

FAMOUS DAVES OF AMERICA INC

Form 10-K

March 04, 2019

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 30, 2018

Commission File No. 0 21625

FAMOUS DAVE'S of AMERICA, INC.

(Exact name of registrant as specified in its charter)

Minnesota 41 1782300
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

12701 Whitewater Drive, Suite 290

Minnetonka, MN 55343

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(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code (952) 294 1300

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$0.01 par value	The Nasdaq Global Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10 K or any amendment to this Form 10 K

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	Accelerated Filer
Non-Accelerated Filer	Smaller reporting company
Emerging Growth Company	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of common stock held by non-affiliates of the registrant was approximately \$21.7 million as of July 1, 2018, (the last business day of the registrant’s most recently completed second quarter), assuming solely for the purpose of this calculation that all directors, officers, and more than 10% shareholders of the registrant are affiliates. The determination of affiliate status for this purpose is not necessarily conclusive for any other purpose. As of February 12, 2019, 9,084,905 shares of the registrant’s Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None

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Certain statements contained in this Annual Report on Form 10-K include “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. All such forward-looking statements are based on information currently available to us as of the date of this Annual Report, and we assume no obligation to update any forward-looking statements except as otherwise required by applicable law. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors may include, among others, those factors listed in Item 1A of and elsewhere in this Annual Report and our other filings with the Securities and Exchange Commission. The following discussion should be read in conjunction with our financial statements and related footnotes appearing elsewhere in this Annual Report.

PART I

ITEM 1. BUSINESS

Summary of Business Results and Plans

Famous Dave’s of America, Inc. (“Famous Dave’s”, the “Company,” “we,” “us” or “our”) was incorporated as a Minnesota corporation in March 1994 and opened its first restaurant in Minneapolis, Minnesota in June 1995. The following table summarizes the changes in the number of Company-owned and franchise-operated restaurants for the fiscal years ended December 30, 2018 and December 31, 2017:

	Year Ended December 30, 2018		Year Ended December 31, 2017	
Company-owned restaurants:				
Beginning of period	16		37	
New	—		—	
Repurchased (sold) by the Company	2		(8)	
Closed	(1)		(13)	
End of period	17		16	
% of system	12	%	11	%
Franchise-operated restaurants:				
Beginning of period	134		139	
New	2		2	
(Repurchased) sold by the Company	(2)		8	
Closed	(7)		(15)	
End of period	127		134	
% of system	88	%	89	%
System end of period total	144		150	

As of December 30, 2018, Famous Dave’s restaurants operated in 33 states, the Commonwealth of Puerto Rico, Canada, and the United Arab Emirates. An additional 63 franchise restaurants were committed to be developed through signed area development agreements at December 30, 2018.

During the fourth quarter of fiscal 2017, we refranchised eight Company-owned restaurants located at Columbia, Maryland, Frederick, Maryland, Laurel, Maryland, Waldorf, Maryland, Alexandria, Virginia, Chantilly, Virginia, Oakton, Virginia and Woodbridge, Virginia. As a result of these transactions, we classified the operating results of these restaurants as discontinued operations for all years reported and have excluded them from the results of continuing operations.

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In fiscal 2018, we continued our focus on increasing sales and traffic through various initiatives. These initiatives included a new social listening tool to streamline increase feedback across social media channels, tests of brand refreshes, a new menu relaunch and increased focus on digital and online ordering channels such as our new mobile app and loyalty program. Third party delivery was a key driver of our sales growth and we continued to expand on these capabilities while also driving adoption in our franchise community. After evaluating the success of third-party delivery, we implemented third party partners for our catering line of business.

Culinary innovation was key to our efforts in 2018 with an emphasis on frequency driving offerings. The test menu launched for our initial brand refresh location included over 20 new menu items along with a new design aimed at elevating our offerings. Based on the success of the initial test, the menu was rolled out in two additional locations. The success of the expanded menu test provided the basis for a system-wide menu overhaul. For the system-wide launch management identified four new menu item changes to be rolled out to all locations and 12 new optional menu items to offer. Franchisee reception was overwhelmingly positive since the October 2018 launch and resulted in franchise locations adding an average of ten new menu items.

In the fourth quarter of 2018 we launched our loyalty and mobile app, in order to increase frequency and lifetime value of our Guests. Given the rapid initial adoption by Guests this will continue to be a focus throughout 2019.

In fiscal 2019 we will continue our focus on driving sales by expanding on 2018 initiatives along with a new menu pricing strategy and an expanded refresh program. We are also working diligently to drive unit level margins with a focus on managing controllable costs in our restaurants. We believe continued adoption of technology will help offset increases in labor costs by allowing self ordering for Guests and streamlining back-of-house operations. We will also look to test a new quick service restaurant prototype to help drive future unit growth.

Throughout this Annual Report on Form 10-K, we refer to certain metrics of our franchise-operated restaurants; however, franchise-operated restaurants are not owned by us and therefore are not included in our consolidated results of operations and financial position. We believe that disclosure of certain information related to franchise-operated restaurants provides useful information to investors as the performance of franchise-operated restaurants directly impacts royalty and other revenues that we receive from our franchisees and has an impact on the perceived success and value of the Famous Dave's brand.

Financial Information about Segments

Since its inception, our revenue, operating income and assets have been attributable to the single industry segment of the foodservice industry. Our revenue and operating results for each of the last two fiscal years, and our assets for each of the last two fiscal years, are disclosed in Item 8. Financial Statements and Supplementary Data to this Annual Report on Form 10-K.

Narrative Description of Business

Famous Dave's restaurants, a majority of which offer full table service, feature wood-smoked and off-the-grill entrée favorites that fit into the barbeque category. We differentiate ourselves by providing high-quality food in distinctive and comfortable environments with signature décor and signage. As of December 30, 2018, 12 of our Company-owned restaurants are full-service and 5 are counter-service. Our prototypical design includes a designated bar, a signature exterior smokestack, a separate entrance for our To Go business and a patio. The Famous Dave's

concept can be adapted to fit various location sizes and desired service styles such as full-service or counter-service.

In fiscal 2018, our franchisees opened two restaurants in El Paso, Texas and Fort Mill, South Carolina. In fiscal 2017, our franchisees opened two restaurants in Abu Dhabi, United Arab Emirates and Green Bay, Wisconsin. In fiscal 2019, we may look to incentivize our franchisees to open additional restaurants. We offer conversion packages that provide our franchisees with the flexibility to convert existing restaurants as well as existing retail footprints into a Famous Dave's restaurant. Given the flexibility and scalability of our concept, we believe that there are a variety of development opportunities available now and in the future.

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We pride ourselves on the following:

High Quality Food – Each restaurant features a distinctive selection of authentic hickory-smoked and off-the-grill barbecue favorites, such as flame-grilled St. Louis-style and baby back ribs, Texas beef brisket, Georgia chopped pork, country-roasted chicken and signature sandwiches and salads. Also, enticing side items, such as corn bread, potato salad, coleslaw and Wilbur Beans™, accompany the broad entrée selection. Handmade desserts, including Famous Dave’s Bread Pudding and Hot Fudge Kahlua Brownies, are another specialty. To complement our entrée and appetizer items and to suit different customer tastes, we offer six regional barbecue sauces: Rich & Sassy®, Texas Pit™, Georgia Mustard™, Devil’s Spit®, Sweet and Zesty™ and Wilbur’s Revenge™. These sauces, in addition to a variety of seasonings, rubs, marinades and other items are also distributed in retail grocery stores throughout the country under licensing agreements.

Focus on Guest Experience – We believe that a renewed focus on enhancing our Guests’ experience and listening to their feedback is essential. In fiscal 2018, we remodeled our Coon Rapids location, including a new design, color scheme, furniture, audio visual, fixtures & equipment and a revised menu with 20+ new items. We believe a positive Guest experience, combined with our high-quality food, makes Famous Dave’s appealing to a diverse and broad demographic profile. During the year we have onboarded various platforms to better connect with our Guests. These include: delivery service providers, OpenTable, MomentFeed, and our own loyalty app. These platforms allow us to engage our Guests in ways we have not been able to historically.

Distinctive Environment - Décor and Music – Our original décor theme was a nostalgic roadhouse shack (“Original Shack”), as defined by the abundant use of rustic antiques and Americana items. This format was used for both full-service and counter-service restaurant formats. In late 1997, we introduced the “Lodge” format which featured décor reminiscent of a comfortable “Northwoods” hunting lodge with a full-service dining room and small bar. In addition, we developed a larger “Blues Club” format that featured authentic Chicago Blues Club décor and live music seven nights a week. We have evolved our format to that of a full-service concept with several “prototypical” designs that incorporate the best attributes of the past restaurants while providing a consistent brand image. Our Coon Rapids remodel showcases a modern, contemporary vibe that we believe will appeal to a younger demographic while still resonating with our current core Guest. We plan on two additional remodels in fiscal 2019 to provide additional options for franchisees.

Operating Strategy

Our ability to achieve sustainable profitable growth is dependent upon delivering high-quality experiences in terms of food and hospitality, consistently. Key elements of our strategy include the following:

Operational Excellence – During fiscal 2018, we continued to focus on operational excellence and integrity, and on creating a consistently enjoyable Guest experience, both in terms of food and hospitality, across our system. We define operational excellence as unyielding commitment to superior service for our Guests during every visit. We continue to look for ways to provide convenience and value to our Guests through reducing ticket times and streamlining off-premise operations. Operational excellence involves daily monitoring to ensure we execute our recipes at a high level inclusive of preparation, cooking, and handling procedures, rotation, sanitation, cleanliness and safety.

Our menu focuses on a number of popular smoked, barbequed, grilled meats, entrée items and delicious side dishes which are prepared using proprietary seasonings, sauces and mixes. In order to enhance our appeal, expand our audience, increase frequency, and feature our craveable products, our culinary team has developed a product pipeline which will allow us to offer new exciting items throughout the year. In fiscal 2018, we rolled our new test menu of 20+ new menu items to three locations: Coon Rapids, Minnesota; Maple Grove, Minnesota; and Westbury, New

York. Based on those results, we were able to offer 12 new menu items to our Franchisee's for menu placement in October 2018. In fiscal 2019, we plan on continuing our analysis of menu item performance and testing new menu items in our three test locations.

Human Resources and Training/Development - A key ingredient to our success lies with our ability to hire, train, engage and retain employees at all levels of our organization. We place a great deal of importance on creating an exceptional working environment for all of our employees. Through our human resource and training and development resources, tools and programs, we continually enhance and support superior performance within our restaurants and support center.

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We are a performance-based organization, committed to recognizing and rewarding performance at all levels of the organization. Our performance management process includes performance calibration as a means of providing measurable, comparative employee evaluations relative to peer contribution, taking into account specific core competencies and goals. It is designed to provide a complete picture of performance that is consistent across the organization. We offer a total rewards program that is benchmarked closely against the industry and includes health and welfare coverage, 401(k) and non-qualified deferred compensation with a company match, base pay and incentive pay programs developed to sustain our competitive position in the market. Our human resource and training teams focus on the selection and retention of talent through programs in overall workforce planning, performance management, development, safety and risk reduction, and continued enhancements in our organizational structures for all positions in the business.

In the training and development arena, we offer a variety of ongoing on-the-job and classroom training programs for the operations teams (hourly employees, restaurant managers, and multi-unit managers) in an effort to create defined career paths. Our management training program provides new restaurant managers a foundational-based training for restaurant operations and several learning sessions focused on the basic behaviors and skills of a Famous Dave's manager. As an enhancement to our current management training curricula, in 2019 we are preparing to offer an on-going training and leadership program for current Famous Dave's managers. This program will use a combination of classroom style training and eLearning based courses in the areas of communication, teamwork, coaching, change management and performance management with the goal of increasing knowledge specific to the brand, shift awareness, and overall soft skill enhancement that will further develop and hone in on skills acquired during the original management training experience.

Restaurant Operations

Our ability to manage multiple restaurants in geographically diverse locations is central to our overall success. In each market, we place specific emphasis on the position of general manager, and seek talented individuals that bring a diverse set of skills, knowledge, and experience to the Company. We strive to maintain quality and consistency in each of our restaurants through the careful training and supervision of employees and the establishment of, and adherence to, high standards relating to performance, food and beverage preparation, and maintenance of facilities.

All managers must complete an eight-week training program, during which they are instructed in areas such as food quality and preparation, customer service, hospitality, and employee relations. We have prepared operations manuals relating to food and beverage quality and service standards. New employees participate in training under the close supervision of our management. We have a director of company operations who is responsible for overseeing all Company-owned restaurants. This individual works closely with the general managers to support day-to-day restaurant operations. In addition, the director of company operations assists in the professional development of our general managers and is also instrumental in driving our vision of operational integrity and contributing to the improvement of results achieved at our restaurants, including building sales, developing personnel and growing profits. The director of company operations reports directly to our chief operating officer.

Off-Premise Occasions - Focus on Convenience

In addition to our lively and entertaining dine-in experience, we provide our Guests with maximum convenience by offering an expedient take-out service along with catering and delivery. We believe that Famous Dave's entrées and side dishes are viewed by Guests as traditional American "picnic foods" that maintain their quality and travel particularly well, making them an attractive choice to replace a home-cooked meal. The high quality, fair prices and avoidance of preparation time make take-out of our product particularly attractive. Our off-premise sales provide us with revenue opportunities beyond our in-house seating capacity and we continue to seek ways to leverage these segments of our business. We see catering and delivery as a tremendous opportunity for new consumers to access our

business. Every restaurant has dedicated vehicles to support our catering initiatives and many restaurants are served by multiple third-party delivery providers.

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Our restaurants have been designed specifically to accommodate a significant level of To Go sales, including a separate To Go entrance with prominent and distinct signage, and, for added convenience, we separately staff the To Go counter. To further enhance To Go sales, we offer our Guest the ability to order online to improve convenience. We believe our focus on To Go enables Famous Dave's to capture a greater portion of the "take-out" market by allowing consumers to "trade within our brand," when dining in is not always an option. We pursue efforts to increase awareness of To Go in all Company-owned and franchise-operated restaurants by featuring signage and merchandising both inside and outside the restaurants.

Guest Satisfaction – We believe that we achieve a significant level of repeat business by providing high-quality food, efficient friendly service, and warm caring hospitality in an entertaining environment at moderate prices. We strive to maintain quality and consistency in each of our restaurants through the purposeful hiring, training and supervision of personnel and the establishment of, and adherence to, high standards of performance, food preparation and facility maintenance. We have also built family-friendly strategies into each restaurant's food, service and design by providing children's menus, smaller-sized entrees at reduced prices and changing tables in restrooms.

Value Proposition and Guest Frequency – We offer high quality food and a distinctive atmosphere at competitive prices to encourage frequent patronage. Lunch and dinner entrees range from \$6.99 to \$26.99, resulting in a per person dine-in and To Go average of \$15.21 during fiscal 2018. During fiscal 2018, per person average tickets for lunch averaged \$13.47 and per person average ticket for dinner averaged \$16.34. We intend to use value priced offerings, new product introductions, and the convenience of connecting with Guests on their own terms, to drive new and infrequent Guests into our restaurants for additional meal occasions.

Marketing, Promotion and Sales

We believe that by specializing in unique and distinctive smoked meats, poultry & fish, our menu specialty helps set the brand apart from the crowded field in casual dining. To further develop the advertising and promotional materials and programs designed to create brand awareness and increase the reach of the brand, we have a system-wide marketing fund. All Company-owned restaurants, and those franchise-operated restaurants with agreements signed after December 17, 2003 are generally required to contribute 1.0% of net sales to this fund, which substantially funds the marketing and digital teams. In fiscal 2018, the Marketing Ad Fund contribution for contributing franchisees was 1.0% of net sales and will continue to be so in fiscal 2019.

The marketing team, working with outside agencies and other resources, is responsible for the advertising, promotion, creative development, and branding for Famous Dave's. Franchise-operated restaurants place the advertising and marketing programs in their local markets based on contractual requirements. Famous Dave's uses industry standard marketing efforts that include brand and graphic design, broadcast media, digital, online & social media platforms, public relations and out-of-home vehicles.

The strategic focus for marketing and promotion is to ensure that Famous Dave's is recognized as the category-defining brand in BBQ, to create and sustain attractive differentiation in consumer's mind, and to continue to strengthen the brand's positioning and consistency. To help drive top-line sales, we have selectively tested discount based promotional activity across various channels. Given the results in 2018 we believe there is a place for limited discounting to increase frequency and drive trial.

In 2018, we highlighted value and affordability in our menu along with promoting additional value offerings through limited time offers. We also continued to promote our To Go and Catering offering while rolling out delivery on a large-scale basis. This has allowed us to connect with Guests on their terms and offer unique and often compelling sources of growth, and each occasion is growing at a different rate.

Location Strategy

We believe that the barbeque segment of the casual dining restaurant industry continues to offer strong growth opportunities, and we believe we are positioned for growth on a geographical basis. Our geographical concentration, as of December 30, 2018, was 43% Midwest, 6% Middle Atlantic, 11% South, 29% West, 7% Northeast and 4% International.

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We prepare an overall market development strategy for each market. The creation of this market strategy starts with identifying trade areas that align demographically with the target Guest profile. The identified trade areas are then assessed for viability and vitality and prioritized by sales and unit level margin opportunity for future development. Since markets are dynamic, the market strategy includes a continual and ongoing assessment of all existing restaurant locations. If financially feasible, a restaurant may be relocated as the retail or residential focus in a trade area shifts.

As part of our development strategy, we have engaged design firms to redesign and reimagine the traditional full-service prototype. These firms have assisted in developing plans for future service style models such as an updated counter-service, line-service and hybrid flex-service models. The future service-style models will allow us to access new markets or strategically locate restaurants in existing markets where a full-service restaurant is unlikely to be financially viable. The surrounding trade area will determine which service style is appropriate. Site selection will focus on converting second generation space cost effectively. We intend to finance company restaurant development through the use of cash on hand, cash flow generated from operations, through availability on our revolving line of credit and future additional debt.

We expect to continue to grow our franchise program. Our goal is to continue to improve the economics of our current restaurant prototypes, while providing more cost-effective development options for our franchisees. Our franchise system is a significant part of our brand's success. As such, another one of our goals is to be a valued franchisor; to enhance communication and recognition of best practices throughout the system and to continue to expand our franchisee network domestically and internationally.

Purchasing

In order to maximize quality and operational efficiencies for our food products, we strive to obtain consistent quality items at competitive prices from reliable sources, including identifying secondary suppliers for many of our key products. Additionally, our secondary suppliers help us assure supply chain integrity and better logistics. Finally, to reduce freight costs, we continually aim to optimize our distribution networks, where the products are shipped directly to the restaurants through our foodservice distributors. Each restaurant's management team determines the daily quantities of food items needed and orders such quantities to be delivered to their restaurant.

Approximately 85% of our food and non-alcoholic beverage purchases are on contract, with the majority being proteins. Pork represents approximately 37% of our total purchases, while beef, which includes hamburger and brisket, is approximately 19%, chicken is approximately 14%, and seafood is approximately 3%.

Our purchasing team is also responsible for managing the procurement of non-food items for our restaurants, including restaurant equipment, smallwares and restaurant supplies. They also contract many of our restaurants repair and maintenance services along with managing our utility costs.

Information Technology

We recognize the importance of leveraging information and technology to support and extend our competitive position in the restaurant industry. We continue to invest in initiatives that provide secure and efficient operations, enhance the Guest experience and provide benchmarks that allow us to evaluate our operational metrics.

We utilize industry-leading service providers and cloud services to streamline processes at both the restaurant and support center. Interfaces between point-of-sale (POS), labor management, inventory management, menu management, digital platforms and financial systems are the foundation of our enterprise analytics platform. We also continue to implement and support solutions to capitalize on current digital market trends to drive sales and realize operational efficiency.

Trademarks

Our Company has registered various trademarks, makes use of various unregistered marks, and intends to vigorously defend these marks. “Famous Dave’s” and the Famous Dave’s logo are registered trademarks of Famous Dave’s of America, Inc. The Company highly values its trademarks, trade names and service marks and will defend against any improper use of its marks to the fullest extent allowable by law.

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Franchise Program

Our growth and success depends in part upon our ability to attract, contract with and retain qualified franchisees. It also depends upon the ability of those franchisees to successfully operate their restaurants with our standards of quality and promote and develop Famous Dave's brand awareness.

Although we have established criteria to evaluate prospective franchisees, and our franchise agreements include certain operating standards, each franchisee operates his or her restaurants independently. Various laws limit our ability to influence the day-to-day operation of our franchise restaurants. We cannot assure you that franchisees will be able to successfully operate Famous Dave's restaurants in a manner consistent with our standards for operational excellence, service and food quality.

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As of December 30, 2018, we had 33 ownership groups with franchise operated restaurants in the following locations:

United States	
Arizona	6
California	13
Colorado	6
Delaware	1
Florida	3
Idaho	1
Illinois	8
Indiana	2
Iowa	3
Kansas	1
Kentucky	2
Maine	1
Maryland	4
Michigan	7
Minnesota	4
Missouri	2
Montana	4
Nebraska	3
Nevada	5
New Jersey	1
North Dakota	3
Oregon	2
Ohio	3
Pennsylvania	3
South Carolina	1
South Dakota	2
Tennessee	4
Texas	4
Utah	3
Virginia	4
Washington	6
Wisconsin	9
United States Total	121
International	
The Commonwealth of Puerto Rico	2
Canada	1
United Arab Emirates	3
International total	6
Total franchise-operated restaurants	127

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Our franchise operations department is led by our chief operating officer, who guides the efforts of five franchise business consultants. The franchise business consultants have the responsibility of supporting our franchisees throughout the system and play a critical role for us as well as for our franchise community. The franchise business consultants manage the relationship between us and our franchisees and provides an understanding of the roles, responsibilities, differences, and accountabilities of that relationship. They are active participants towards enhancing performance, as they partner in strategic and operations planning sessions with our franchise partners and review the individual strategies and tactics for obtaining superior performance for the franchisee. They ensure compliance with obligations under our area development and franchise agreements. Franchisees are encouraged to utilize all available assistance from the franchise business consultants and the support center but are not required to do so.

We have a comprehensive operations scorecard and training tool that helps us measure the operational effectiveness of our Company-owned and franchise-operated restaurants. This scorecard is used to evaluate, monitor and improve operations in areas such as Guest satisfaction, health and safety standards, community involvement, and local store marketing effectiveness, among other operating metrics. Also, we generally provide support as it relates to all aspects of franchise operations including, but not limited to, store openings and operating performance. Finally, we solicit feedback from our franchise system by having an active dialogue with all franchisees throughout the year.

The franchisee's investment depends primarily upon restaurant size. This investment includes the area development fee, initial franchise fee, real estate and leasehold improvements, fixtures and equipment, POS systems, business licenses, deposits, initial food inventory, smallwares, décor and training fees as well as working capital. In fiscal 2018, certain of our franchisees were required to contribute 1.0% of net sales to a marketing fund dedicated to providing digital and creative services. Currently, franchisees are required to spend approximately 1.5% of their net sales annually on local marketing activities.

Seasonality

Our restaurants typically generate higher revenue in the second and third quarters of our fiscal year as a result of seasonal traffic increases and high catering sales experienced during the summer months, and lower revenue in the first and fourth quarters of our fiscal year, due to possible adverse weather which can disrupt Guest and team member transportation to our restaurants.

Government Regulation

Our Company is subject to extensive state and local government regulation by various governmental agencies, including state and local licensing, zoning, land use, construction and environmental regulations and various regulations relating to the sale of food and alcoholic beverages, sanitation, disposal of refuse and waste products, public health, safety and fire standards. Our restaurants are subject to periodic inspections by governmental agencies to ensure conformity with such regulations. Any difficulty or failure to obtain required licensing or other regulatory approvals could delay or prevent the opening of a new restaurant, and the suspension of, or inability to renew a license, could interrupt operations at an existing restaurant, any of which would adversely affect our operations. Restaurant operating costs are also affected by other government actions that are beyond our control, including increases in minimum hourly wage requirements, worker's compensation insurance rates, health care insurance costs, property and casualty insurance, and unemployment and other taxes. We are also subject to "dram-shop" statutes, which generally provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. We are also subject to extensive state and federal government regulation by various governmental agencies due to our digital and social media footprint in the collection of customer's or potential customer's data. This includes data storage and privacy laws on a state and federal basis.

As a franchisor, we are subject to federal regulation and certain state laws that govern the offer and sale of franchises. Many state franchise laws impose substantive requirements on franchise agreements, including limitations on non-competition provisions and the termination or non-renewal of a franchise. Bills have been introduced in Congress from time to time that would provide for federal regulation of substantive aspects of the franchisor-franchisee relationship. As proposed, such legislation would limit, among other things, the duration and scope of non-competition provisions, the ability of a franchisor to terminate or refuse to renew a franchise, and the ability of a franchisor to designate sources of supply.

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The 1990 Federal Americans with Disabilities Act prohibits discrimination on the basis of disability in public accommodations and employment. We have in the past and could in the future be required to incur costs to modify our restaurants in order to provide service to, or make reasonable accommodations for, disabled persons. Our restaurants are currently designed to be accessible to the disabled, and we believe we are in substantial compliance with all current applicable regulations relating to this Act.

Team Members

As of December 30, 2018, we employed approximately 779 team members of which approximately 101 were salaried full-time employees. None of our team members are covered by a collective bargaining agreement. We believe that we have good relationships with our team members.

Available Information

Copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on our website (www.famousdaves.com) as soon as reasonably practicable after we electronically file the material with or furnish it to the U.S. Securities and Exchange Commission (SEC). Additionally, the SEC maintains an internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Information on our website or linked to our website is not incorporated by reference into this Annual Report.

ITEM 1A. RISK FACTORS

We make written and oral statements from time to time, including statements contained in this Annual Report on Form 10 K regarding our business and prospects, such as projections of future performance, statements of management's plans and objectives, forecasts of market trends and other matters that are forward-looking statements within the meaning of Sections 27A of the Securities Exchange Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Statements containing the words or phrases "will likely result," "anticipates," "are expected to," "will continue," "is anticipated," "estimates," "projects," "believes," "expects," "intends," "target," "goal," "plans," "objective," "sh" expressions identify forward-looking statements which may appear in documents, reports, filings with the Securities and Exchange Commission, news releases, written or oral presentations made by our officers or other representatives to analysts, shareholders, investors, news organizations, and others, and discussions with our management and other Company representatives. For such statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

Our future results, including results related to forward-looking statements, involve a number of risks and uncertainties. No assurance can be given that the results reflected in any forward-looking statements will be achieved. Any forward-looking statements made by us or on our behalf speak only as of the date on which such statement is made. Our forward-looking statements are based upon our management's current estimates and projections of future results or trends. Although we believe that our plans and objectives reflected in or suggested by these forward-looking statements are reasonable, we may not achieve these plans or objectives. In addition, forward-looking statements may reflect assumptions that are sometimes based upon estimates, data, communications and other information from suppliers, government agencies and other sources that may be subject to revision. Except as otherwise required by applicable law, we do not undertake any obligation to update or keep current either (i) any forward-looking statements to reflect events or circumstances arising after the date of such statement, or (ii) the important factors that could cause our future results to differ materially from historical results or trends, results anticipated or planned by us, or which are reflected from time to time in any forward-looking statement which may be made by us or on our behalf.

In addition to other matters identified or described by us from time to time in filings with the SEC, including the risks described below and elsewhere in this Annual Report on Form 10 K, there are several important factors that could cause our future results to differ materially from historical results or trends, results anticipated or planned by us, or results that are reflected from time to time in any forward-looking statement that may be made by us or on our behalf.

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Challenging economic conditions may have a negative effect on our business and financial results.

The restaurant industry is affected by macro-economic factors, including changes in national, regional, and local economic conditions, employment levels and consumer spending patterns. Challenging economic conditions may negatively impact consumer spending and thus cause a decline in our financial results. For example, international, domestic and regional economic conditions, consumer income levels, financial market volatility, social unrest, governmental, political and budget matters and a slow or stagnant pace of economic growth generally may have a negative effect on consumer confidence and discretionary spending. In recent years, we believe these factors and conditions have affected consumer traffic and comparable restaurant sales for us and throughout our industry and may continue to result in a challenging sales environment in the casual dining sector. A decline in economic conditions or negative developments with respect to any of the other factors mentioned above, generally or in particular markets in which we or our franchisees operate, and our Guests' reactions to these trends could result in increased pressure with respect to our pricing, traffic levels, commodity and other costs and the continuation of our innovation and productivity initiatives, which could negatively impact our business and results of operations. These factors could also cause us or our franchisees to, among other things, reduce the number and frequency of new restaurant openings, impair the assets of or close restaurants as well as delay remodeling of existing restaurant locations. Further, poor economic conditions may force nearby businesses to shut down, which could cause our restaurant locations to be less attractive.

A failure to maintain continued compliance with the financial covenants of our credit facility may result in termination of the credit facility and may have a material adverse effect on our ability to accomplish our business objectives.

On December 2, 2016, we and certain of our affiliates entered into a credit arrangement with Choice Financial Corp. ("Choice") providing for three separate loans with aggregate borrowings of \$11.0 million (the "Credit Facility"). We are subject to various financial and non-financial covenants under the Credit Facility, including a minimum debt-service coverage ratio. As of December 30, 2018, we were in compliance with all of our covenants; however, there can be no assurance that we will be able to comply with all of our financial and non-financial covenants in the future. A failure to comply with these covenants could cause us to be in default of our agreements and Choice would be within its rights to accelerate the maturity dates of any amounts owed on our existing loans. If we were unable to repay outstanding amounts, either using current cash reserves, a replacement facility or another source of capital, our lender would have the right to foreclose on our real estate and personal property, which serves as collateral for the loans. Replacement financing may be unavailable to us on similar terms or at all. Termination of our existing loans without adequate replacement, either through a similar facility or other sources of capital, would have a material and adverse impact on our ability to continue our business operations.

Our future revenue, operating income, and cash flows are dependent on consumer preference and our ability to successfully execute our plan.

Our Company's future revenue and operating income will depend upon various factors, including continued and additional market acceptance of the Famous Dave's brand, the quality of our restaurant operations, our ability to grow our brand, our ability to successfully expand into new and existing markets, our ability to successfully execute our franchise program, our ability to raise additional financing as needed, discretionary consumer spending, the overall success of the venues where Famous Dave's restaurants are or will be located, economic conditions affecting disposable consumer income, general economic conditions and the continued popularity of the Famous Dave's concept. An adverse change in any or all of these conditions would have a negative effect on our operations and the market value of our Common Stock.

We may choose not to open any more Company-owned restaurants and anticipate that most future restaurant growth will be through our franchisees. There is no guarantee that any of these franchise-operated restaurants will open when

planned, or at all, due to many factors that may affect the development and construction of our restaurants, including landlord delays, weather interference, unforeseen engineering problems, environmental problems, construction or zoning problems, local government regulations, modifications in design to the size and scope of the project, and other unanticipated increases in costs, any of which could give rise to delays and cost overruns. There can be no assurance that we will successfully implement our growth plan for our Company-owned and franchise-operated restaurants. In addition, we also face all of the risks, expenses and difficulties frequently encountered in the development of an expanding business.

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Competition may reduce our revenue, operating income, and cash flows.

Competition in the restaurant industry is intense. The restaurant industry is affected by changes in consumer preferences, as well as by national, regional and local economic conditions, including real estate and demographic trends, traffic patterns, the cost and availability of qualified labor and product availability. Discretionary spending priorities, traffic patterns, tourist travel, weather conditions and the type, number and location of competing restaurants, among other factors, will also directly affect the performance of our restaurants. Changes in any of these factors in the markets where we currently operate our restaurants could adversely affect the results of our operations.

Increased competition by existing or future competitors may reduce our sales. Our restaurants compete with moderately-priced restaurants primarily on the basis of quality of food and service, atmosphere, location and value. In addition to existing barbeque restaurants, we face competition from steakhouses and other restaurants featuring protein-rich foods. We also compete with other restaurants and retail establishments for quality sites.

Many of our competitors have substantially greater financial, marketing and other resources than we do. Regional and national restaurant companies continue to expand their operations into our current and anticipated market areas. We believe our ability to compete effectively depends on our ongoing ability to promote our brand and offer high quality food and hospitality in a distinctive and comfortable environment. If we are unable to respond, or unable to respond in a timely manner, to the various competitive factors affecting the restaurant industry, our revenue, operating income and cash flows, as well as our growth plans, could be adversely affected.

Our failure to execute our franchise program may negatively impact our revenue, operating income and cash flows.

Our growth and success depends in part upon increasing the number of our franchised restaurants through execution of area development and franchise agreements with new and existing franchisees in new and existing markets. Our ability to successfully franchise additional restaurants or re-franchise existing Company-owned restaurants will depend on various factors, including our ability to attract, contract with and retain quality franchisees, the availability of suitable sites, the negotiation of acceptable leases or purchase terms for new locations, the negotiation of acceptable terms for the re-franchising of existing Company-owned restaurants, permitting and regulatory compliance, the ability to meet construction schedules, the financial and other capabilities of our franchisees, our ability to manage this anticipated expansion and general economic and business conditions. Additionally, certain of our long-term debt is subject to various financial covenants and secured by the land and real estate of restaurant locations that we own, and we will likely have to obtain approval from our lender and refinance this long-term debt. We may also be subject to additional impairment charges, lease termination and other charges, and increased financial statement disclosure requirements. Many of the foregoing factors are beyond our control or the control of our franchisees and there can be no assurance that we will be able to successfully carry out our franchising and refranchising strategy on terms acceptable to our management and Board, or at all.

Our growth and success also depend upon the ability of our franchisees to operate their restaurants successfully to our standards and promote the Famous Dave's brand. Although we have established criteria to evaluate prospective franchisees, and our franchise agreements include certain operating standards, each franchisee operates its restaurant independently. Various laws limit our ability to influence the day-to-day operation of our franchise restaurants. We cannot assure you that our franchisees will be able to successfully operate Famous Dave's restaurants in a manner consistent with our concepts and standards, which could reduce their sales and, correspondingly, our franchise royalties, and could adversely affect our revenue, operating income and cash flows, and our ability to leverage the Famous Dave's brand. In addition, there can be no assurance that our franchisees will have access to financial resources necessary to open the restaurants required by their respective area development agreements, which would negatively impact our growth plans.

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We may not be successful in maintaining or expanding our international footprint.

Our current franchise program includes two restaurants in the Commonwealth of Puerto Rico, one restaurant in Manitoba, Canada, and three restaurants in the United Arab Emirates. Because there are a very limited number of international restaurants, we may not be completely aware of the development efforts involved and barriers to entry into new foreign markets. As a result, we may incur more expenses than originally anticipated and there is a risk that we may not be successful in expanding internationally. If we are successful in maintaining or expanding our international footprint, our future results could be materially adversely affected by a variety of uncontrollable and changing factors affecting international operations including, among others, regulatory, social, political or economic conditions in a specific country or region, trade protection measures and other regulatory requirements, government spending patterns and changes in the laws and policies. Furthermore, by maintaining or expanding our international footprint, our brand value could be harmed by factors outside of our control, including, among other things, difficulties in achieving the consistency of product quality and service compared to our U.S. restaurants and an inability to obtain adequate and reliable supplies of ingredients and products.

The restaurant industry is subject to extensive government regulation that could negatively impact our business.

The restaurant industry is subject to extensive federal, state, and local government regulation by various government agencies, including state and local licensing, zoning, land use, construction and environmental regulations and various regulations relating to the preparation and sale of food and alcoholic beverages, sanitation, disposal of refuse and waste products, public health, safety and fire standards, adjustments to tip credits, minimum wage requirements, working conditions, hiring and employment practices, workers' compensation and citizenship requirements. Our facilities must comply with the applicable requirements of the Americans with Disabilities Act of 1990 (ADA) and related state accessibility statutes. Under the ADA and related state laws, we must provide equivalent service to disabled persons and make reasonable accommodation for their employment, and when constructing or undertaking significant remodeling of our restaurants, we must make those facilities accessible. Due to the fact that we offer and sell franchises, we are also subject to federal regulation and certain state laws which govern the offer and sale of franchises. Many state franchise laws impose substantive requirements on franchise agreements, including limitations on non-competition provisions and termination or non-renewal of a franchise. We may also be subject in certain states to "dram-shop" statutes, which provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. In addition, our operating results would be adversely affected in the event we fail to maintain our food and liquor licenses.

Any change in the current status of such regulations, including an increase in team member benefits costs, any and all insurance rates, or other costs associated with team members, could substantially increase our compliance and labor costs. Because we pay many of our restaurant-level team members rates based on either the federal or the state minimum wage, increases in the minimum wage would lead to increased labor costs. In 2014, the general counsel's office of the National Labor Relations Board issued complaints naming the McDonald's Corporation as a joint employer of workers at its franchisees for alleged violations of the Fair Labor Standards Act. There can be no assurance that other franchisors will not receive similar complaints in the future which may result in legal proceedings based on the actions of its franchisees. Enactment and enforcement of various federal, state and local laws, rules and regulations on immigration and labor organizations may adversely impact the availability and costs of labor for our restaurants in a particular area or across the United States. Other labor shortages or increased team member turnover could also increase labor costs. Furthermore, restaurant operating costs are affected by increases in unemployment tax rates and similar costs over which we have no control.

We are subject to laws and regulations relating to the preparation and sale of food, including regulations regarding product safety, nutritional content and menu labeling. We are subject to laws and regulations requiring disclosure of calorie, fat, trans fat, salt and allergen content. There is a risk that consumers' dining preferences may be impacted by

such menu labeling. If we elect to alter our recipes in response to such a change in dining preferences, doing so could increase our costs and/or change the flavor profile of our menu offerings which could have an adverse impact on our results of operations.

We are subject to laws relating to information security and privacy. As a merchant and service provider of point-of-sale services, we are also subject to the Payment Card Industry Data Security Standard issued by the Payment Card Industry Council (PCI DSS).

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U.S. federal income tax reform could adversely affect us.

On December 22, 2017, President Donald Trump signed into law sweeping tax reform, which overhauls individual, business and international taxes including, but not limited to:

- Reducing the corporate federal statutory tax rate to 21%
- Limiting net interest expense deductions to 30% of adjusted taxable income
- Limiting the net operating loss deduction to 80% of taxable income

The reduction in tax rate caused the valuation of our net deferred tax asset to decrease, as a result of which we recognized deferred tax expense of \$1.8 million in fiscal 2017. If we fail to generate significant taxable income, we may not be able to fully deduct the interest expense on our debt, which could result in us having to pay increased federal income taxes. We have also generated substantial taxable losses in the past and may continue to do so in the future. Although the treatment of tax losses generated before December 31, 2017 has not changed, tax losses generated in fiscal 2018 and beyond will only be able to offset 80% of taxable income, although the losses may be carried forward indefinitely. This could cause us to have to pay federal income taxes despite generating a loss for federal income tax purposes in the future.

We are subject to the risks associated with the food services industry, including the risk that incidents of food-borne illnesses or food tampering could damage our reputation and reduce our restaurant sales.

Our industry is susceptible to the risk of food-borne illnesses. As with any restaurant operation, we cannot guarantee that our internal controls and training will be fully effective in preventing all food-borne illnesses. Furthermore, our reliance on third-party food suppliers and distributors increases the risk that food-borne illness incidents could be caused by third-party food suppliers and distributors outside of our control and/or multiple locations being affected rather than a single restaurant. New illnesses resistant to any precautions may develop in the future, or diseases with long incubation periods could arise that could give rise to claims or allegations on a retroactive basis. Reports in the media or on social media of one or more instances of food-borne illness in one of our Company-owned restaurants, one of our franchise-operated restaurants or in one of our competitor's restaurants could negatively affect our restaurant sales, force the closure of some of our restaurants and conceivably have a national impact if highly publicized. This risk exists even if it were later determined that the illness had been wrongly attributed to the restaurant. Furthermore, other illnesses could adversely affect the supply of some of our food products and significantly increase our costs. A decrease in customer traffic as a result of these health concerns or negative publicity could materially harm our business, results of operations and financial condition.

A significant negative publicity event could have an adverse impact on our business or our relationships with customers, partners and franchisees.

Our business and reputation could be adversely affected by a negative publicity event resulting from any key stakeholder's statements and actions. If we were unable to rebuild the trust of our customers, franchisees, business partners and suppliers, and if further negative publicity continued, we could experience a substantial negative impact on our business. We could also experience additional claims or litigation as a consequence of those events.

Our ability to exploit our brand depends on our ability to protect our intellectual property, and if any third parties make unauthorized use of our intellectual property, our competitive position and business could suffer.

We believe that our trademarks and other intellectual proprietary rights are important to our success and our competitive position. Accordingly, we have registered various trademarks and make use of various unregistered marks. However, the actions we have taken or may take in the future to establish and protect our trademarks and other intellectual proprietary rights may be inadequate to prevent others from imitating our products and concept or

claiming violations of their trademarks and proprietary rights by us. Although we intend to defend against any improper use of our marks to the fullest extent allowable by law, litigation related to such defense, regardless of the merit or resolution, may be costly and time consuming and divert the efforts and attention of our management.

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Our financial performance is affected by our ability to contract with reliable suppliers and food service distributors at competitive prices.

In order to maximize operating efficiencies, we have entered into arrangements with food manufacturers and distributors pursuant to which we obtain approximately 85% of the products used by the Company, including, but not limited to, pork, poultry, beef and seafood. Although we may be able to obtain competitive products and prices from alternative suppliers, an interruption in the supply of products delivered by our food suppliers could adversely affect our operations in the short term. Due to the rising market price environment, our food costs may increase without the desire and/or ability to pass that price increase to our customers.

Although we do contract for utilities in all available states, the costs of these energy-related items will fluctuate due to factors that may not be predictable, such as the economy, current political/international relations and weather conditions. Because we cannot control these types of factors, there is a risk that prices of energy/utility items will increase beyond our current projections and adversely affect our operations.

We could be adversely impacted if our information technology and computer systems do not perform properly or if we fail to protect our customers' credit card information or our employees' personal data.

We rely heavily on information technology to conduct our business, and any material failure or interruption of service could adversely affect our operations. Furthermore, we accept credit and debit card payments in our restaurants. Recently, retailers have experienced actual or potential security breaches in which credit and debit card information may have been compromised, including several highly-publicized incidents. Although we take it very seriously and expend resources to ensure that our information technology operates securely and effectively, any security breaches could result in disruptions to operations or unauthorized disclosure of confidential information. If our customers' consumer data or our team members' personal data are compromised, our operations could be adversely affected, our reputation could be harmed, and we could be subjected to litigation or the imposition of penalties and other remedial costs. In addition, as a franchisor, we are subject to additional reputation risk associated with data breaches that could occur at one of our franchise locations that could potentially harm the Famous Dave's brand reputation.

Failure to achieve our projected cost savings from our efficiency initiatives could adversely affect our results of operations and eliminate potential funding for growth opportunities.

In recent years, we have identified strategies and taken steps to reduce operating costs and free up resources to reinvest in our business. These strategies include supply chain efficiencies, reducing food waste, implementing labor scheduling tools and various information systems projects. We continue to evaluate and implement further cost-saving initiatives. However, the ability to reduce our operating costs through these initiatives is subject to risks and uncertainties, such as our ability to obtain improved supply pricing and the reliability of any new suppliers or technology, and we cannot assure you that these activities, or any other activities that we may undertake in the future, will achieve the desired cost savings and efficiencies. Failure to achieve such desired savings could adversely affect our results of operations and financial condition and curtail investment in growth opportunities.

Litigation could have a material adverse impact on our business and our financial performance.

We are subject to lawsuits, administrative proceedings and claims that arise in the regular course of business. These matters typically involve claims by consumers, employees and others regarding issues such as food borne illness, food safety, premises liability, "dram shop" statute liability, compliance with wage and hour requirements, work-related injuries, promotional advertising, discrimination, harassment, disability and other operational issues common to the foodservice industry, as well as contract disputes and intellectual property infringement matters. Significant legal fees and costs in complex class action litigation or an adverse judgment or settlement that is not insured or is in excess of

insurance coverage could have a material adverse effect on our financial position and results of operations.

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Significant adverse weather conditions and other disasters or unforeseen events could negatively impact our results of operations.

Adverse weather conditions and natural disasters and other unforeseen events, such as winter storms, severe temperatures, thunderstorms, floods, hurricanes and earthquakes, terror attacks, war and widespread/pandemic illness, and the effects of such events on economic conditions and consumer spending patterns, could negatively impact our results of operations. Temporary and prolonged restaurant closures may occur and consumer traffic may decline due to the actual or perceived effects from these events. Severe winter weather conditions have impacted our customer traffic and results of operations in the past.

We evaluate restaurant sites and long-lived assets for impairment and expenses recognized as a result of any impairment would negatively affect our financial condition and consolidated results of operations.

We evaluate restaurant sites and long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of restaurant sites to be held and used is measured by a comparison of the carrying amount of the restaurant site to the undiscounted future net cash flows expected to be generated on a restaurant-by-restaurant basis. If a restaurant is determined to be impaired, the loss is measured by the amount by which the carrying amount of the restaurant site exceeds its fair value. Fair value is estimated based on the best information available including estimated future cash flows, expected growth rates in comparable restaurant sales, remaining lease terms, discount rate and other factors. If these estimates change in the future, we may be required to take additional impairment charges for the related assets, which would negatively affect our financial condition and consolidated results of operations. Considerable management judgment is necessary to estimate future cash flows. Accordingly, actual results could vary significantly from such estimates.

Minnesota law and our Articles protect our directors from certain types of lawsuits, which could make it difficult for us to recover damages from them in the event of a lawsuit.

Minnesota law provides that our directors will not be liable to our Company or to our shareholders for monetary damages for all but certain types of conduct as directors. Our Articles require us to indemnify our directors and officers against all damages incurred in connection with our business to the fullest extent provided or allowed by law. The exculpation provisions may have the effect of preventing shareholders from recovering damages against our directors caused by their negligence, poor judgment or other circumstances. The indemnification provisions may require our Company to use its assets to defend our directors and officers against claims, including claims arising out of their negligence, poor judgment, or other circumstances.

Pursuant to its authority to designate and issue shares of our stock as it deems appropriate, our board of directors may assign rights and privileges to currently undesignated shares which could adversely affect the rights of existing shareholders.

Our authorized capital consists of 100,000,000 shares of capital stock. Our Board of Directors, without any action by the shareholders, may designate and issue shares in such classes or series (including classes or series of preferred stock) as it deems appropriate and establish the rights, preferences and privileges of such shares, including dividends, liquidation and voting rights. The rights of holders of preferred stock and other classes of common stock that may be issued could be superior to the rights granted to the current holders of our common stock. Our Board's ability to designate and issue such undesignated shares could impede or deter an unsolicited tender offer or takeover proposal. Further, the issuance of additional shares having preferential rights could adversely affect the voting power and other rights of holders of common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

We believe that our properties will be suitable for our needs and adequate for operations for the foreseeable future. The following table sets forth certain information about our existing Company-owned restaurant locations, as of December 30, 2018:

Location	Square Footage	Interior Seats	Owned or Leased	Date Opened/Acquired
1 Roseville, MN (3)	4,800	105	Leased	June 1996
2 Calhoun Square (Minneapolis, MN)	10,500	380	Leased	September 1996
3 Maple Grove, MN	6,100	146	Leased(1)	April 1997
4 Highland Park (St. Paul, MN)(3)	5,200	125	Leased	June 1997
5 Apple Valley, MN(3)	3,800	90	Leased(1)	July 1997
6 Forest Lake, MN(3)	4,500	100	Leased	October 1997
7 Minnetonka, MN	5,500	140	Owned(2)	December 1997
8 Plymouth, MN(3)	2,100	49	Owned(2)	December 1997
9 West Des Moines, IA	5,700	150	Leased	April 1998
10 Woodbury, MN	5,900	180	Owned(2)	October 1998
11 Coon Rapids, MN	6,300	160	Owned(2)	December 2006
12 Mays Landing, NJ	6,400	237	Leased	March 2010
13 Westbury, NY	6,400	276	Leased	March 2010
14 Mountainside, NJ	8,800	253	Leased	March 2010
15 Metuchen, NJ	6,200	176	Leased	March 2010
16 Janesville, WI	4,100	130	Leased	August 2018
17 Greenwood, IN	5,700	176	Leased	October 2018

All seat count and square footage amounts are approximate.

- (1) Restaurant is collateral in a financing lease.
- (2) Restaurant land and building are owned by the Company.
- (3) Counter service restaurant

Our Minnesota executive offices are currently located in approximately 10,946 square feet in Minnetonka, Minnesota. Our executive office lease expires in November 2025. During 2015, our 8,400 square foot office in Lombard, IL was closed and sublet to another tenant. This office lease expires in October 2022.

ITEM 3. LEGAL PROCEEDINGS

The information contained in Note 8 “Commitments and Contingencies” of the notes to the accompanying consolidated financial statements included in this Annual Report on Form 10 K is incorporated by reference into this Item 3. Except as set forth therein, as of the end of the period covered by this Annual Report on Form 10 K, we are not a party to any material pending legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock has traded on the Nasdaq Stock Market since July 24, 1997 under the symbol DAVE. Currently, our common stock trades on the Nasdaq Global Market.

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Holders

As of February 12, 2019, we had approximately 330 shareholders of record and approximately 3,143 beneficial shareholders.

Dividends

Our Board of Directors has not declared any dividends on our common stock since our inception, and does not intend to pay out any cash dividends on our common stock in the foreseeable future. We presently intend to retain all earnings, if any, to provide for growth and reduce our debt levels. The payment of cash dividends in the future, if any, will be at the discretion of the Board of Directors and will depend upon such factors as earnings levels, capital requirements, loan agreement restrictions, our financial condition and other factors deemed relevant by our Board of Directors.

Securities Authorized for Issuance under Equity Compensation Plans

Effective May 5, 2015, we adopted a 2015 Equity Plan (the “2015 Plan”), pursuant to which we may grant stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance stock units and other stock and cash awards to eligible participants. We also maintain an Amended and Restated 2005 Stock Incentive Plan (the “2005 Plan”). The 2005 Plan prohibits the granting of incentives after May 12, 2015, the tenth anniversary of the date such Plan was approved by the Company’s shareholders. Nonetheless, the 2005 Stock Incentive Plan will remain in effect until all outstanding incentives granted thereunder have either been satisfied or terminated. Together, the 2015 Plan and 2005 Plan are referred to herein as the “Plans.”

The purpose of the 2015 Plan is to increase shareholder value and to advance the interests of the Company by furnishing a variety of economic incentives designed to attract, retain and motivate team members (including officers), certain key consultants and directors of the Company. The Plans have each been approved by the Company’s shareholders. The following table sets forth certain information as of December 30, 2018, with respect to the 2005 Plan and the 2015 Plan.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options Warrants and Rights (A)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (B)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (A)) (C)
Equity compensation plans approved by shareholders:			
2005 Stock Incentive Plan	450	\$ 28.53	—
2015 Stock Incentive Plan	383,194	7.40	311,033
TOTAL	383,644	\$ 7.43	311,033

Performance Graph

Not applicable to smaller reporting companies.

Purchases of Equity Securities by the Issuer

None

ITEM 6. SELECTED FINANCIAL DATA

Not applicable to smaller reporting companies.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Famous Dave's of America, Inc. was incorporated as a Minnesota corporation in March 1994 and opened its first restaurant in Minneapolis in June 1995. As of December 30, 2018, there were 144 Famous Dave's restaurants operating in 33 states, the Commonwealth of Puerto Rico, Canada and the United Arab Emirates, including 17 Company-owned and 127 franchise-operated restaurants. An additional 63 restaurants were committed to be developed through signed area development agreements as of December 30, 2018.

Fiscal Year

Our fiscal year ends on the Sunday nearest to December 31st of each year. Our fiscal year is generally 52 weeks; however, it periodically consists of 53 weeks. The fiscal years ended December 30, 2018 (fiscal 2018) and December 31, 2017 (fiscal 2017) consisted of 52 weeks. Fiscal 2019, which ends on December 29, 2019, will consist of 52 weeks.

Basis of Presentation

The financial results presented and discussed herein reflect our results and the results of our wholly-owned and majority-owned consolidated subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications have been made to prior year amounts to conform to the current year's presentation.

Application of Critical Accounting Policies and Estimates

The following discussion and analysis of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amount of assets, liabilities and expenses, and related disclosures. On an on-going basis, management evaluates its estimates and judgments. By their nature, these estimates and judgments are subject to an inherent degree of uncertainty. Management bases its estimates and judgments on historical experience, observance of trends in the industry, information provided by customers and other outside sources and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates under different assumptions or conditions. Our management believes the following critical accounting policies reflect its more significant judgments and estimates used in the preparation of our consolidated financial statements. Our Company's significant accounting policies are described in Note 1 to the consolidated financial statements included herein.

We have discussed the development and selection of the following critical accounting policies with the Audit Committee of our Board of Directors and the Audit Committee has reviewed our disclosures relating to such policies in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

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Recognition of Franchise-Related Revenue

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers. The FASB issued ASU No. 2016-08, “Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)” in March 2016, ASU 2016-10 “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing” in April 2016, ASU 2016-11, “Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting” in May 2016 and ASU 2016-12, “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients” in May 2016. These new standards provide for a single, principles-based model for revenue recognition that replaces the existing revenue recognition guidance. In July 2015, the FASB deferred the effective date of ASU 2014-09 until annual and interim periods beginning on or after December 15, 2017. The new guidance permitted the use of either a full retrospective or modified retrospective transition method and early adoption was permitted. The Company has adopted this standard beginning with fiscal year 2018 utilizing the modified retrospective transition method, applied to all contracts.

The new guidance did not impact the timing of revenue recognition on franchise royalty revenues, restaurant and merchandise sales or licensing revenue. Although the recognition of contributions from franchisees to the Company’s system-wide Public Relations and Marketing Development Fund (the “NAF”) did not change, the Company, beginning in fiscal 2018, now reports these contributions on a gross basis within the franchisee national advertising fund contributions line item on the consolidated statements of operations.

Beginning in fiscal 2018, the Company recognizes franchise fee revenue on a straight-line basis over the life of the related franchise agreements and any exercised renewal periods. Cash payments are due upon the opening of a new restaurant or upon the execution of a renewal of the related franchise agreement. The Company’s performance obligation with respect to franchise fee revenues consists of a license to utilize the Company’s brand for a specified period of time, which is satisfied equally over the life of each franchise agreement.

Area development fees are deferred until a new restaurant is opened pursuant to the area development agreement, at which time revenue is recognized on a straight-line basis over the life of the franchise agreement. Cash payments for area development agreements are typically due when an area development agreement has been executed. Gift card breakage revenue is recognized proportionately as gift cards are redeemed utilizing an estimated breakage rate based on the Company’s historical experience. Gift card breakage revenue is reported within the licensing and other revenue line item of the consolidated statements of operations.

Costs and Expenses

Restaurant costs and expenses include, among other items, food and beverage costs; labor and benefits costs; operating expenses, which include occupancy costs, repair and maintenance costs, supplies and advertising and promotion. Certain of these costs and expenses are variable and will increase or decrease with sales volume. The primary fixed costs are restaurant management salaries and occupancy costs. Our experience is that when a new restaurant opens, it incurs higher than normal levels of labor and food costs until operations stabilize, usually during the first three to six months of operations. As restaurant management and staff gain experience following a restaurant’s opening, labor scheduling, food cost management and operating expense control typically improve to levels similar to those at our more established restaurants.

General and Administrative Expenses

General and administrative expenses include all corporate and administrative functions, other than marketing and digital services. Salaries and benefits, legal fees, accounting fees, professional consulting fees, travel, rent and general insurance are major items in this category. Additionally, we record expense for managers-in-training (“MITs”) in this category.

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Asset Impairment, Estimated Lease Termination and Other Closing Costs

We evaluate restaurant sites and long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of restaurant sites to be held and used is measured by a comparison of the carrying amount of the restaurant site to the undiscounted future net cash flows expected to be generated on a restaurant-by-restaurant basis. If a restaurant is determined to be impaired, the loss is measured by the amount by which the carrying amount of the restaurant site exceeds its fair value. Fair value is estimated based on the best information available including estimated future cash flows, expected growth rates in comparable restaurant sales, remaining lease terms, discount rate and other factors. If these assumptions change in the future, we may be required to take additional impairment charges for the related assets. Considerable management judgment is necessary to estimate future cash flows. Accordingly, actual results could vary significantly from such estimates. Restaurant sites that are operating, but have been previously impaired, are reported at the lower of their carrying amount or fair value less estimated costs to sell.

Lease Accounting

We recognize lease expense for our operating leases over the entire lease term including lease renewal options where the renewal is reasonably assured and the build-out period takes place prior to the restaurant opening or lease commencement date. We account for construction allowances by recording a receivable when its collectability is considered probable, depreciating the leasehold improvements over the lesser of their useful lives or the full term of the lease, including renewal options and build-out periods, amortizing the construction allowance as a credit to rent expense over the full term of the lease, including renewal options and build-out periods, and relieving the receivable once the cash is obtained from the landlord for the construction allowance. We record rent expense during the build-out period and classify this expense in pre-opening expenses in our consolidated statements of operations.

Liquor licenses

We own transferable liquor licenses in jurisdictions with a limited number of authorized liquor licenses. These licenses are capitalized as indefinite-lived intangible assets and are included in intangible assets, net in our consolidated balance sheets as of December 30, 2018 and December 31, 2017. We review annually these liquor licenses for impairment. Additionally, the costs of obtaining non-transferable liquor licenses that are directly issued by local government agencies for nominal fees are expensed as incurred. Annual liquor license renewal fees are recognized in expense over the renewal term.

Accounts receivable, net

We provide an allowance for uncollectible accounts on accounts receivable based on historical losses and existing economic conditions, when relevant. We provide for a general bad debt reserve for franchise receivables due to increases in days sales outstanding for which no payment plan or other payment arrangement exists. This general reserve is based on the aging of receivables meeting specified criteria and is adjusted each quarter based on past due receivable balances. Additionally, we have periodically established a specific reserve on certain receivables as necessary on a case-by-case basis. Any changes to the reserve are recorded in general and administrative expenses. Accounts receivable balances written off have not exceeded allowances provided. We believe all accounts receivable in excess of the allowance are fully collectible. If accounts receivable in excess of provided allowances are determined uncollectible, they are charged to expense in the period that determination is made. In assessing recoverability of these receivables, we make judgments regarding the financial condition of the franchisees based primarily on past and current payment trends, as well as other variables, including annual financial information, which franchisees are required to submit to us.

Stock-based compensation

Beginning in fiscal 2019, we are required to adopt ASU 2018-17- Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. See Note 1 “Nature of Business and Significant Accounting Policies” the notes to the accompanying financial statements for more information.

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We recognize compensation expense for share-based awards granted to team members based on their fair values at the time of grant over the requisite service period. Additionally, our board members receive share-based awards for their board service. The incentive compensation of our chief executive officer provides for grants of unrestricted, freely tradable shares of our common stock upon the achievement of share price milestones. The expense for these grants is recorded when earned by our chief executive officer. Our pre-tax compensation expense for stock options and other incentive awards is included in general and administrative expenses in our consolidated statements of operations.

Income Taxes

We provide for income taxes based on our estimate of federal and state income tax liabilities. These estimates include, among other items, effective rates for state and local income taxes, allowable tax credits for items such as taxes paid on reported tip income, estimates related to depreciation and amortization expense allowable for tax purposes, and the tax deductibility of certain other items. Our estimates are based on the information available to us at the time that we prepare the income tax provision. We generally file our annual income tax returns several months after our fiscal year-end. Income tax returns are subject to audit by federal, state, and local governments, generally years after the tax returns are filed. These returns could be subject to material adjustments or differing interpretations of the tax laws. Accounting for uncertain tax positions requires significant judgment including estimating the amount, timing, and likelihood of ultimate settlement. Although the Company believes that its estimates are reasonable, actual results could differ from these estimates. Additionally, uncertain positions may be re-measured as warranted by changes in facts or law.

Results of Operations – Fiscal Year 2018 Compared to Fiscal Year 2017

The following table presents items in our consolidated statements of operations as a percentage of net restaurant sales or total revenue, as indicated, for the periods presented:

	Year Ended			
	December 30, 2018		December 31, 2017	
Food and beverage costs(1)	31.5	%	30.2	%
Labor and benefits costs(1)	35.9	%	36.1	%
Operating expenses(1)	31.4	%	30.0	%
Restaurant level operating margin(1)(3)	1.2	%	3.7	%
Depreciation and amortization expenses(2)	2.3	%	4.3	%
General and administrative expenses(2)	14.6	%	22.7	%
Net income (loss) from continuing operations(2)	10.9	%	(10.5)	%

(1) As a percentage of restaurant sales, net

(2) As a percentage of total revenue

(3) Restaurant level cash operating margin is equal to restaurant sales, net, less food and beverage costs, labor and benefit costs, and operating expenses.

Total Revenue

Our components of and changes in revenue consisted of the following for the fiscal years ended December 30, 2018 and December 31, 2017:

	Year Ended		\$ Change
	December 30, 2018	December 31, 2017	

				%	
				Change	
Revenue:					
Restaurant sales, net	\$ 38,051	\$ 48,874	\$ (10,823)	(22.1)	%
Franchise royalty and fee revenue	13,871	14,767	(896)	(6.1)	%
Franchisee national advertising fund contributions	1,932	—	1,932	100.0	%
Licensing and other revenue	1,034	954	80	8.4	%
Total revenue	\$ 54,888	\$ 64,595	\$ (9,707)	(15.0)	%

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The decline in year-over-year restaurant sales, net for the year ended December 30, 2018 as compared to the year ended December 31, 2017 was primarily a result of the closure of 14 Company-owned restaurants since January 2, 2017. The impact of these closures was partially offset by a 2.7% increase in same-store sales during the year ended December 30, 2018. On a weighted basis, for the year ended December 30, 2018, Dine-In sales decreased by 1.2%, while To Go and Catering sales increased 3.4% and 0.5%, respectively, highlighting the success of our initiatives in these areas. As a percentage of Dine-In sales, our adult beverage sales at Company-owned restaurants was approximately 11.5% and 12.1%, respectively, during the fiscal years ended December 30, 2018 and December 31, 2017, a decrease of 5.1%.

We have been making significant investments in programs aimed at increasing To-Go and Catering sales at Famous Dave's restaurants. For example, we have expanded the online ordering program in certain franchise-operated restaurants, and will continue to assist participating franchisees with implementation during early 2019. We have rolled out delivery programs with various third-party services, which we believe, along with online ordering, will continue to augment our To Go and Catering sales in the future. We believe that these innovations will provide additional avenues for our franchisees to grow their respective businesses.

The decline in year-over-year franchise-related revenue was primarily a result of the net closure of 22 franchise-operated restaurants since January 2, 2017 and a 1.4% decrease in same-store sales during the year ended December 30, 2018. Licensing and other revenue, which is primarily derived from retail sales of Famous Dave's branded products, increased approximately \$80,000 in fiscal 2018.

Average Weekly Net Sales and Operating Weeks

The following table shows Company-owned and franchise-operated average weekly net sales for the periods presented:

	Year Ended	
	December 30, 2018	December 31, 2017
Average Weekly Net Sales (AWS):		
Franchise-Operated ⁽¹⁾	\$ 47,011	\$ 47,182
Company-Owned	45,918	44,330
Full-Service	49,098	45,866
Counter-Service	38,959	36,846
Operating Weeks:		
Franchise-Operated	6,910	6,993
Company-Owned	829	1,527

⁽¹⁾ AWS for franchise-operated restaurants are not our revenues and are not included in our consolidated financial statements. We believe that disclosure of average weekly net sales and operating weeks for franchise-operated restaurants provides useful information to investors because historical performance and trends of Famous Dave's franchisees relate directly to trends in franchise royalty revenues that we receive from such franchisees and have an impact on the perceived success and value of the Famous Dave's brand. It also provides a comparison against which management and investors can analyze the extent to which Company-owned restaurants are realizing their revenue potential.

Food and Beverage Costs

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Our food and beverage costs consisted of the following for fiscal years ended December 30, 2018 and December 31, 2017:

	Year Ended			
	December 30, 2018	December 31, 2017	\$ Change	% Change
Food and beverage costs	\$ 11,973	\$ 14,782	\$ (2,809)	(19.0) %

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Food and beverage costs for the fiscal years ended December 30, 2018 and December 31, 2017 represented approximately 31.5% and 30.2% of net restaurant sales, respectively. The year-over-year increase, as a percentage of restaurant sales, net, primarily resulted from higher commodity costs related to brisket, certain of our pork products, chicken, french fries and cooking oil, partially offset by favorable prices in produce and certain other of our pork products. Additionally, in fiscal 2018, we rolled out a test menu in three of our locations with a full menu refresh launched in October 2018. As a result of these tests and ultimate roll out, food waste was elevated. We believe that further training and operational efficiency surrounding the new menu will improve food costs as a percentage of restaurant sales, net, in fiscal 2019.

Labor and Benefits Costs

Our labor and benefits costs consisted of the following for the fiscal years ended December 30, 2018 and December 31, 2017.

	Year Ended		\$ Change	% Change
	December 30, 2018	December 31, 2017		
Labor and benefits costs	\$ 13,663	\$ 17,653	\$ (3,990)	(22.6) %

Labor and benefits costs for the fiscal years ended December 30, 2018 and December 31, 2017 were approximately 35.9% and 36.1% of net restaurant sales, respectively. Labor and benefit costs decreased in fiscal 2018 as a percentage of restaurant sales, net, primarily related to a decrease in management labor, partially offset by increased wage rate inflation, increased temporary labor costs associated with fiscal 2018 in-restaurant initiatives and the addition of catering team labor. We believe that further training and operational efficiency surrounding our new menu and other in-restaurant initiatives will decrease labor and benefits costs in fiscal 2019. Additionally, we believe that continued increases in our catering sales will offset the costs of the new in-restaurant catering team members.

Operating Expenses

Our operating expenses consisted of the following for the fiscal years ended December 30, 2018 and December 31, 2017:

	Year Ended		\$ Change	% Change
	December 30, 2018	December 31, 2017		
Operating expenses	\$ 11,932	\$ 14,658	\$ (2,726)	(18.6) %

Operating expenses for the fiscal years ended December 30, 2018 and December 31, 2017 were approximately 31.4% and 30.0% of net restaurant sales, respectively. Operating expenses increased as a percentage of restaurant sales, net, due to in-restaurant initiatives surrounding our new menu test and rollout, increased repairs and maintenance expenses aimed at improving our Guest experience and smaller restaurant base over which to allocate fixed operating costs. We have implemented certain initiatives in fiscal 2019 aimed at decreasing operating expenses as a percentage of restaurant sales, net.

Depreciation and Amortization

Depreciation and amortization expense for the fiscal years ended December 30, 2018 and December 31, 2017 was approximately \$1.3 million and \$2.8 million, respectively, representing approximately 2.3% and 4.3% of total revenues, respectively. Depreciation and amortization expense decreased during the year ended December 30, 2018

primarily as a result of the closure of 14 Company-owned restaurants since January 2, 2017 and accelerated depreciation taken in the prior year on certain of these closed restaurants.

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General and Administrative Expenses

Our general and administrative expenses consisted of the following for the fiscal years ended December 30, 2018 and December 31, 2017:

	Year Ended		\$ Change	% Change
	December 30, 2018	December 31, 2017		
General and administrative expenses	\$ 7,988	\$ 14,634	\$ (6,646)	(45.4) %

The decrease in general and administrative expenses was primarily related to the continued optimization of our general and administrative expense structure, reduced costs incurred for the corporate office, third party services and professional fees.

Asset Impairment, Estimated Lease Termination and Other Closing Costs

The following is a summary of the asset impairment, estimated lease termination and other closing costs we incurred for the periods presented:

(dollars in thousands)	Year Ended	
	December 30, 2018	December 31, 2017
Asset impairments, net	\$ 89	\$ 3,154
Lease termination (income) charges and related costs	(271)	3,403
Restaurant closure expenses	327	259
Asset impairment, estimated lease termination charges and other closing costs	\$ 145	\$ 6,816

During the fiscal year ended December 30, 2018, we closed one Company-owned store and reacquired two franchisee-owned restaurants. During the year ended December 31, 2017, we closed 13 underperforming Company-owned restaurants. These charges represented the write-offs of the net assets of closed restaurants, lease termination charges incurred with the early termination of leases as well as ongoing costs incurred related to closed restaurants.

Total Other Expense

Total other expense for the fiscal years ended December 30, 2018 and December 31, 2017 included interest expense of \$493,000 and \$661,000, respectively. These expenses were partially offset by interest income of approximately \$122,000 and \$22,000 during the fiscal years ended December 30, 2018 and December 31, 2017, respectively. The decrease in interest expense was primarily related to a lower average outstanding debt balance partially offset by a higher interest rate on our current debt. The increase in interest income was primarily related to interest on investments in held-to-maturity securities and certificates of deposit.

Income Tax Benefit

Income tax expense for the year ended December 30, 2018 was \$729,000. Income tax benefit included in continuing operations for the year ended December 31, 2017 was \$858,000, representing an effective tax rate of 13.0% and 11.4%, respectively. The increase in our effective tax rate primarily related to the prior year effects of tax reform that did not recur during the year ended December 30, 2018.

(Loss) from discontinued operations, net of taxes

During the year ended December 31, 2017, we sold eight restaurants in the Mid-Atlantic region to a franchisee. These eight restaurants are reflected as discontinued operations throughout our consolidated financial statements. During the year ended December 31, 2017, we realized a loss of \$1.5 million related to discontinued operations, net of taxes.

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Basic and Diluted Net Income (Loss) Per Common Share

Our basic and diluted net income per common share for the year ended December 30, 2018 was \$0.57 per share and \$0.56 per share, respectively. Our basic and diluted net loss per common share for the year ended December 31, 2017 was (\$1.16) per share, of which (\$0.95) per share related to continuing operations and (\$0.21) per share related to discontinued operations. For the year ended December 30, 2018 we had basic and diluted weighted-average shares outstanding of approximately 8,599,000 and 8,624,000, respectively. For the year ended December 31, 2017, we had approximately 7,015,000 basic and diluted weighted-average shares outstanding.

Financial Condition, Liquidity and Capital Resources

Our balance of unrestricted cash and cash equivalents was approximately \$11.6 million and \$8.8 million as of December 30, 2018 and December 31, 2017, respectively. We expect to utilize cash on hand to reinvest in our brand and the evolution of our Company.

Our current ratio, which measures our immediate short-term liquidity, was 2.15 as of December 30, 2018, compared with 1.62 as of December 31, 2017. The current ratio is computed by dividing total current assets by total current liabilities. The increase in our current ratio was primarily due to decreases in our net current liabilities and an increase in current assets.

Net cash provided by operating activities for the year ended December 30, 2018 was approximately \$3.9 million, which reflects net income from continuing operations of approximately \$4.9 million, increased by non-cash charges of approximately \$1.6 million primarily increased by depreciation and amortization, and deferred income taxes, partially offset by decreases related to deferred rent, asset impairment, estimated lease termination charges and reserves for bad debts. Changes in operating assets and liabilities for the year ended December 30, 2018 primarily included net cash outflows related to prepaid expenses and other current assets of \$570,000, accounts payable of \$600,000, accrued compensation and benefits of \$824,000 and other liabilities of \$624,000. These cash outflows were partially offset by inflows related to a increase in other assets of \$167,000 and prepaid income taxes and income taxes receivable of \$103,000.

Net cash provided by continuing operating activities for the year ended December 31, 2017 was approximately \$1.8 million, which reflects a net loss from continuing operations of approximately \$6.7 million, increased by non-cash charges of approximately \$8.0 million primarily related to depreciation and amortization, asset impairment, estimated lease termination charges and reserves for bad debts. Changes in operating assets and liabilities for the year ended December 31, 2017 primarily included net cash inflows related to prepaid income taxes and income taxes receivable of \$1.5 million, prepaid expenses and other current assets of \$473,000, inventories of \$467,000 and other assets of \$312,000. These cash inflows were partially offset by outflows related to a decrease in accounts payable of \$946,000 and other current liabilities of \$567,000. Cash flows provided by operating activities related to discontinued operations were \$1.4 million.

Net cash used by investing activities for the year ended December 30, 2018 was \$745,000 primarily related to proceeds from the sale of assets, partially offset by property, equipment and leasehold improvements, advances on notes receivable and the purchase of two franchise restaurants. Net cash used by continuing investing activities for the year ended December 31, 2017 was \$378,000 related to purchases of property, equipment and leasehold improvements. Net cash provided by discontinued investing activities was \$1.6 million.

Net cash used for financing activities was approximately \$1.1 million, which primarily consisted of debt repayments of \$6.8 million partially offset by proceeds from issuance of common stock of \$5.1 million and proceeds from the exercise of stock options of approximately \$520,000. Net cash used for financing activities during the year ended

December 31, 2017 was approximately \$89,000, which primarily consisted of debt repayments of \$1.5 million partially offset by processed from issuance of common stock of \$1.5 million.

We are subject to various financial and non-financial covenants on our long-term debt, including a debt-service coverage ratio. As of December 30, 2018, we were in compliance with all of our covenants.

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Contractual Obligations

The following is a summary of our contractual obligations as of December 30, 2018:

(in thousands)	Total	2019	2020	2021	2022	2023	Thereafter
Long Term Debt	\$ 2,705	\$ 163	\$ 170	\$ 178	\$ 185	\$ 194	\$ 1,815
Financing Leases	1,209	1,209	—	—	—	—	—
Operating Lease Obligations	11,905	2,089	2,007	2,033	1,750	1,151	2,875
Total	\$ 15,819	\$ 3,461	\$ 2,177	\$ 2,211	\$ 1,935	\$ 1,345	\$ 4,690
Off-Balance Sheet Arrangements							

Our Company does not have any off-balance sheet arrangements (as such term is defined in Item 303 of regulation S-K) that are reasonably likely to have a current or future effect on our financial condition or changes in financial condition, operating results, or liquidity.

Income Taxes

As of December 30, 2018, we had cumulative state net operating loss carry-forwards for tax reporting purposes of approximately \$62.8 million and federal net operating loss carry-forwards for tax reporting purposes of \$11.8 million which, if not used, will begin to expire in fiscal 2019 and 2038, respectively.

Recent Accounting Guidance

Recent accounting guidance not yet adopted

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes the existing guidance for lease accounting, Leases (Topic 840). ASU 2016-02 requires lessees to recognize a lease liability and a right-of-use asset for all leases. Lessor accounting remains largely unchanged. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted for all entities. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842), which allows entities to initially apply the new lease standard as of the adoption date instead of at the beginning of the earliest period presented in the financial statements. The new lease standard provides for a modified retrospective approach or current period adjustment approach for all leases existing at, or entered into after the date of initial adoption, with an option to elect to use certain transition relief.

The Company will adopt the new lease standard as of the effective date applying the current period adjustment approach, utilizing the package of practical expedients available and the practical expedient to not reassess land easements. The Company has completed its review of its lease portfolio, developed controls surrounding the adoption of Topic 842 and expects to record total operating lease liabilities of approximately \$13.6 million and lease right of use assets of approximately \$11.4 million.

In June 2018, the FASB issued ASU 2018-07, Compensation-Stock Compensation (Topic 718), which expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. Under the updated standard, an entity should apply the requirements of Topic 718 to nonemployee awards, except for specific guidance on inputs to an option-pricing model and the attribution of cost. The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in the grantor's own operations by issuing share-based payment awards. The amendments also clarify that

Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling or goods or services as part of a contract accounted for under Topic 606, Revenue from Contracts with Customers. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018 and interim periods within that fiscal year. Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606. The Company expects to adopt this new standard as of the effective date. The Company does not believe that adoption of the new standard will have a material impact on its consolidated financial statements.

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Inflation

The primary inflationary factors affecting our operations include food, beverage and labor costs. In addition, our leases require us to pay taxes, maintenance, repairs and utilities and these costs are subject to inflationary increases. In some cases, some of our lease commitments are tied to consumer price index (CPI) increases. We are also subject to interest rate changes based on market conditions.

We believe that increasing inflation rates have contributed to some price instability. There is no assurance, however, that inflation rates will continue at their current levels or decrease.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable to smaller reporting companies.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of Famous Dave's of America, Inc. are included herein, beginning on page F 1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a 15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of such date our disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information requested to be disclosed by us in our reports that we file or submit under the Exchange Act.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a 15(f) promulgated under the Securities Exchange Act of 1934, as amended). Our management assessed the effectiveness of our internal control over financial reporting as December 30, 2018. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the 2013 Internal Control-Integrated Framework. Our management has concluded that, as of December 30, 2018, our internal control over financial reporting is effective based on these criteria.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of

the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Famous Dave's of America have been detected.

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As disclosed in our Annual Report on for 10-K filed with the SEC on March 5, 2018, management concluded that our internal control over financial reporting was not effective as of December 31, 2017 as a result of the material weakness in internal control over financial reporting as a result of an audit adjustment identified during the review of our income tax provision, which was the result of a spreadsheet error. During the year ended December 30, 2018, we began to utilize software to prepare our quarterly and annual tax provisions as well as redesigned management review controls surrounding the review of our tax provision.

Changes in Internal Control over Financial Reporting

Except for the remediation of the material weakness noted above, there were no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Amendment to Employment Agreement

Effective February 28, 2019, we entered into a Second Amendment to Employment Agreement with Jeffery J. Crivello, our Chief Executive Officer. Pursuant to the amendment, Mr. Crivello will receive 180,000 shares of restricted stock, vesting in equal monthly installments over 48 months beginning on the effective date. In the event of an acquisition which requires the issuance of stock, and at the boards sole discretion, but not less than 12 months post-closing of an acquisition, Mr. Crivello shall receive additional restricted stock in an amount equal to 2% of the shares issued in such transaction, which will vest immediately upon grant date. Mr. Crivello is also eligible to receive a cash bonus, at the discretion of the board, of up to 50% of base salary.

Effective February 28, 2019, we entered into a Second Amendment to Employment Agreement with Geovannie Concepcion, our Chief Operating Officer. Pursuant to the amendment, Mr. Concepcion will be entitled to receive an annual base salary of \$200,000. Mr. Concepcion will also receive a \$50,000 cash bonus to be paid immediately based on his 2018 performance and is eligible to receive a \$50,000 discretionary cash bonus based on the achievement of certain performance targets, at the discretion of the board, for his performance through June 30, 2019. The amendment also eliminates any severance arrangement in the event of termination.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE OF THE REGISTRANT

Information in response to this Item is incorporated herein by reference to our definitive proxy statement to be filed pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

Code of Ethics

We have adopted a Code of Ethics specifically applicable to our CEO, CFO and Key Financial & Accounting Management. In addition, there is a more general Code of Ethics applicable to all team members. Both of these Codes of Ethics are available on our website at www.famousdaves.com and copies are available free of charge to anyone requesting them.

ITEM 11.EXECUTIVE COMPENSATION

Information in response to this Item is incorporated herein by reference to our definitive proxy statement to be filed pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information in response to this Item is incorporated herein by reference to our definitive proxy statement to be filed pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information in response to this Item is incorporated herein by reference to our definitive proxy statement to be filed pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information in response to this Item is incorporated herein by reference to our definitive proxy statement to be filed pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Documents filed as part of this Annual Report on Form 10 K:

<u>Report of Independent Registered Public Accounting Firm</u>	F-1
<u>Consolidated Balance Sheets – December 30, 2018 and December 31, 2017</u>	F-2
<u>Consolidated Statements of Operations – Fiscal Years ended December 30, 2018 and December 31, 2017</u>	F-3
<u>Consolidated Statements of Shareholders' Equity – Fiscal Years ended December 30, 2018 and December 31, 2017</u>	F-4
<u>Consolidated Statements of Cash Flows – Fiscal Years ended December 30, 2018 and December 31, 2017</u>	F-5
<u>Notes to Consolidated Financial Statements</u>	F-7
<u>Financial Statement Schedule</u>	F-31
<u>Schedule II. Schedule of Valuation and Qualifying Accounts</u>	F-31

Exhibits:

See "exhibit index" on the page following the consolidated financial statements and related footnotes and the signature page to this Annual Report on Form 10 K.

ITEM 16. FORM 10-K SUMMARY

Not applicable.

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Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders

Famous Dave's of America, Inc.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of Famous Dave's of America, Inc. (a Minnesota corporation) and subsidiaries (the "Company") as of December 30, 2018 and December 31, 2017, the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, and the related notes and financial statement schedule included under Item 15(a) (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 30, 2018 and December 31, 2017 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Grant Thornton LLP

We have served as the Company's auditor since 2002.

Minneapolis, Minnesota

March 4, 2019

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FAMOUS DAVE'S OF AMERICA, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

ASSETS

	December 30, 2018	December 31, 2017
Current assets:		
Cash and cash equivalents	\$ 11,598	\$ 8,836
Restricted cash	842	1,590
Accounts receivable, net of allowance for doubtful accounts of \$192,000 and \$592,000, respectively	4,300	3,768
Inventories	722	633
Prepaid income taxes and income taxes receivable	377	689
Prepaid expenses and other current assets	1,363	793
Assets held for sale	—	475
Total current assets	19,202	16,784
Property, equipment and leasehold improvements, net	10,385	11,442
Other assets:		
Intangible assets, net	1,489	1,840
Deferred tax asset, net	5,747	5,823
Other assets	1,533	1,018
	\$ 38,356	\$ 36,907

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Current portion of long-term debt and financing lease obligations	\$ 1,369	\$ 1,307
Accounts payable		