The Audit Committee is established pursuant to Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and consists of David J. Beachy, M. Kathryn Burkey, Paul Cox, Jr., Raymond F. Hinkle, John W. McCullough, Richard G. Stanton, and Robert G. Stuck. Ms. Burkey was appointed to the Committee in July 2005. The committee is responsible for the hiring, compensation and oversight of the Corporation's independent auditors, and it also assists the Board in monitoring the integrity of the financial statements, in monitoring the performance of the Corporation's internal audit function, and in monitoring the Corporation's compliance with legal and regulatory requirements. The Board has determined that all audit committee members are financially literate and that Ms. Burkey, and Messrs. McCullough and Stanton each qualify as an "audit committee financial expert" as that term is defined by Item 401(h) of the SEC's Regulation S-K. This committee met 14 times in 2005, with 8 meetings called for the purpose of reviewing and approving loans from the Bank to insiders in fulfillment of the Audit Committee's duties under Nasdaq Rule 4350(h). The Board of Directors has adopted a written charter for the Audit Committee, a copy of which was attached as Appendix A to the definitive proxy statement filed in respect of the 2005 Annual Meeting of Shareholders.

Asset and Liability Management Committee - The Asset and Liability Management Committee consists of David J. Beachy, Paul Cox, Jr., William B. Grant, Raymond F. Hinkle, Robert W. Kurtz, John W. McCullough, Elaine L. McDonald, I. Robert Rudy, Richard G. Stanton, and Robert G. Stuck. The committee reviews and recommends changes to the Corporation's Asset and Liability, Investment, Liquidity, and Capital Plans. This committee met three times in 2005.

Executive Committee - The Executive Committee consists of Paul Cox, Jr., William B. Grant, Robert W. Kurtz, Donald E. Moran, I. Robert Rudy, Richard G. Stanton, and Robert G. Stuck. The committee is responsible for reviewing and recommending changes to the Corporation's Insurance Program, overseeing compliance with the Corporation's Bylaws and Articles of Incorporation, monitoring the performance of the Corporation and its subsidiaries, and recommending changes to the personnel policies of the Corporation and of its subsidiaries. The Executive Committee is empowered to act on behalf of the full Board between meetings of the Board. This committee met three times in 2005.

Strategic Planning Committee - The Strategic Planning Committee consists of Faye E. Cannon, Paul Cox, Jr., William B. Grant, Raymond F. Hinkle, Robert W. Kurtz, Elaine L. McDonald, Donald E. Moran, Gary R. Ruddell, I. Robert Rudy, and Richard G. Stanton. The committee focuses on long-term planning to insure that management's decisions take into account the future operating environment, the development of corporate statements of policy, review of overall management of internal control procedures, and review of management's internal and external information and communications systems. This committee met one time in 2005.

Compensation Committee - The Compensation Committee consists of M. Kathryn Burkey, Faye E. Cannon, Raymond F. Hinkle, Elaine L. McDonald, Richard G. Stanton, and Robert G. Stuck. Ms. Burkey was appointed to the committee in July 2005. The committee is responsible for recommending to the Board a compensation policy for the CEO and other executive officers of the Corporation and its subsidiaries, recommending changes to executive compensation based on performance reviews, and produces an annual report on executive compensation for inclusion in the Corporation's proxy statement in accordance with applicable rules and regulations. This committee met six times in 2005.

Nominating and Governance Committee - The Nominating Committee consists of David J. Beachy, M. Kathryn Burkey, Paul Cox, Jr., John W. McCullough, Elaine L. McDonald, Donald E. Moran, and Richard G. Stanton. Ms. Burkey was appointed to the committee in July 2005. The committee is responsible for developing qualification criteria for Directors, reviewing Director candidates recommended by shareholders (see "Director Recommendations and Nominations" below), actively seeking, interviewing and screening individuals qualified to become Directors, recommending to the Board those candidates who should be nominated to serve as Directors, and developing and recommending to the Board the Corporate Governance Guidelines applicable to the Corporation and its subsidiaries.

This Committee met two times in 2005. The Nominating Committee has a written charter, a copy of which is attached as Appendix B to the definitive proxy statement filed in respect of the 2005 Annual Meeting of Shareholders.

Director Independence

Pursuant to Rule 4350(c) of The Nasdaq Stock Market's listing standards (the "Nasdaq Listing Standards"), a majority of the Corporation's Directors must be "independent directors" as that term is defined by Nasdaq Listing Standards Rule 4200(a)(15). The Corporation's Board of Directors has determined that David J. Beachy, M. Kathryn Burkey, Faye E. Cannon, Paul Cox, Jr., Raymond F. Hinkle, John W. McCullough, Elaine L. McDonald, Donald E. Moran, Karen F. Myers, Gary R. Ruddell, Richard G. Stanton, and Robert G. Stuck are "independent directors", and these independent Directors constitute a majority of the Corporation's Board of Directors. The Compensation Committee and the Nominating Committee are each made up entirely of "independent directors". Each member of the Audit Committee satisfies the independence requirements of Rule 4350(d)(2) of the Nasdaq Listing Standards.

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Director Compensation

Directors' fees are paid only to Directors who are not employees of the Corporation or the Bank. These outside Directors receive \$400 for attending each Board meeting and \$200 for attending each committee meeting of the Board on which the Director serves. Outside Directors also receive an annual retainer fee of \$10,000. The Chairperson of each of the Audit Committee (Mr. Stanton), Compensation Committee (Ms. McDoanld) and Nominating Committee (Mr. Moran) receives an annual retainer of \$2,500. Mr. Rudy received \$150 for chairing the 2005 Annual Meeting of Shareholders. All Directors also serve on the board of directors of the Bank. Outside directors of the Bank receive \$400 for attending each meeting of the Bank's Board and \$200 for attending each meeting of a Bank Board committee on which the Director serves.

Attendance at Board Meetings

The Board of Directors held 10 Board meetings in 2005. Each Director who served as such during 2005 attended at least 75% of the aggregate of (i) the total number of meetings of the Board of Directors (held during the period served) and (ii) the total number of meetings held by all committees of the Board on which that person served (held during the period served), with the exception of I. Robert Rudy, who attended 71% of total Board and committee meetings in 2005.

Director Recommendations and Nominations

The Nominating Committee will from time to time review and consider candidates recommended by shareholders. Shareholder recommendations should be labeled "Recommendation of Director Candidate" and be submitted in writing to: Robert W. Kurtz, Corporate Secretary, First United Corporation, P.O. Box 9, Oakland, Maryland 21550; and must specify (i) the recommending shareholder's contact information, (ii) the class and number of shares of the Corporation's capital stock beneficially owned by the recommending shareholder, (iii) the name, address and credentials of the candidate for nomination, (v) the number of shares of the Corporation's capital stock beneficially owned by the candidate; and (iv) the candidate's written consent to be considered as a candidate. Such recommendation must be received by the Corporate Secretary no less than 150 days nor more than 180 days before the date of the Annual Meeting of Shareholders for which the candidate is being recommended. For purposes of this requirement, the date of the meeting shall be deemed to be on the same day and month as the Annual Meeting of Shareholders for the preceding year.

Candidates may come to the attention of the Nominating Committee from current Directors, executive officers, shareholders, or other persons. The Nominating Committee periodically reviews its list of candidates available to fill Board vacancies and researches the talent, skills, expertise, and general background of these candidates. In evaluating candidates for nomination, the Nominating Committee uses a variety of methods and regularly assesses the size of the Board, whether any vacancies are expected due to retirement or otherwise, and the need for particular expertise on the Board.

Whether recommended by a shareholder or another third party, or recommended independently by the Nominating Committee, a candidate will be selected for nomination based on his or her talents and the needs of the Board. The Nominating Committee's goal in selecting nominees is to identify persons that possess complimentary skills and that can work well together with existing Board members at the highest level of integrity and effectiveness. A candidate, whether recommended by a Corporation shareholder or otherwise, will not be considered for nomination unless he or she maintains strong professional and personal ethics and values, has relevant management experience, and is committed to enhancing shareholder value. Certain Board positions, such as Audit Committee membership, may require other special skills, expertise or independence from the Corporation.

It should be noted that a shareholder recommendation is not a nomination, and there is no guarantee that a candidate recommended by a shareholder will be approved by the Nominating Committee or nominated by the Board of Directors. A shareholder who is entitled to vote for the election of Directors and who desires to nominate a candidate for election to be voted on at a Meeting of Shareholders may do so only in accordance with Article II, Section 4, of the Corporation's Amended and Restated Bylaws, which provides that a shareholder may nominate a Director candidate by written notice to the Chairman of the Board or the President not less than 150 days nor more than 180 days prior to the date of the meeting of shareholders called for the election of Directors which, for purposes of this requirement, shall be deemed to be on the same day and month as the Annual Meeting of Shareholders for the preceding year. Such notice shall contain the following information to the extent known by the notifying shareholder: (a) the name and address of each proposed nominee; (b) the principal occupation of each proposed nominee; (c) the number of shares of capital stock of the Corporation owned by each proposed nominee; (d) the name and residence address of the notifying shareholder; (e) the number of shares of capital stock of the Corporation owned by the notifying shareholder; (f) the consent in writing of the proposed nominee as to the proposed nominee's name being placed in nomination for Director; and (g) all information relating to such proposed nominee that would be required to be disclosed by Regulation 14A under the Exchange Act and Rule 14a-11 promulgated thereunder, assuming such provisions would be applicable to the solicitation of proxies for such proposed nominee.

Shareholder Communications with the Board of Directors

Shareholders may communicate with the Board of Directors, including the outside Directors, by sending a letter to First United Corporation Board of Directors, c/o Robert W. Kurtz, Corporate Secretary, First United Corporation, P.O. Box 9, Oakland, Maryland, 21550. The Corporate Secretary will deliver all shareholder communications directly to the Board of Directors.

The Corporation believes that the Annual Meeting of Shareholders is an opportunity for shareholders to communicate directly with Directors and, accordingly, expects that all Directors will attend each Annual Meeting of Shareholders. If you would like an opportunity to discuss issues directly with our Directors, please consider attending this year's Annual Meeting of Shareholders. The 2005 Annual Meeting of Shareholders was attended by all persons who served on the Board of Directors as of the date of that meeting.

AUDIT COMMITTEE REPORT

The Audit Committee has (i) reviewed and discussed the Corporation's consolidated audited financial statements for the year ended December 31, 2005, with Corporation management; (ii) discussed with Ernst & Young, LLP, the Corporation's independent auditors, all matters required to be discussed by SAS 61 (Codification of Statements on Auditing Standards, AU § 380), as modified or supplemented; and (iii) received the written disclosures and the letter from Ernst & Young, LLP required by Independence Standards Board Standard No. 1 (Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees), as modified or supplemented, and has discussed with the auditors the auditors' independence. The Committee meets with the internal and independent auditors, with and without management present, to discuss the overall scope and plans for their respective audits, the results of their examinations, their evaluations of the Corporation's internal controls, and the overall quality of the Corporation's financial reporting. Based on these reviews and discussions, the Audit Committee recommended to the Board of Directors that the consolidated audited financial statements for the year ended December 31, 2005, be included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005.

By: AUDIT COMMITTEE

David J. Beachy
M. Kathryn Burkey
Paul Cox, Jr.
Raymond F. Hinkle
John W. McCullough
Richard G. Stanton
Robert G. Stuck

EXECUTIVE OFFICERS

Information about the Corporation's executive officers is set forth below. All officers are elected annually by the Board of Directors and hold office at its pleasure. Unless indicated otherwise, officers serve in the same capacities for the Corporation and the Bank.

William B. Grant, age 52, serves as Chairman of the Board and CEO. Mr. Grant has been Chairman of the Board and CEO since 1996. Prior to holding these positions, he served as Secretary and Executive Vice President.

Robert W. Kurtz, age 59, serves as a Director and as the President, CRO, Secretary, and Treasurer. Mr. Kurtz has been a Director since 1990 and has served as President, Secretary, and Treasurer since 1997. Mr. Kurtz served as Chief Financial Officer ("CFO") from 1997 to December 31, 2005. Prior to holding these positions, he served as Chief Operating Officer and Executive Vice President.

Jeannette R. Fitzwater, age 45, serves as Senior Vice President and Director of Human Resources. Ms. Fitzwater was appointed to these positions in 1997. Prior to this time, she served as First Vice President, Director of Marketing, and Regional Sales Manager of the Bank.

Eugene D. Helbig, Jr., age 53, serves as Senior Vice President and Senior Trust Officer. Mr. Helbig was appointed Senior Vice President in 1997 and Senior Trust Officer in 1993. Prior to serving in these capacities, he served as First Vice President of the Bank.

Steven M. Lantz, age 49, serves as Senior Vice President and Director of Lending. Mr. Lantz was appointed to these positions in 1997. Prior to this time, he served as First Vice President and Commercial Services Manager of the Bank.

Robin M. Murray, age 47, serves as Senior Vice President and Director of Marketing. Ms. Murray was appointed to these positions in 2003. From 1997 until 2003, she served as the Bank's Vice President & Director of Marketing and Retail Sales and Marketing Retail Service Manager.

Carissa L. Rodeheaver, age 39, serves as Senior Vice President and CFO. Ms. Rodeheaver, who is a Certified Public Accountant and Certified Financial Planner, was appointed to these positions on January 1, 2006. Prior to this time, Ms. Rodeheaver served as Vice President and Trust Department Sales Manager of the Bank from 2000 to 2004 and Vice President and Assistant Chief Financial Officer of the Corporation from 2004 to December 31, 2005.

Jason B. Rush, age 35, serves as Vice President and Director of Operations. Mr. Rush was appointed to these positions on March 3, 2006. He has worked for the Corporation and the Bank since 1993 in the following capacities: Management Trainee/Compliance from 1993 to 1995; Assistant Compliance Officer from 1995 to 1997; Customer Service Officer from 1997 to 2001; Grantsville Community Office Manager from 1998 through 2001; Assistant Vice President and Oakland/Mid Towns Community Office Manager from 2001 to 2002; Assistant Vice President and Oakland/Mid Towns Community Office Manager and Cash Manager Department Manager from 2002 through 2004; Vice President and Oakland/Mid Towns Community Office Manager and Cash Manager Department Manager from 2004 to 2004; and Vice President and Region 1 and 2 Retail Area Manager/Cash Manager Department Manager from 2005 to 2006.

Frederick A. Thayer, IV, age 47, serves as Senior Vice President, Director of Sales, and CRA Officer. Mr. Thayer was appointed to these positions in 1997. Prior to this time, he served as First Vice President, Regional Executive Officer and Regional Sales Manager of the Bank.

REMUNERATION OF EXECUTIVE OFFICERS**Summary Compensation Table**

The following table sets forth the total remuneration for services in all capacities paid during each of the last three fiscal years to the Corporation's Chairman and CEO and the four most highly compensated executive officers of the Corporation other than the CEO who were serving as executive officers as of December 31, 2005 and received salary and bonus in excess of \$100,000 during 2005 (the CEO and such other officers are referred to as the "named executive officers").

Name and Principal Position	Year	Annual Compensation			All Other Compensation(3)(4)
		Salary	Bonus (2)	Other	
William B. Grant Chairman of the Board and Chief Executive Officer	2005	\$ 179,482	\$ 105,078	—	6,092
	2004	\$ 179,524	—	—	7,954
	2003	\$ 179,675	\$ 43,814	—	5,349
Robert W. Kurtz President, Chief Risk Officer(1) and Secretary/Treasurer	2005	\$ 132,909	\$ 83,780	—	2,180
	2004	\$ 132,922	\$ 24,338	—	2,348
	2003	\$ 133,031	\$ 48,876	—	1,909
Eugene D. Helbig, Jr. Senior Vice President and Senior Trust Officer	2005	\$ 87,363	\$ 72,901	—	5,164
	2004	\$ 86,973	\$ 48,297	—	5,263
	2003	\$ 85,696	\$ 52,912	—	4,834
Steven M. Lantz Senior Vice President and Senior Lending Officer	2005	\$ 96,008	\$ 107,903	—	6,267
	2004	\$ 95,877	\$ 94,233	—	6,811
	2003	\$ 95,877	\$ 87,017	—	5,850
Frederick A. Thayer, IV Senior Vice President and Director of Retail Banking	2005	\$ 80,745	\$ 83,554	—	4,824
	2004	\$ 80,746	\$ 51,129	—	5,220
	2003	\$ 80,810	\$ 71,207	—	4,952

- (1) Mr. Kurtz served as CFO of the Corporation and the Bank until December 31, 2005.
- (2) The amounts specified as bonus are made up of pay for performance and, in certain cases, additional incentive payments. The amounts paid pursuant to the pay for performance program (explained in further detail below in the section entitled "Compensation Committee Report on Compensation") for 2003, 2004 and 2005 were distributed in 2004, 2005 and 2006, respectively. The following additional incentive payments were granted based on predetermined business production goals for 2005 and were paid in 2006: Mr. Helbig, \$22,181; Mr. Lantz, \$51,216; and Mr. Thayer, \$33,836.
- (3) Amounts shown include (i) income imputed to the named executive in connection with the bank-owned life insurance ("BOLI") plan established by the Bank for certain Bank officers (see "BOLI Plan" below) and the Corporation's group life insurance program available to all employees as follows for 2005, 2004 and 2003, respectively: Mr. Grant, \$808, \$1,454, and \$1,397; Mr. Kurtz, \$2,180, \$2,348, \$1,909; Mr. Helbig, Jr., \$986, \$664, \$761; Mr. Lantz, \$799, \$761, \$591; and Mr. Thayer, \$698, \$727, \$498. All other amounts shown are matching contributions made by the Corporation for each executive officer under the Corporation's 401(k) Profit Sharing Plan.
- (4) Each executive officer has in excess of six years of credited service under the 401(k) Profit Sharing Plan and is 100% vested.

Compensation paid in 2005 for the executive officers other than the named executive officers were as follows: Jeannette R. Fitzwater, \$119,511; Robin M. Murray, \$120,701; Carissa L. Rodeheaver, \$117,322; and Jason B. Rush, \$101,394. For all but Mr. Rush, 2005 amounts include salary, pay for performance pay, imputed income related to premiums paid for group life insurance and bank owned life insurance, and matching 401(k) plan contributions. Mr. Rush's 2005 compensation includes salary, production pay, imputed income related to premiums paid for group life insurance and bank owned life insurance, matching 401(k) plan contributions. The salary proposed in 2006 for each of the Corporation's executive officers is as follows: Mr. Grant, \$250,000; Mr. Kurtz, \$153,846; Mr. Helbig, \$125,000; Mr. Lantz, \$162,500; Mr. Thayer; \$116,667; Ms. Fitzwater, \$125,000; Ms. Murray, \$116,667; Ms. Rodeheaver, \$108,000; and Mr. Rush, \$92,700. Additional compensation may be earned in 2006 through the pay for performance program, imputed life insurance income and matching 401(k) plan contributions, except that Mr. Rush is eligible for production pay rather than pay for performance and a bonus.

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Pension Plan

The Corporation maintains a Defined Benefit Pension Plan (the “Pension Plan”) for the purpose of providing post-retirement benefits to vested employees. The following table shows the maximum annual retirement benefits payable under the Pension Plan for various levels of compensation during the year of service:

APPROXIMATE ANNUAL BENEFIT UPON RETIREMENT AT AGE 65 BASED ON YEARS OF CREDITED SERVICE

FINAL AVERAGE COMPENSATION	YEARS OF SERVICE						
	15 YEARS	20 YEARS	25 YEARS	30 YEARS	35 YEARS	40 YEARS	45 YEARS
\$ 30,000	\$ 6,000	\$ 8,000	\$ 10,000	\$ 12,000	\$ 14,000	\$ 16,000	\$ 18,000
70,000	15,000	20,000	25,000	30,000	35,000	40,000	45,000
110,000	24,000	32,000	40,000	48,000	56,000	64,000	72,000
150,000	33,000	44,000	55,000	66,000	77,000	88,000	99,000
190,000	42,000	56,000	70,000	84,000	98,000	112,000	126,000
230,000	46,500	62,000	77,500	93,000	108,500	124,000	139,500

For purposes of this table, final average compensation shown is 12 times the average of the highest salary during 60 consecutive months in the last 120 months preceding normal retirement. Also, for purposes of the table, benefits are payable for life with a minimum guarantee of 10 years. Benefits are computed on an actuarial basis. To convert the benefits at normal retirement to a lifetime only benefit, the amounts would be increased by a factor of 1.0677%. Social Security benefits are not shown on the table and would not reduce retirement benefits under the Pension Plan.

A table showing current compensation covered by the Pension Plan and the estimated credited years of service for the named executive officers immediately follows the Supplemental Executive Retirement Plan discussion below.

Supplemental Executive Retirement Plan

Effective November 1, 2001, the Bank’s Board of Directors adopted the First United Bank and Trust Supplemental Executive Retirement Plan (the “SERP”). The SERP provides supplemental retirement income to certain senior executives of the Bank designated by the Bank’s Board. The executives listed in the Summary Compensation Table are also executives of the Bank and have been designated for coverage under the SERP. The SERP benefit vests upon the executive reaching Normal Retirement Age (as defined in the SERP), upon completion of 10 years of service, or upon death. The normal retirement benefit will be 2.5% of final pay for each year of service up to 24 years of service, plus 1% of final pay for each year of service above 24 up to a maximum of 29 years of service, less 50% of the executive’s Social Security benefits and 100% of the benefits payable to the executive under the Corporation’s Pension Plan. If the participant dies prior to retirement, the SERP benefit will additionally be reduced by the amount of any death benefit payable to the participant’s designated beneficiaries under the Bank’s split-dollar arrangements offered in connection with the BOLI Plan (see discussion below). In no event will the sum of the pre-retirement SERP benefit paid upon death and the benefits paid under the split-dollar arrangement exceed the normal retirement SERP benefit earned to date of death. For purposes of the SERP, a participant’s Final Pay shall mean the average of the three highest annual pay periods over the five years preceding the participant’s Normal Retirement. The following table shows the projected benefit payable by the SERP as a single life annuity for various levels of compensation and years of service.

YEARS OF SERVICE

FINAL AVERAGE COMPENSATION	15 YEARS	20 YEARS	25 YEARS	29 YEARS
\$ 100,000	\$ 5,790	\$ 11,040	\$ 14,790	\$ 12,990
125,000	9,540	16,040	20,665	18,365
150,000	13,290	21,040	26,540	23,740
175,000	17,040	26,040	32,415	29,115
200,000	20,790	31,040	38,290	34,490
225,000	30,165	43,540	53,540	50,740
250,000	39,540	56,040	68,790	66,990

The SERP Benefit is based on the annual compensation listed in the Summary Compensation Table. It is expected that the executives will have at least 29 years of service at retirement.

The executive may elect to receive benefits in a lump sum, calculated using the same actuarial assumptions as used under the Pension Plan. Amounts to pay the benefits may, at the Bank's discretion, be held in a Rabbi Trust. Upon a change of control, the rabbi trust must be fully funded to pay accrued benefits. In addition, upon certain terminations of employment following a change of control, the executives designated for coverage become entitled to at least the benefit they would receive based on 24 years of service.

The current compensation covered by the Pension Plan and by the SERP and the estimated credit years of service at December 31, 2005, for each of the named executive officers are as follows:

	Current Compensation Covered By the Plans	Estimated Credited Years of Service at 12/31/05
William B. Grant	\$ 181,925	27 Years
Robert W. Kurtz	\$ 159,385	33 Years
Eugene D. Helbig, Jr.	\$ 141,880	20 Years
Steven M. Lantz	\$ 183,377	19 Years
Frederick A. Thayer, IV	\$ 137,396	14 Years

BOLI Plan

BOLI provides insurance on the lives of the Bank's executive and certain other officers. The Bank purchased \$18 million of BOLI in 2001 and \$2.3 million of BOLI in 2004. The Bank is the sole owner of these BOLI policies, has all rights with respect to the cash surrender values of these BOLI policies, and is the sole death beneficiary under these BOLI policies. The Bank has agreed, however, to endorse a portion of the death benefits payable under the BOLI policies to beneficiaries named by each covered officer. Participation in this split-dollar arrangement can be terminated for any reason, at any time, by either the Bank or the covered officer. The Bank intends to terminate each covered officer's participation at retirement. For tax purposes, a covered officer realizes nominal income from the split-dollar arrangement each year equal to the value of that officer's life protection. If the executive officers were to die while employed by the Bank, the benefits payable under the split-dollar arrangement to their respective beneficiaries would be as follows: William B. Grant, \$455,000; Robert W. Kurtz, \$295,000; Jeannette R. Fitzwater, \$255,000; Eugene D. Helbig, Jr., \$290,000; Steven M. Lantz, \$335,000; Robin M. Murray, \$250,000; and Frederick A. Thayer, IV, \$331,000. Death benefits payable to the beneficiaries named by Carissa L. Rodeheaver or Jason B. Rush did not exceed \$60,000 at December 31, 2005.

401(k) Profit Sharing Plan

Employees of the Corporation and its subsidiaries are permitted to contribute a portion of their salary to the Corporation's 401(k) Profit Sharing Plan. The Corporation makes a matching contribution equal to 50% of the amount deferred, up to 6% of an employee's salary, provided that the employee has completed at least one year of service to the Corporation. The Corporation may make additional discretionary contributions for employees equal to a percentage of each employee's salary. In 2005, the Corporation made \$31,247 in total matching contributions for the benefit of executive officers. No executive officer received a discretionary contribution in 2005.

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Deferred Compensation Plan

Selected executives and Directors of the Corporation and its subsidiaries are permitted to participate in the Corporation's Non-Tax Qualified Deferred Compensation Plan. The plan permits each participant to defer all or a portion of his or her bonus or Directors' fees (as applicable), which income is held in a Rabbi Trust and invested in one or more investment options. The funds are distributed to the participant at termination of employment or Director status, unless the participant initially elects to receive distributions prior to termination. The plan also permits early distribution in the event of certain hardships. Plan benefits are taxed to the participant at the time of distribution.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The members of the Board who performed the functions of the Compensation Committee at any time during the last completed fiscal year were: M. Kathryn Burkey, Faye E. Cannon, Raymond F. Hinkle, Elaine L. McDonald, Richard G. Stanton and Robert G. Stuck. Mr. Stanton served as the Chairman of the Board, President and CEO of the Corporation until June 1, 1996. M. Kathryn Burkey was appointed to the committee in September 2005.

COMPENSATION COMMITTEE REPORT ON COMPENSATION

The basic philosophy of the Corporation's compensation program is to offer competitive compensation for all executive employees, which takes into account both individual contributions and corporate performance.

Executive compensation for William B. Grant, Robert W. Kurtz and each other executive officer consists of two principal elements: (i) base salary; and (ii) incentive compensation, consisting of pay for performance and, for certain positions, production bonuses, that are variable, fluctuate annually, and are linked to the Corporation's performance (and, therefore, are at risk). Base salaries are set at levels intended to foster a career development among executives, consistent with the long-term nature of the Corporation's business objectives. In setting base salary levels, consideration is given to salary levels paid for similar executive positions at other comparable community banking organizations. Salary adjustments and the pay for performance amounts are determined in accordance with the Annual Incentive Program established for executive officers and other members of senior management. The Annual Incentive Program, which was developed in consultation with the Corporation's independent accountants, utilizes a targeted goal-oriented approach whereby each year the committee establishes performance goals based on the recommendation of the Chairman and CEO. The performance goals include the following strategic financial measures: earnings per share; return on equity; and the Corporation's efficiency ratio. Each of these elements is weighted approximately the same. The measures are established annually at the start of each fiscal year and are tied directly to the Corporation's business strategy, projected budgeted results and competitive peer group performance. Production bonuses are paid to certain officers who have oversight of certain retail areas of the Bank and are based on satisfaction of certain production goals for those areas.

The targeted goals for incentive compensation are set at levels which only reward continued exceptional Corporation performance. The incentive awards are expressed as a percent of base pay and measured on a range around the targeted goals with a fixed maximum incentive award.

Over the last few years, the Compensation Committee's compensation policy for executive officers, including Mr. Grant, has been to maintain salaries at relatively stable levels from year to year and address compensation increases by looking to the incentive programs. Mr. Grant's incentive compensation for 2005 was based on the strong performance of the Corporation in 2005 when compared to prior years, including earnings per share of \$1.99, compared to \$1.25 and \$1.77 for 2004 and 2003, respectively; return on average equity of 13.61%, compared to 8.91% and 13.10% for 2004 and 2003, respectively; and the efficiency ratio of 62.7%, compared to 71.4% and 63.6% for 2004 and 2003, respectively. The 2005 incentive compensation paid to each other executive officer was based on a combination of the Corporation meeting the financial goals discussed above and on certain subjective goals related to the personal

performance of each officer.

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Base salary levels for the executive officers in 2005 were recommended by the Compensation Committee and were approved by the non-employee Directors of the Board. Incentive compensation for the executives for 2005 was recommended in December 2005 by the Compensation Committee and approved by the non-employee Directors of the Board.

By: COMPENSATION COMMITTEE

M. Kathryn Burkey
Faye E. Cannon
Raymond F. Hinkle
Elaine L. McDonald
Richard G. Stanton
Robert G. Stuck

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During the past year, the Bank has had banking transactions in the ordinary course of its business with certain Directors and officers of the Corporation and with their associates. These transactions were on substantially the same terms, including interest rates, collateral, and repayment terms on loans, as those prevailing at the same time for comparable transactions with others. The extensions of credit by the Bank to these persons have not and do not currently involve more than the normal risk of collectability or present other unfavorable features.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Pursuant to Section 16(a) of the Exchange Act and the rules promulgated thereunder, the Corporation's executive officers and Directors, and persons who beneficially own more than 10% of the Corporation's Common Stock, are required to file certain reports regarding their ownership of Common Stock with the SEC. Based solely on a review of copies of such reports furnished to the Corporation, or written representations that no reports were required, the Corporation believes that, during the fiscal year ended December 31, 2005, such persons timely filed all reports required to be filed by Section 16(a) except that one statement of changes in beneficial ownership on Form 4 was filed late by William B. Grant (to report a disposition of stock) and one annual statement of beneficial ownership on Form 5 was filed late by I. Robert Rudy (to report a gift of stock).

PERFORMANCE GRAPH

The following graph compares the performance of an investment in shares of the Corporation's Common Stock for the last five years with the performance of a broad market index and a nationally-recognized industry standard assuming in each case both an initial \$100 investment on December 31, 2000, and reinvestment of dividends as of the end of the Corporation's fiscal years. The Corporation has selected the NASDAQ Composite Index because prices for the Corporation's Common Stock are quoted on Nasdaq National Market, and the SNL \$1 billion to \$5 billion Asset-Size Index as the relevant peer group index because of the Corporation's asset size.

<i>Index</i>	<i>Period Ending</i>					
	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05
First United Corporation	100.00	161.96	173.16	265.80	231.99	248.19
NASDAQ Composite	100.00	79.18	54.44	82.09	89.59	91.54
SNL \$1B-\$5B Bank Index	100.00	121.50	140.26	190.73	235.40	231.38

SHAREHOLDER PROPOSAL REQUESTING THE SALE OF THE CORPORATION (PROPOSAL NO. 2)

Dr. Eric L. Smith, 638 Potomac Avenue, Hagerstown, Maryland 21740, a beneficial owner of 8,000 shares of Common Stock, has advised the Corporation that he intends to submit a proposal to shareholders for approval at the Annual Meeting. In accordance with applicable proxy statement regulations, the exact text of Dr. Smith's proposal and his supporting statement are set forth below. **Neither the Board of Directors nor the Corporation accepts any responsibility for the statements contained in Dr. Smith's proposal or supporting statement, which are the sole responsibility of Dr. Smith.**

The Corporation's Board of Directors does not support the approval of Dr. Smith's proposal and asks shareholders to consider the Board's statement in opposition, which follows the proposal.

DR. SMITH'S PROPOSAL AND SUPPORTING STATEMENT

SHAREHOLDER PROPOSAL

The proposal would be to request that the Board of Directors seek to improve shareholder value by sale or merger of the company to another institution. A yes vote would recommend the Board finalize a sale or merger transaction within one year which would maximize shareholder value.

The reasoning for this proposal is that First United is a small fish in a small pond, both of which will show slow growth in the future. At the same time, larger institutions will enter the area and reduce First United's market share. This stagnant growth will be reflected in stock price and dividends.

THE BOARD UNANIMOUSLY RECOMMENDS A VOTE AGAINST DR. SMITH'S PROPOSAL FOR THE FOLLOWING REASONS

The Board's primary focus is on maximizing long-term shareholder value. In its effort to achieve that goal, the Board will continue to evaluate and pursue the strategies that it believes will best achieve that objective. However, the Board's statutory duty is to make decisions and act in a manner that it believes, in good faith and after proper investigation, are in the best interests of the Corporation and its shareholders. The Board does not believe that a forced sale of the Corporation within one year, as advocated by the proposal, presents a viable alternative for the performance of the Board's duties or is in the best interests of the Corporation or its shareholders. The Board's decisions, actions, strategies and plans will of necessity be based on the opportunities and circumstances existing at each juncture, and cannot be the result of knee-jerk reactions to individual whims.

The Board further believes that this proposal could actually erode shareholder value. Although the proposal is merely a request that the Board sell or merge the Corporation and is, therefore, not binding on the Board, the Board believes that shareholder approval of the proposal could harm the Corporation's relationships with investors (both current and prospective), employees, customers, and business partners by sending the message that the Corporation's shareholders have given up hope of any future growth or potential and wish to sell the Corporation. Third parties could become concerned about future prospects of the Corporation, which in turn could negatively impact the Corporation's existing operations and could compromise the Corporation's ability to capitalize on opportunities for growing the business, increasing profits, or even attracting reasonable offers for its business.

Moreover, the Board believes that the basis for Dr. Smith's proposal is not grounded in reality or fact. The bulk of Dr. Smith's supporting statement is made up of groundless predictions as to what he believes the future holds for the Corporation. Dr. Smith has offered absolutely no support for these predictions. Neither the Board nor Dr. Smith has the ability to predict the future, and the Board believes that any assertion by Dr. Smith to the contrary is irresponsible.

In addition, the Board wholeheartedly disagrees with Dr. Smith's characterization of the Corporation as a "small fish in a small pond". The Corporation has 25 branches operating in four counties in Maryland and four counties in West Virginia, including the high growth counties of Frederick and Washington Counties in Maryland and Berkeley and Monongalia Counties in West Virginia. Based on the most recent data published by the bank regulatory agencies (June 30, 2005), the Corporation competes with approximately 96 other institutions in its market areas and ranks 27th out of all 97 institutions by asset size. The median asset size of these 97 institutions at June 30, 2005 was approximately \$333 million, compared to \$1.27 billion for the Corporation (\$1.3 billion at December 31, 2005). Moreover, the Bank, whose assets represent over 99% of the Corporation's assets, falls within the top 6.88% (by assets) of all FDIC-insured institutions doing business in the 50 States, the District of Columbia, Puerto Rico and all U.S. territories—only 609 of the 8,855 FDIC-insured institutions had assets in excess of \$1.0 billion at June 30, 2005. Management believes that these figures clearly reflect that Dr. Smith is simply wrong.

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The Corporation's Board and management team is highly experienced, fiercely competitive and completely motivated. The Corporation has experienced significant growth over the past 10 years. Consolidated assets have increased by 148%, from \$523.6 million at December 31, 1996 to \$1.3 billion at December 31, 2005, and the Bank's trust department has seen a 176% increase in its assets under management, from \$170.0 million at December 31, 1996 to \$468.5 million at December 31, 2005. During this same 10-year period, the Corporation has steadily increased cash dividends paid to shareholders, from \$.51 per share in 1996 to \$.74 per share in 2005 (a 45% increase), has increased net income per share by 99%, from \$1.00 per share for 1996 to \$1.99 per share for 2005, and has seen significant increases in tangible book value (from \$8.82 per share for 1996 to \$12.66 per share for 2005, a 44% increase) and shareholders' equity (from \$56.8 million for 1996 to \$92.0 million in 2005, a 62% increase). Management believes that the Corporation is well positioned to build on the exceptional record that it has established over 105 years of service to its customers and its shareholders.

The Board has never foreclosed the possibility of any strategic transaction that is in the best interests of the Corporation and its shareholders, and it regularly reviews any and all initiatives that could be implemented to maximize value for shareholders. The Corporation maintains relationships with nationally recognized investment banking firms and other advisors and receives their advice on financial and strategic matters from time to time. The Corporation is fully committed to enhancing shareholder value and continuing to undertake initiatives to achieve that objective.

THE BOARD UNANIMOUSLY RECOMMENDS A VOTE AGAINST DR. SMITH'S PROPOSAL, and your Proxy will be so voted unless you specify otherwise.

INDEPENDENT AUDITORS

The Audit Committee has not yet engaged a principal accountant to audit the books and accounts of the Corporation for fiscal year 2006 because it is contemplating whether it would be in the Corporation's best interest to solicit proposals from several public accounting firms before deciding on an engagement for 2006. Ernst & Young LLP served as the Corporation's independent auditor in 2005 and 2004. Ernst & Young LLP has advised the Corporation that neither the accounting firm nor any of its members or associates has any direct financial interest in or any connection with the Corporation other than as independent public auditors. A representative of Ernst & Young LLP is not expected to be present at this year's Annual Meeting of Shareholders.

AUDIT FEES AND SERVICES

The following table shows the fees paid or accrued by the Corporation for the audit and other services provided by Ernst & Young LLP for fiscal years 2005 and 2004:

	FY 2005		FY 2004	
Audit Fees	\$	447,185	\$	452,147
Tax Fees		75,887		126,630
All Other Fees		1,315		3,500
Total	\$	524,387	\$	582,277

Fees for audit services include fees associated with the annual audit, the reviews of the Corporation's quarterly reports on Form 10-Q, the attestation of management's report on internal control over financial reporting, and accounting consultations billed as audit services. Tax fees relate to tax compliance services, such as tax return preparation, tax advice, tax planning and education related to low income housing tax credit investments. For 2005, all other fees include a subscription to the E&Y Accounting & Auditing Research Tool. For 2004, all other fees include a subscription to E&Y Accounting & Auditing Research Tool and fees paid for services rendered in connection with the

transition to successor auditors for the employee benefit plan audits. The Audit Committee has reviewed summaries of the services provided by Ernst & Young, LLP and the related fees and has determined that the provision of non-audit services is compatible with maintaining the independence of Ernst & Young, LLP.

It is the Audit Committee's policy to pre-approve all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for the Corporation by its independent auditors, subject to the *de minimis* exceptions for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act, which, when needed, are approved by the Audit Committee prior to the completion of the independent auditor's audit. All of the 2005 and 2004 services described above were pre-approved by the Audit Committee.

SUBMISSION OF SHAREHOLDER PROPOSALS FOR 2007 ANNUAL MEETING

A shareholder who desires to present a proposal pursuant to Rule 14a-8 under the Exchange Act to be included in the proxy statement and voted on by the shareholders at the 2007 Annual Meeting of Shareholders must submit such proposal in writing, including all supporting materials, to the Corporation at its principal office no later than November 24, 2006 (120 days before the date of mailing based on this year's proxy statement date) and meet all other requirements for inclusion in the proxy statement. Additionally, pursuant to Rule 14a-4(c)(1) under the Exchange Act, if a shareholder intends to present a proposal for business to be considered at the 2007 Annual Meeting of Shareholders but does not seek inclusion of the proposal in the Corporation's proxy statement for such meeting, then the Corporation must receive the proposal by February 7, 2007 (45 days before the date of mailing based on this year's proxy statement date) for it to be considered timely received. If notice of a shareholder proposal is not timely received, then the proxies will be authorized to exercise discretionary authority with respect to the proposal.

OTHER MATTERS

As of the date of this proxy statement, the Board is not aware of any matters, other than those stated above, that may properly be brought before the meeting. If other matters should properly come before the meeting or any adjournment thereof, persons named in the enclosed proxy or their substitutes will vote with respect to such matters in accordance with their best judgment.

By order of the Board of Directors

ROBERT W. KURTZ
Secretary

APPENDIX A

FORM OF PROXY

FIRST UNITED CORPORATION
P.O. Box 9, Oakland, MD 21550-0009

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints Roger N. Fairbourn and Hoye Andrew Walls, III, and each of them, as Proxies, with the powers the undersigned would possess if personally present, and with full power of substitution, and hereby authorizes them to represent and to vote as designated on the reverse side, all the shares of Common Stock of First United Corporation held of record by the undersigned on February 10, 2006 at the Annual Meeting of Shareholders to be held on April 25, 2006 and any adjournment or postponement thereof, for the purposes identified on this proxy and with discretionary authority as to any other matters that may properly come before the Annual Meeting, including substitute nominees if any of the named nominees for director should be unavailable to serve for election in accordance with and as described in the Notice of Annual Meeting of Shareholders and Proxy Statement.

THIS PROXY WILL BE VOTED AS SPECIFIED. IN THE ABSENCE OF SPECIFIC INSTRUCTIONS, THE PROXIES NAMED HEREIN INTEND TO VOTE THIS PROXY "FOR ALL NOMINEES" IN PROPOSAL 1, "AGAINST" PROPOSAL 2, AND IN THEIR DISCRETION WITH RESPECT TO ANY OTHER MATTER THAT MAY BE PRESENTED AT THE MEETING.

(Please sign on reverse side and return immediately)

Address Change/Comments (Mark the corresponding box on the reverse side)

FOLD AND DETACH HERE

You can now access your First United Corporation account online.

Access your First United Corporation shareholder account online via Investor ServiceDirect® (ISD).

Mellon Investor Services LLC, Transfer Agent for First United Corporation, now makes it easy and convenient to get current information on your shareholder account.

- View account status
- View certificate history
- View book-entry information
- View payment history for dividends
- Make address changes
- Obtain a duplicate 1099 tax form
- Establish/change your PIN

Visit us on the web at <http://www.melloninvestor.com>

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Monday-Friday Eastern Time*

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**Please
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for
Address
o
Change or
Comments
SEE REVERSE SIDE**

The Board of Directors recommends a vote “FOR ALL NOMINEES” in Proposal 1.

3. In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the meeting and any adjournments or postponements thereof.

1. Board of Directors proposal to elect five (5) Class II Directors to serve until the 2009 Annual Meeting of Shareholders and until their successors are duly elected and qualify, and one (1) Class III Director to serve until the 2007 Annual Meeting of Shareholders and until her successor is duly elected and qualifies.

Class II (term expires 2009)

- 01 Raymond F. Hinkle o FOR ALL NOMINEES
- 02 Robert W. Kurtz
- 03 Elaine L. McDonald o WITHHOLD AUTHORITY
- 04 Donald E. Moran FOR ALL NOMINEES
- 05 Gary R. Ruddell

o FOR ALL EXCEPT

Class III (term expires in 2007 (see instruction below)

- 06 M. Kathryn Burkey

INSTRUCTION: The withholding of a vote will be counted as a vote against a nominee. To withhold authority to vote for any individual nominee, mark “FOR ALL EXCEPT” and strike a line through the nominee’s name in the list above.

The Board of Directors recommends a vote “AGAINST” Proposal

- 2.**
- 2. Shareholder proposal requesting that the Board of Directors merge or sell First United Corporation within 1 year.**

**T H E U N D E R S I G N E D
A C K N O W L E D G E S R E C E I P T O F
N O T I C E O F T H E A F O R E S A I D
A N N U A L M E E T I N G O F
S H A R E H O L D E R S**

- o FOR o AGAINST o ABSTAIN**

Date: _____,
2006

Signature

Signature

NOTE: Please sign exactly as name appears hereon. Joint holders should each sign. When signing as attorney, executor, administrator, trustee or guardian, please indicate the capacity in which you are signing. If a corporation or other entity, please sign in full corporate or entity name by authorized person.

FOLD AND DETACH HERE

**Vote by Internet or Telephone or Mail
24 Hours a Day, 7 Days a Week**

**Internet and telephone voting is available through 11:59 PM Eastern Time
the day prior to annual meeting day.**

**Your internet or telephone vote authorizes the named proxies to vote your shares in the same manner as if
you marked, signed and returned your proxy card.**

Internet
<http://www.proxyvoting.com/func1>
Use the internet to vote your proxy.
Have your proxy card in hand when
you access the web site.

OR

Telephone
1-866-540-5760
Use any touch-tone
telephone to vote
your proxy. Have
your proxy card in
hand when you call.

OR

Mail
Mark, sign and date
your proxy card and
return it in the
enclosed
postage-paid
envelope.

**If you vote your proxy by Internet or by telephone,
you do NOT need to mail back your proxy card.**