

FAMOUS DAVES OF AMERICA INC

Form 10-K

March 21, 2017

Table of Contents

**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 January 1, 2017**  
**Commission File No. 0-21625**

**FAMOUS DAVE S of AMERICA, INC.**

(Exact name of registrant as specified in its charter)

**Minnesota**  
(State or other jurisdiction of  
incorporation or organization)

**41-1782300**  
(I.R.S. Employer  
Identification No.)

**12701 Whitewater Drive, Suite 200**

**Minnetonka, MN 55343**

(Address of principal executive offices) (Zip code)

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

# Edgar Filing: FAMOUS DAVES OF AMERICA INC - Form 10-K

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

| Title of each class                   | Name of each exchange on which registered |
|---------------------------------------|---|
| <b>Common Stock, \$0.01 par value</b> | <b>The NASDAQ Global Market</b>           |

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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

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 and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer                      Accelerated Filer                      Non-Accelerated Filer                      Smaller reporting company  
(Do not check if a smaller reporting 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 \$23.9 million as of July 1, 2016, (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 March 7, 2017, 6,957,628 shares of the registrant's Common Stock were outstanding.

## DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the definitive Proxy Statement for our 2017 Annual Meeting of Shareholders which is to be filed within 120 days after the end of the fiscal year ended January 1, 2017, are incorporated by reference into Part III of this Form 10-K, to the extent described in Part III.



**Table of Contents**

**TABLE OF CONTENTS**

|   | Page |
|---|------|
| <b><u>PART I</u></b>  |      |
| Item 1. <u>Business</u>   | 3    |
| Item 1A. <u>Risk Factors</u>  | 12   |
| Item 1B. <u>Unresolved Staff Comments</u>   | 18   |
| Item 2. <u>Properties</u>   | 18   |
| Item 3. <u>Legal Proceedings</u>  | 19   |
| Item 4. <u>Mine Safety Disclosures</u>  | 20   |
| <b><u>PART II</u></b>   |      |
| Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | 20   |
| Item 6. <u>Selected Financial Data</u>  | 22   |
| Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                        | 24   |
| Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>  | 40   |
| Item 8. <u>Financial Statements and Supplementary Data</u>  | 40   |
| Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>                         | 40   |
| Item 9A. <u>Controls and Procedures</u>   | 41   |
| Item 9B. <u>Other Information</u>   | 41   |
| <b><u>PART III</u></b>  |      |
| Item 10. <u>Directors, Executive Officers and Corporate Governance</u>  | 42   |
| Item 11. <u>Executive Compensation</u>  | 42   |
| Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>              | 42   |
| Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>                                   | 43   |
| Item 14. <u>Principal Accountant Fees and Services</u>  | 43   |
| <b><u>PART IV</u></b>   |      |
| Item 15. <u>Exhibits and Financial Statement Schedules</u>  | 44   |
| <b><u>SIGNATURES</u></b>  |      |

---

**Table of Contents**

**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 1995 and opened its first restaurant in Minneapolis, Minnesota in June 1995. As of January 1, 2017, there were 176 Famous Dave s restaurants operating in 32 states, the Commonwealth of Puerto Rico, Canada, and the United Arab Emirates, including 37 Company-owned restaurants and 139 franchise-operated restaurants. An additional 62 franchise restaurants were committed to be developed through signed area development agreements at January 1, 2017.

The Company s total revenue declined from \$114.2 million in fiscal 2015 to \$99.2 million in fiscal 2016. This decline was primarily the result of refranchising five, and the closure of one, company-owned restaurants in fiscal 2015, the loss of the 53<sup>rd</sup> operating week which occurred in fiscal 2015, a Company-owned comparable sales decline of 5.0% and a decline in royalty revenue primarily driven by 4.7% franchise-operated comparable sales decline.

Fiscal 2016 loss per basic share was \$0.42, which included approximately \$4.8 million or \$0.41 per basic share, of asset impairment and estimated lease terminations and other closing costs. Approximately \$4.4 million of these charges were associated with 11 restaurants which were slow to respond to several initiatives to turnaround operating performance. Additionally, there was a lease termination charge for a previously refranchised restaurant. Finally, operating performance declined as a result of a year over year increase in food and beverage, labor and benefit, and restaurant operating and occupancy costs partially offset by a decline in general and administrative expenses.

In first quarter of fiscal 2016, the Company refranchised seven company-owned restaurants in the Chicago area (located in Addison, Algonquin, Bolingbrook, Evergreen Park, North Riverside, Orland Park, and Oswego, Illinois). This transaction resulted in classifying these restaurants as Discontinued Operations for all years reported and excluding them from the operating results.

It is important to note, sales for franchise-operated restaurants are not revenues of the Company and are not included in the Company s consolidated financial statements. The Company s management believes that disclosure of sales 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 the Company receives 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 may evaluate the extent to which Company-owned restaurant operations are realizing their revenue potential.

The Company continues to be focused on four key priorities: revitalizing sales and traffic, reducing costs, elevating organizational effectiveness, and rebuilding culture. The Company plans to revitalize sales and traffic through the continued focus on the totality of the Guest experience; food and beverage innovation that concentrates on value; the continued optimization of marketing platforms; restaurant refresh and remodel packages; and digital services to drive To Go and Catering sales.

The Company plans on reducing costs through continued investment in its labor model, based on time and motion studies that will allow the Company to achieve greater, sustained levels of labor efficiencies. Additionally, the Company is driving simplification on the menu, thereby removing operational complexity and allowing it to leverage supply chain efficiencies. The Company will maintain a continued focus on theoretical food costs versus actual food costs and on reducing waste in its restaurants. Also, the focus on reducing general and administrative expenses through the removal of redundant and unproductive costs and systems will continue.

Finally, the Company continues to work on improving organizational effectiveness through its allocation of time to more value enhancing activities such as continued operations teach-backs of food execution and Guest services throughout the Company and franchise field organization. The Company is focused on improving its franchise relationships through improved data analytics and the sharing of best practices, and is improving employee engagement throughout the organization.

## **Table of Contents**

The Company continues to execute on its restaurant optimization plan. The Company will aim to sell some of its existing restaurants to existing and new franchisees that have the ability to not only acquire these restaurants but also to develop additional restaurants. The Company believes refranchising focuses the organization on serving its franchisees.

### **Financial Information about Segments**

Since inception, the Company's revenue, operating income and assets have been attributable to the single industry segment of the foodservice industry. The Company's revenue and operating income for each of the last three fiscal years, and our assets for each of the last two fiscal years, are set forth elsewhere in this Annual Report on Form 10-K under Item 8, Financial Statements and Supplementary Data.

### **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 broadly defined barbeque category. We seek to differentiate ourselves by providing high-quality food in distinctive and comfortable environments with signature décor and signage. As of January 1, 2017, 32 of our Company-owned restaurants were full-service and five were counter-service. Generally, our prototypical design includes the following elements: a designated bar, a signature exterior smokestack, a separate entrance for our To Go business and a patio (where available). We have designs that can be adapted to fit various location sizes and desired service styles such as full-service or counter-service.

In 2016, four franchise openings were a mixture of conversions of existing full-service casual dining restaurants to our concept as well as new construction, including two restaurants opened in the United Arab Emirates. In fiscal 2016 and 2015, we did not open any Company-owned restaurants. In fiscal 2014, the Company completed a significant remodel of two Chicago-area 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. Due to the flexibility and scalability of our concept, we believe that there are a variety of development opportunities available now and in the future.

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, Shack Fries™ and Wilbur Beans™, accompany the broad entrée selection. Homemade 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 barbeque 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.

We believe that high quality food, a menu that is over 85% scratch cooking and the fact that we smoke our meats daily at each of our restaurants are principal points of differentiation between us and other casual dining competitors and are a significant contributing factor to repeat business. We also feel that our focus on barbecue being a noun, a verb and a culture allows for product innovation without diluting our brand. As a noun, barbeque refers to the art of the smoke and sauce. As a verb, barbeque refers to the act of grilling. As a culture, barbeque refers to the competitive spirit. As a result, we see few geographic impediments to scaling our concept and brand.

**Focus on Guest Experience** We believe that a renewed focus on enhancing our Guests' experience and listening to their feedback is an essential pillar of the Company. In 2017, we will continue to test and further enhance our guests experience by focusing on hospitality, food execution and training. We believe a positive guest experience, combined with our high-quality food, makes Famous Dave's appeal to families, children, teenagers and adults of all ages and socio-economic and demographic backgrounds.

## **Table of Contents**

***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 items of Americana. 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.

## **Operating Strategy**

We believe that our ability to achieve sustainable profitable growth is dependent upon us delivering high-quality experiences in terms of both food and hospitality to every guest, every day, and to enhance brand awareness in our markets. Key elements of our strategy include the following:

***Operational Excellence*** During fiscal 2016, 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 also meaning an unyielding commitment to superior service for our Guests during every visit. In our restaurants, we strive to emphasize value and speed of service by employing a streamlined operating system based on a focused menu and simplified food preparation techniques while remaining true to authentic barbeque. Operational excellence is also an uncompromising attention to the details of our recipes, preparation and cooking procedures, 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 easy-to-operate kitchen equipment and processes that use proprietary seasonings, sauces and mixes. This streamlined food preparation system helps manage the cost of operation by requiring fewer staff, lowering training costs, and eliminating the need for highly compensated chefs. Additionally, barbeque has the ability to be batch cooked and held, which enables our award winning food to get to our Guests quickly, whether in the restaurant, at their homes, or at a catering event. In order to enhance our appeal, expand our audience, increase frequency, and feature our cravable products, we have assembled a research and development product pipeline designed to generate new, delicious and exciting menu items that allow us to regularly update our menu.

During 2016, we offered our Guests several new products as well as featured several signature menu items. Early in 2016, and in support of the Lenten season, we featured several fish entrée s such as catfish, salmon, cod, and buffalo shrimp. We also offered an Easter holiday meal program with our own Signature Smoked Hams. In the spring, we launched a promotion that featured our House-Smoked Turkey , on a platter, a sandwich or as the main protein on a salad. In the fall, the Company featured items showcased by Dave Anderson on the Destination America s hit TV series SMOKED which included St. Louis Spare-Ribs, zesty pork loin, boar sausage, and blue ribbon broccoli salad. Finally, during the holiday season, we featured system-wide a Signature Smoked Ham and Signature Smoked Turkey product available for off-premise occasions.

***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/Development resources, tools and programs, we continually enhance and support superior performance within our restaurants and Support Center. Our foundational guiding principle is doing the right thing for the organization and our guests while ensuring we have the right people in the right roles with the right resources and tools.

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 at the organizational level 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 market competitive position. Our Human Resource and Training organization focuses 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.

## **Table of Contents**

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 Trainee program provides new restaurant managers a foundational based training for restaurant operations, including ServSafe Food and Alcohol Certification, and several learning sessions focused on the basic behaviors and skills of a Famous Dave's Manager. We also offer a Famous Dave's Leadership Series program which provides a library of workshop offerings focused on building and strengthening core skills in the areas of communication, teamwork, coaching, change management and performance management. In addition, we have incorporated e-learning training tasks, skills and processes on-demand.

### **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 positions of Area Director and 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. Each General Manager reports to an Area Director, who manages from six to nine restaurants, depending on the region. Our Area Directors have all served as General Managers, either for Famous Dave's or for other restaurants, and are responsible for ensuring that operational standards are consistently applied in our restaurants, communicating Company focus and priorities, and supporting the development of restaurant management teams. In addition to the training that the General Managers are required to complete as noted above, our Area Directors receive additional training through Area Director Workshops that focus specifically on managing multiple locations, planning, time management, staff and management development skills.

We have a Vice President of Company Operations who is responsible for overseeing all Company-owned restaurants. This individual works closely with the Area Directors to support day-to-day restaurant operations. In addition, the Vice President of Company Operations assists in the professional development of our multi-unit supervisors and 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 Vice President of Company Operations reports to the Chief Executive Officer/Chief Operating Officer.

Staffing levels at each restaurant vary according to the time of day and size of the restaurant. However, in general, each restaurant has approximately 40 to 60 employees.

***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. 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. Also, 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.

Catering accounted for approximately 13.0% of our net sales for fiscal 2016, as compared to 12.3% in fiscal 2015 and 9.8% in fiscal 2014. We see catering as an opportunity for new consumers to sample our product who would not otherwise have had the opportunity to visit our restaurants, and each restaurant has a dedicated vehicle to support our catering initiatives.



---

## **Table of Contents**

To Go accounted for approximately 30.0% of net restaurant sales for fiscal 2016, as compared to 28.2% in fiscal 2015 and 26.5% in Fiscal 2014. 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 \$15.38 during fiscal 2016. During fiscal 2016, per person average tickets for lunch averaged \$13.29 and per person average ticket for dinner averaged \$17.48. 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 rest of 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. In fiscal 2016, the Marketing Ad Fund contribution was 1.0% of net sales and will continue to be so in fiscal 2017.

The marketing team, working with outside consultants 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, while the Famous Dave's marketing team plans and executes the advertising and marketing for Company-owned restaurants. Famous Dave's uses industry standard marketing efforts that include broadcast media, digital, online & social media platforms, public relations and out-of-home vehicles. During 2016, we had approximately 1.7 million Famous Nation members.

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 are implementing a guest research driven innovation process to create its rolling 18-month marketing calendar with specific strategic goals. Additionally, a number of new initiatives were planned around enhancing the menu, the guest experience, events marketing and social media.

In 2016, we highlighted value and affordability in our menu along with promoting additional value offerings through LTO's and day of the week offerings such as Wednesday Slowdown Lowdown or a Sunday fried chicken offering as well as featuring a lunch menu. Famous Dave's also continued to promote its To Go and Catering offering. 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. Leveraging this occasions matrix, we are uniquely poised to offer more immediate relevancy and sales opportunities by solving the guest's daily dinner dilemma and address these differences in our marketing, including menu, promotional outreach, pricing, and new product news.

## **Table of Contents**

### **Location Strategy**

We believe that the barbeque segment of the casual dining niche of the restaurant industry continues to offer strong growth opportunities, and we see few impediments to our growth on a geographical basis. Our geographical concentration, as of January 1, 2017, was 38% Midwest, 11% Middle Atlantic, 8% South, 31% West, 8% Northeast, 1% in Canada, 2% in Puerto Rico and 1% in the United Arab Emirates. We were located in 32 states, the Commonwealth of Puerto Rico, Canada and the United Arab Emirates as of January 1, 2017.

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 as initial, second tier, or 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.

We have a real estate site selection model to assist in assessing the site and trade area quality of new locations. This process involves consumer research in our existing restaurants, the results of which are captured in a target guest profile that is regularly updated. Each location is evaluated based on three primary sales drivers that include: sales potential from the residential base (home quality), employment base (work quality), and retail activity (retail quality). Locations are also evaluated on their site characteristics that includes seven categories of key site attributes, including, but not limited to, access, visibility, and parking.

As part of our development strategy, we have engaged design firms to redesign and reimage 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 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 newly developed green-field retail developments or existing retail projects being re-developed. Conversion opportunities will be considered on a case by case basis. We intend to finance company restaurant development through the use of cash on hand, cash flow generated from operations, and through availability on our revolving line of credit.

***Company-Owned Restaurant Development*** In fiscal 2017, we do not expect to open a Company-owned restaurant. In the future we expect to continue to build in our existing markets in high profile, heavy traffic retail locations. Our plan is to focus on sustainable, controlled growth, primarily in markets where multiple restaurants can be opened, thereby expanding consumer awareness, and creating opportunities for operating, distribution, and marketing efficiencies.

***Franchise-Operated Restaurant Development*** We expect to continue to grow the 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. As of January 1, 2017, we had signed franchise area development agreements with aggregate commitments for 61 additional units that are expected to open over approximately the next five years, including an additional two units in the United Arab Emirates. However, there can be no assurance that these franchisees will fulfill their commitments or fulfill them within the anticipated timeframe. 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 here and outside of the United States.

Generally, we find franchise candidates with prior franchise casual-dining restaurant experience in the markets for which they will be granted. In the past, area development agreements generally ranged from 3 to 15 restaurants, however, we have been willing to discuss smaller unit agreements as well as individual franchise restaurants in the right markets where it makes sense. Additionally, we have begun to focus on certain strategic international markets where it makes sense. We do believe that the additional service-style formats will allow us to bring new franchisees, with diverse restaurant experience, into the system.

### **Purchasing**

To provide the freshest ingredients and in order to maximize 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

## **Table of Contents**

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 32% of our total purchases, while beef, which includes hamburger and brisket, is approximately 13%, chicken is approximately 13%, and seafood is approximately 2%. Our purchasing department contracts, as well as our food and beverage costs and trends associated with each, are discussed under Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

## **Information Technology**

Famous Dave's recognizes the importance of leveraging information and technology to support and extend our competitive position in the restaurant industry. We continue to invest in capabilities that provide secure and efficient operations, maximize the guest experience, and provide the ability to analyze data that describes our operations.

We have implemented a suite of restaurant and general headquarter systems which support operations by providing transactional functions (ordering, card processing, etc.) and reporting at both the unit and support center level. Interfaces between Point-of-Sale (POS), labor management, inventory management, menu management, key suppliers, and employee screening/hiring and financial systems all contribute to the following operator and corporate visibility:

Average guest check broken down by location, by server, by day part, and by revenue center;

Daily reports of revenue and labor (both current and forecasted);

Weekly reports of selected controllable restaurant expenses;

Monthly reporting of detailed revenue and expenses; and

Ideal vs. actual usage variance reporting for critical restaurant-level materials

## **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.

## **Franchise Program**

We are currently authorized to offer and sell franchises in 48 of 50 states, the Commonwealth of Puerto Rico, the United Arab Emirates, and have a Canadian franchise disclosure document available. 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/her restaurants independently. Various laws limit our ability to influence the day-to-day operation of our franchise

## Edgar Filing: FAMOUS DAVES OF AMERICA INC - Form 10-K

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.

At January 1, 2017, we had 35 ownership groups operating 139 Famous Dave's franchise restaurants. Signed area development agreements, representing commitments to open an additional 62 franchise restaurants, were in place as of January 1, 2017. There can be no assurance that these franchisees will fulfill their commitments or fulfill them within the anticipated timeframe.

**Table of Contents**

As of January 1, 2017, we had franchise-operated restaurants in the following locations:

| United States                   | Number of Franchise-Operated<br>Restaurants |
|---------------------------------|---|
| Arizona                         | 6   |
| California                      | 19  |
| Colorado                        | 6   |
| Delaware                        | 2   |
| Florida                         | 3   |
| Idaho                           | 2   |
| Illinois                        | 10  |
| Indiana                         | 4   |
| Iowa                            | 3   |
| Kansas                          | 2   |
| Kentucky                        | 2   |
| Maine                           | 1   |
| Maryland                        | 1   |
| Michigan                        | 7   |
| Minnesota                       | 4   |
| Missouri                        | 2   |
| Montana                         | 4   |
| Nebraska                        | 4   |
| Nevada                          | 6   |
| New Jersey                      | 1   |
| New York                        | 2   |
| North Dakota                    | 3   |
| Oregon                          | 2   |
| Ohio                            | 2   |
| Pennsylvania                    | 4   |
| South Dakota                    | 2   |
| Tennessee                       | 5   |
| Texas                           | 3   |
| Utah                            | 3   |
| Washington                      | 7   |
| Wisconsin                       | 10  |
| United States Total             | 132   |
| The Commonwealth of Puerto Rico | 4   |
| Canada                          | 1   |
| United Arab Emirates            | 2   |

Total franchise-operated restaurants 139

Our Franchise Operations Department is led by the Chief Executive and Operating Officer, who guides the efforts of a Sr. Vice President of Franchise Operations, supported by four Franchise Business Consultants. The Sr. Vice President of Franchise Operations has the responsibility of supporting our franchisees throughout the system and plays

## **Table of Contents**

a critical role for us as well as for our franchise community. The Sr. Vice President of Franchise Operations as well as the Franchise Business Consultants manages the relationship between the franchisee and the franchisor and provides an understanding of the roles, responsibilities, differences, and accountabilities of that relationship. They are an active participant 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 Sr. Vice President of Franchise Operations and the Franchise Business Consultants and the Support Center but are not required to do so.

The Company has 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, the Company solicits feedback from our franchise system by having an active dialogue with all franchisees throughout the year.

Our franchise-related revenue is comprised of three separate and distinct earnings processes: area development fees, initial franchise fees and continuing royalty payments. Currently, our area development fee for domestic growth consists of a one-time, non-refundable payment of approximately \$10,000 per restaurant in consideration for the services we perform in preparation of executing each area development agreement. For our foreign area development agreements, the one time, non-refundable payment is negotiated on a per development agreement basis and is determined based on the costs incurred to sell that development agreement. Substantially all of these services, which include, but are not limited to, conducting market and trade area analysis, a meeting with Famous Dave's Executive Team, and performing a potential franchise background investigation, are completed prior to our execution of the area development agreement and receipt of the corresponding area development fee. As a result, we recognize this fee in full upon receipt. Currently, our initial, non-refundable, franchise fee for domestic growth is \$45,000 per restaurant, of which approximately \$5,000 is recognized immediately when a franchise agreement is signed, reflecting expenses incurred related to the sale. The remaining non-refundable fee is included in deferred franchise fees and is recognized as revenue when we have performed substantially all of our obligations, which generally occurs upon the franchise entering into a lease agreement for the restaurant(s). Finally, franchisees are also required to pay us a monthly royalty equal to a percentage of their net sales, which has historically varied from 4% to 5%. In general, new franchises pay us a monthly royalty of 5% of their net sales.

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, small wares, décor and training fees as well as working capital. In 2016, franchisees were required to contribute 1.0% of net sales to a marketing fund dedicated to building system-wide brand awareness. In 2017, franchisees will be required to contribute 1.0% of net sales to the marketing fund. Additionally, franchisees have historically spent 1.5% to 2.0% of their net sales annually on local marketing activities. 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

---

## **Table of Contents**

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.

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.

The 1990 Federal Americans with Disabilities Act prohibits discrimination on the basis of disability in public accommodations and employment. We could 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 January 1, 2017, we employed approximately 1,645 team members of which approximately 173 were salaried full-time employees. None of our team members are covered by a collective bargaining agreement. We consider our relationships with our team members to be good.

### **ITEM 1A. RISK FACTORS**

Famous Dave's makes written and oral statements from time to time, including statements contained in this Annual Report on Form 10-K regarding its 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," "should," "may," "could," "might," "intend," "anticipate," "estimate," "project," "believe," "expect," "intend," "target," "goal," "plan," "objective," "show," "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.

---

**Table of Contents**

***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.***

At April 3, 2016, July 3, 2016, and October 2, 2016, we were not in compliance with financial covenants under our Credit Agreement (the "Credit Agreement") with Wells Fargo, National Association as administrative agent and lender ("Wells Fargo").

As a result of breaches of our financial covenants in the first, second, and third quarters of fiscal 2016 with Wells Fargo, National Association as administrative agent and lender ("Wells Fargo"), the Company refinanced its Credit Facility with Venture Bank (the "Lender") with three separate loans. The First Loan agreement is a \$3.7 million loan and is evidenced by a promissory note (the "Loan 1"). The Second Loan agreement provides for two separate loans from the Lender to the borrowers set forth therein in aggregate principal amount of \$7.3 million, one in the principal amount of \$6.3 million ("Loan 2") and other principal amount of \$1.0 million ("Loan 3"). At the end of the fiscal 2016, the Company had additional borrowing capacity with Loan 3.

Depending on the duration of the Company's recovery, our ability to comply with financial covenants under our credit facility on a continuing basis may be adversely affected. These financial covenants include, among other things, a minimum debt service coverage ratio.

In the event we fail to comply with these or other financial covenants in the future and are unable to obtain similar amendments or waivers, our lender will have the right to demand repayment of all principal amounts outstanding under the Loan 1, Loan 2, or Loan 3. At January 1, 2017, principal amounts outstanding on Loan 1 was \$3.7 million, principal amounts outstanding on Loan 2 was \$6.3 million and there were no principal amounts outstanding for Loan 3. 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



## **Table of Contents**

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.

In fiscal 2017, the Company does not anticipate opening a new Company-owned restaurant. There is no guarantee that any of the Company-owned or 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.

### ***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 to, or unable to respond in a timely manner, to the various competitive factors affecting the restaurant industry, our revenue and operating income 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. We are also pursuing a strategic re-franchising initiative to transition some of our Company-owned restaurants into franchised locations. Our ability to successfully franchise additional restaurants and 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. Many of the foregoing factors are beyond the control of the Company or our franchisees.

Our growth and success also depends 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 his/her 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

## **Table of Contents**

in a manner consistent with our concepts and standards, which could reduce their sales and correspondingly, our franchise royalties, and could adversely affect our operating income 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.

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

Our current franchise program includes four restaurants in the Commonwealth of Puerto Rico, one restaurant in Manitoba, Canada, and two 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, increases to minimum wage requirements, workers' compensation and citizenship requirements. 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.

During 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 were signed into law in the United States. Our restaurants are governed by these laws. This legislation mandates menu labeling of certain nutritional aspects of restaurant menu items such as caloric, sugar, sodium, and fat 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.

## **Table of Contents**

***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 guest traffic as a result of these health concerns or negative publicity could materially harm our business, results of operations and financial condition.

***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.

***Our financial performance is affected by our ability to contract with reliable suppliers 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 guests' 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.

---

**Table of Contents**

***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 as well as in the future, 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 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.

***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. For example, severe winter weather conditions have impacted our 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.***

During fiscal 2016, we recognized asset impairment, lease termination and other closing costs of \$4.8 million, which included approximately \$4.4 million in asset impairment charges associated with 11 restaurants which were slow to respond to several initiatives to turnaround operating performance. As a result, we determined that the estimated fair value of these assets was less than the net book value and recognized an impairment charge to reduce the related assets to the estimated fair value. As we continue to evaluate the restaurant portfolio we anticipate addressing the ongoing operation of the 11 locations impaired over the next 3 years by way of lease restructuring, lease assignment, subleasing, or subsequent closure at the end of their natural lease term. Additionally, a lease termination reserve costs associated with a letter of credit provided to a landlord of a previously closed restaurant and costs associated with a software implementation project that was discontinued.

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.

## **Table of Contents**

*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. As of March 7, 2017, we had 6,957,628 shares of common stock outstanding.

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.

### **ITEM 2. PROPERTIES**

The development cost of our restaurants varies depending primarily on the size and style of the restaurant, whether the property is purchased or leased, and whether it is a conversion of an existing building or a newly constructed restaurant. We have engaged a design firm to redesign and reimagine the traditional full-service prototype and develop plans for three additional service style models including counter-service, line-service and hybrid flex-service models. The three-additional service-style models will allow us to access new markets or strategically locate restaurants in existing markets where a full-service restaurant is not sustainable. The surrounding trade area will determine which service style is appropriate. These new prototypes can be built as free standing buildings, as end caps of a building or as in-line locations. Additionally, we offer lower cost conversion packages that provide our franchisees with the flexibility to build in cost effective formats, such as opportunities to convert existing restaurants into a Famous Dave's restaurant.

In fiscal 2016, we did not open any new Company-owned locations and refranchised seven Company-owned restaurants in the Chicago-area (located in Addison, Algonquin, Bolingbrook, Evergreen Park, North Riverside, Orland Park, and Oswego, Illinois). In fiscal 2015, we did not open any new Company-owned locations, closed one location and refranchised five additional company-owned restaurants. In fiscal 2014, we did not open any new Company owned locations and closed four locations. Due to the flexibility and scalability of our concept, there are a variety of development opportunities available now and in the future. In fiscal 2017, we do not expect to open a Company-owned restaurant.

Our leased restaurant facilities are occupied under agreements with remaining terms ranging from 4 months to 31 years, including renewal options. Such leases generally provide for fixed rental payments plus operating expenses associated with the properties. Several leases also require the payment of percentage rent based on net sales.

Our Minnesota executive offices are currently located in approximately 28,600 square feet in Minnetonka, Minnesota. Our executive office lease expires November 2018, with two five-year renewal options. The minimum annual rent commitment remaining over the lease term, including renewal options, is approximately \$3.8 million. During fiscal 2015, we sublet approximately 10,340 square feet to two subtenants. During 2015, our 8,400-square foot office in Lombard, IL was closed and sublet to another tenant. This office lease expires October 2022. The minimum annual rent commitment remaining over the lease term is approximately \$715,000.

**Table of Contents**

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 January 1, 2017, sorted by opening date:

| Location                                      | Square Footage | Interior Seats | Owned or Leased       | Date Opened/Acquired |
|---|----------------|----------------|-----------------------|----------------------|
| 1 Roseville, MN <sup>(3)</sup>                | 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 <sup>(1)</sup> | April 1997           |
| 4 Highland Park (St. Paul, MN) <sup>(3)</sup> | 5,200          | 125            | Leased                | June 1997            |
| 5 Stillwater, MN                              | 5,200          | 130            | Leased <sup>(1)</sup> | July 1997            |
| 6 Apple Valley, MN <sup>(3)</sup>             | 3,800          | 90             | Leased <sup>(1)</sup> | July 1997            |
| 7 Forest Lake, MN <sup>(3)</sup>              | 4,500          | 100            | Leased                | October 1997         |
| 8 Minnetonka, MN                              | 5,500          | 140            | Owned <sup>(2)</sup>  | December 1997        |
| 9 Plymouth, MN <sup>(3)</sup>                 | 2,100          | 49             | Owned <sup>(2)</sup>  | December 1997        |
| 10 West Des Moines, IA                        | 5,700          | 150            | Leased                | April 1998           |
| 11 Des Moines, IA                             | 5,800          | 150            | Leased                | April 1998           |
| 12 Bloomington, MN                            | 5,400          | 140            | Leased                | October 1998         |
| 13 Woodbury, MN                               | 5,900          | 180            | Owned <sup>(2)</sup>  | October 1998         |
| 14 Columbia, MD                               | 7,200          | 270            | Leased                | January 2000         |
| 15 Annapolis, MD                              | 6,800          | 219            | Leased                | January 2000         |
| 16 Frederick, MD                              | 5,600          | 180            | Leased                | January 2000         |
| 17 Woodbridge, VA                             | 6,000          | 219            | Leased                | January 2000         |
| 18 Sterling, VA                               | 5,800          | 200            | Leased                | December 2000        |
| 19 Oakton, VA                                 | 4,400          | 184            | Leased                | May 2001             |
| 20 Laurel, MD                                 | 5,200          | 165            | Leased                | August 2001          |
| 21 Chantilly, VA                              | 6,400          | 205            | Leased                | January 2006         |
| 22 Waldorf, MD                                | 6,600          | 200            | Leased                | June 2006            |
| 23 Coon Rapids, MN                            | 6,300          | 160            | Owned <sup>(2)</sup>  | December 2006        |
| 24 Fredericksburg, VA                         | 6,500          | 219            | Leased                | September 2007       |
| 25 Owings Mills, MD                           | 6,700          | 219            | Leased                | November 2007        |
| 26 Alexandria, VA                             | 6,600          | 219            | Leased                | February 2008        |
| 27 Brick, NJ                                  | 5,200          | 181            | Leased                | March 2010           |
| 28 Mays Landing, NJ                           | 6,400          | 237            | Leased                | March 2010           |
| 29 Westbury, NY                               | 6,400          | 276            | Leased                | March 2010           |
| 30 New Brunswick, NJ                          | 7,200          | 255            | Leased                | March 2010           |
| 31 Mountainside, NJ                           | 8,800          | 253            | Leased                | March 2010           |
| 32 Metuchen, NJ                               | 6,200          | 176            | Leased                | March 2010           |
| 33 Bel Air, MD                                | 6,360          | 199            | Leased                | August 2010          |
| 34 Falls Church, VA                           | 5,430          | 169            | Leased                | August 2011          |
| 35 Gainesville, VA                            | 6,000          | 215            | Leased                | June 2012            |
| 36 Germantown, MD                             | 5,000          | 160            | Leased                | September 2013       |
| 37 Timonium, MD                               | 5,600          | 187            | Leased                | November 2013        |

All seat count and square footage amounts are approximate.

<sup>(1)</sup> Restaurant is collateral in a financing lease.

<sup>(2)</sup> Restaurant land and building are owned by the Company.

(3) Counter service restaurant

**ITEM 3. LEGAL PROCEEDINGS**

From time-to-time, we are involved in various legal actions arising in the ordinary course of business. In the opinion of our management, the ultimate dispositions of these matters will not have a material adverse effect on our consolidated financial position and results of operations. Currently, there are no significant legal matters pending except as described below.

Famous Dave s of America, Inc. ( Famous Dave s ) filed a complaint on July 14, 2015, against a group of former franchisees in California seeking injunctive relief and damages for: (1) Federal Trademark Infringement; (2) Federal Trademark Dilution; (3) Federal Unfair Competition; (4) Federal Trade Dress Dilution; (5) Trademark Infringement under California Business and Professions Code § 14200; (6) Trademark Dilution under California Business and Professions Code §14200; (7) Common Law Trademark Infringement; (8) Unfair Competition under California Business and Professions Code § 17200; (9) False Advertising; (10) Breach of Contract; (11) Breach of Implied Covenant of Good Faith and Fair Dealing; and (12) Intentional Interference with Contract. The claims stem from the former franchisees' breaches of their franchise agreements, including the failure to pay franchise fees and their continued operation of five restaurants utilizing Famous Dave s intellectual property without authorization. After two defendants in the case, Kurt Schneider and M Mart 1, filed a demurrer to the Complaint, Famous Dave s filed an Amended Complaint on October 9, 2015, reasserting the same claims. The case is captioned Famous Dave s of

**Table of Contents**

America, Inc., v. SR El Centro FD, Inc., et al., Case No. BC589329, and is currently pending before the Honorable Elihu M. Berle in the Superior Court of Los Angeles. By court order, dated June 6, 2016, Famous Dave's successfully obtained a preliminary injunction, enjoining the former franchisee defendants from using Famous Dave's intellectual property, including its trademarks and restaurant system. The preliminary injunction is currently the subject of a pending interlocutory appeal which Famous Dave's intends to oppose vigorously.

On July 28, 2015, these franchisees (the Plaintiffs) filed a complaint against Famous Dave's in the South Judicial District of the Superior Court of the County of Los Angeles. On March 10, 2016, Plaintiffs re-filed this Complaint as a First Amended Cross-Complaint [Famous Dave's of America, Inc. v. SR El Centro, Inc., et al., Superior Court of the State of California, County of Los Angeles, Central Division, Case No. BC589329] alleging that Famous Dave's breached the Franchise Agreements for these restaurants by failing to provide certain marketing support and access to customer contact data, vendors, internet reporting and support to Plaintiffs, and failing to provide operations and preferred practices training to Plaintiffs' designated representative. Plaintiffs further allege that such conduct by Famous Dave's is a breach of the covenant of good faith and fair dealing. Plaintiffs also allege that Famous Dave's aided and abetted John and Allan Gantes in breach of their fiduciary duty to Plaintiffs. Plaintiffs are seeking compensatory damages in amount not less than \$20 million, punitive damages, costs and attorneys fees. Famous Dave's denies the allegations and intends to vigorously defend against them. The foregoing litigation is pending and in the early stages of discovery. No trial date has been set.

**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**

The information required by Item 201(d) of Regulation S-K is hereby incorporated by reference to Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

**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. The following table summarizes the high and low sale prices per share of our common stock for the periods indicated, as reported on the NASDAQ Global Market.

| Period                  | 2016    |         | 2015     |          |
|-------------------------|---------|---------|----------|----------|
|                         | High    | Low     | High     | Low      |
| 1 <sup>st</sup> Quarter | \$ 7.05 | \$ 5.01 | \$ 34.72 | \$ 24.50 |
| 2 <sup>nd</sup> Quarter | \$ 6.14 | \$ 4.75 | \$ 30.94 | \$ 18.22 |
| 3 <sup>rd</sup> Quarter | \$ 6.73 | \$ 4.99 | \$ 20.97 | \$ 12.36 |
| 4 <sup>th</sup> Quarter | \$ 5.53 | \$ 4.42 | \$ 12.96 | \$ 6.70  |

**Holders**

As of March 7, 2017, we had approximately 332 shareholders of record and approximately 3,254 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





## **Table of Contents**

earnings, if any, to provide for growth, reduce our debt levels, and repurchase our common stock. 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.

### **Stock Performance Graph**

Below is a line-graph presentation that compares the cumulative, five-year return to the Company's shareholders (based on appreciation of the market price of the Company's common stock) on an indexed basis with (i) a broad equity market index and (ii) an appropriate published industry or line-of-business index, or Peer Group Index constructed by the Company. The following presentation compares the Company's common stock price for the period from January 2, 2011 through January 1, 2017, to the S&P 500 Stock Index and to the S&P Small Cap Restaurant Index.

The Company has elected to use the S&P Small Cap Restaurant Index in compiling its stock performance graph because it believes the S&P Small Cap Restaurant Index represents a comparison to competitors with similar market capitalization to the Company.

The presentation assumes that the value of an investment in each of the Company's common stock, the S&P 500 Index and S&P Small Cap Restaurants was \$100 on January 1, 2012, and that any dividends paid were reinvested in the same security.

### **COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\***

Among Famous Dave's of America, Inc., the S&P 500 Index,  
and S&P Small Cap Restaurants

\* \$100 invested on 1/1/12 in stock or 12/31/11 in index, including reinvestment of dividends. Fiscal year ending January 1, 2017 with previous specific fiscal year ends at January 1, 2012, December 30, 2012, December 29, 2013, December 28, 2014 and January 3, 2016. Copyright© 2017 Standard & Poor's, a division of S&P Global. All rights reserved.

**Table of Contents**

**Purchases of Equity Securities by the Issuer**

None

**ITEM 6. SELECTED FINANCIAL DATA**

The selected financial data presented below should be read in conjunction with the consolidated financial statements and notes included elsewhere in this Annual Report on Form 10-K, and in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Annual Report on Form 10-K.

The selected financial data as of and for the fiscal years ended January 1, 2017 (fiscal 2016), January 3, 2016 (fiscal 2015), December 28, 2014 (fiscal 2014), December 29, 2013 (fiscal 2013), and, December 30, 2012 (fiscal 2012) have been derived from our consolidated financial statements as audited by Grant Thornton LLP, our independent registered public accounting firm.

**Table of Contents****FINANCIAL HIGHLIGHTS****FISCAL YEAR**

(\$ s in 000 s, except per share data and average weekly sales)

|   | 2016       | 2015 <sup>(1)</sup> | 2014       | 2013       | 2012       |
|---|------------|---------------------|------------|------------|------------|
| <b>STATEMENTS OF OPERATIONS DATA</b>  |            |                     |            |            |            |
| Revenue   | \$ 99,179  | \$ 114,226          | \$ 131,862 | \$ 137,282 | \$ 138,871 |
| Asset impairment and estimated lease termination and other closing costs <sup>(2)</sup> | (\$ 4,788) | (\$ 1,520)          | (\$ 4,517) | (\$ 1,181) | (\$ 370)   |
| (Loss) income from operations   | (\$ 4,090) | \$ 2,144            | \$ 3,856   | \$ 6,584   | \$ 5,833   |
| Income tax benefit (expense)  | \$ 2,000   | (\$ 48)             | (\$ 732)   | (\$ 1,697) | (\$ 751)   |
| Net (loss) income from continuing operations  | (\$ 2,942) | \$ 1,079            | \$ 2,255   | \$ 3,949   | \$ 4,062   |
| Net income (loss) from discontinued operations  | \$ 511     | (\$ 5,463)          | \$ 642     | \$ 818     | \$ 298     |
| Net (loss) income   | (\$ 2,431) | (\$ 4,384)          | \$ 2,897   | \$ 4,767   | \$ 4,360   |
| Basic continuing net (loss) income per common share                                     | (\$ 0.42)  | \$ 0.15             | \$ 0.31    | \$ 0.54    | \$ 0.54    |
| Basic discontinued net income (loss) per common share                                   | \$ 0.07    | (\$ 0.78)           | \$ 0.09    | \$ 0.11    | \$ 0.04    |
| Basic net (loss) income per common share  | (\$ 0.35)  | (\$ 0.63)           | \$ 0.40    | \$ 0.65    | \$ 0.58    |
| Diluted continuing net (loss) income per common share                                   | (\$ 0.42)  | \$ 0.15             | \$ 0.31    | \$ 0.52    | \$ 0.53    |
| Diluted discontinued net income (loss) per common share                                 | \$ 0.07    | (\$ 0.78)           | \$ 0.09    | \$ 0.11    | \$ 0.04    |
| Diluted net (loss) income per common share  | (\$ 0.35)  | (\$ 0.63)           | \$ 0.40    | \$ 0.62    | \$ 0.57    |
| <b>BALANCE SHEET DATA (at year end)</b>   |            |                     |            |            |            |
| Cash and cash equivalents   | \$ 4,450   | \$ 5,300            | \$ 2,133   | \$ 1,293   | \$ 2,074   |
| Total assets  | \$ 50,945  | \$ 57,825           | \$ 66,677  | \$ 75,337  | \$ 76,253  |
| Long-term debt less current maturities  | \$ 11,129  | \$ 12,957           | \$ 11,493  | \$ 18,924  | \$ 22,105  |
| Total shareholders' equity  | \$ 19,968  | \$ 22,061           | \$ 31,802  | \$ 32,791  | \$ 33,767  |
| <b>OTHER DATA</b>   |            |                     |            |            |            |
| <b>Restaurant Sales:</b>  |            |                     |            |            |            |
| Company-owned   | \$ 81,511  | \$ 95,475           | \$ 113,522 | \$ 118,780 | \$ 119,613 |
| <b>Number of restaurants open at year end:</b>  |            |                     |            |            |            |
| Company-owned restaurants   | 37         | 44                  | 50         | 54         | 53         |
| Franchise-operated restaurants  | 139        | 135                 | 139        | 140        | 135        |
| Total restaurants   | 176        | 179                 | 189        | 194        | 188        |
| <b>Company-owned comparable sales</b>   |            |                     |            |            |            |
| Sales decrease <sup>(3)</sup>   | (5.0)%     | (9.3)%              | (5.7)%     | (0.7)%     | (2.1)%     |
| <b>Average weekly sales:<sup>(4)</sup></b>  |            |                     |            |            |            |
| Company-owned restaurants   | \$ 42,365  | \$ 44,366           | \$ 47,202  | \$ 49,514  | \$ 49,172  |

(1) Fiscal 2015 was 53 weeks. All other presented fiscal years consisted of 52 weeks.

(2) Fiscal 2016 reflects impairment charges for eleven restaurants slow to respond to several initiatives to turnaround operating performance, a lease termination reserve associated with a letter of credit provided to a landlord for a previously closed restaurant, and costs associated with a software implementation project that was discontinued. Fiscal 2015 reflects impairment charges for four refranchised restaurants and one closed restaurant, and lease costs for the closed Chicago field office and a cancelled restaurant relocation. Fiscal 2014 reflects non-cash impairment charges for six Company-owned restaurants, two lease restructurings charges at additional Company-owned restaurants and the décor warehouse, the write-off of décor due to a change in operating strategy and closing costs associated with Company owned restaurants. Fiscal 2013 reflects non-cash impairment charges for one Company-owned restaurant, a lease

## Edgar Filing: FAMOUS DAVES OF AMERICA INC - Form 10-K

restructuring at another Company-owned restaurant, and residual closing costs for a restaurant relocated in 2013. Fiscal 2012 primarily reflects closing costs for three Company-owned restaurants as well as a lease reserve for one of the closed restaurants.

- (3) Our comparable store sales includes Company-owned restaurants that are open year round and have been open more than 24 months.
- (4) The Supplemental Sales Information excludes the impact of the seven Chicago restaurants that were franchised in the first quarter of 2016, with the exception that the seven restaurants are included in the total number of Company-owned restaurants.

---

**Table of Contents**

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

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 Selected Financial Data above (Item 6 of this Annual Report on Form 10-K) and our financial statements and related footnotes appearing elsewhere in this Annual Report.

**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 January 1, 2017, there were 176 Famous Dave's restaurants operating in 32 states, the Commonwealth of Puerto Rico, Canada, and the United Arab Emirates, including 37 Company-owned restaurants and 139 franchise-operated restaurants. An additional 62 franchise restaurants were committed to be developed through signed area development agreements as of January 1, 2017.

***Fiscal Year***

Our fiscal year ends on the Sunday nearest December 31st of each year. Our fiscal year is generally 52 weeks; however, it periodically consists of 53 weeks. The fiscal years ended January 1, 2017 (fiscal 2016), consisted of 52 weeks while January 3, 2016 (fiscal 2015) consisted of 53 weeks, and December 28, 2014 (fiscal 2014) consisted of 52 weeks. Fiscal 2017, which ends on January 1, 2018, 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 the Company's financial condition and results of operations is based upon its 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 from these estimates under different assumptions or conditions. Management believes the following critical accounting policies reflect its more significant judgments and estimates used in the preparation of the Company's 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.

***Recognition of Franchise-Related Revenue*** Initial franchise fee revenue is recognized when we have performed substantially all of our obligations as franchisor. Franchise royalties are recognized when earned.

---

**Table of Contents**

Our franchise-related revenue is comprised of three separate and distinct earnings processes: area development fees, initial franchise fees and continuing royalty payments. Currently, our area development fee for domestic growth consists of a one-time, non-refundable payment of approximately \$10,000 per restaurant in consideration for the services we perform in preparation of executing each area development agreement. For our foreign area development agreements the one time, non-refundable payment is negotiated on a per development basis and is determined based on the costs incurred to sell that development agreement. Substantially all of these services, which include, but are not limited to, a review of the potential franchisee's current operations, conducting market and trade area analysis, a meeting with Famous Dave's Executive Team, and performing a potential franchise background investigation, are completed prior to our execution of the area development agreement and receipt of the corresponding area development fee. As a result, we recognize this fee in full upon receipt. Currently, our initial, non-refundable, franchise fee for domestic growth is \$45,000 per restaurant, of which approximately \$5,000 is recognized immediately when a franchise agreement is signed, reflecting expenses incurred related to the sale. The remaining non-refundable fee is included in deferred franchise fees and is recognized as revenue when we have performed substantially all of our obligations, which generally occurs upon the franchise entering into a lease agreement for the restaurant(s). Finally, franchisees are also required to pay us a monthly royalty equal to a percentage of their net sales, which has historically varied from 4% to 5%. In general, new franchises pay us a monthly royalty of 5% of their net sales.

***Asset Impairment and 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*** The Company owns transferable liquor licenses in jurisdictions with a limited number of authorized liquor licenses. These licenses were capitalized as indefinite-lived intangible assets and are included in intangible assets, net in our consolidated balance sheets (see note 3 to our consolidated financial statements) at January 1, 2017 and January 3, 2016. We annually review the liquor licenses for impairment and in fiscal 2016 we impaired one license by \$50,000 as we believe its value has experienced a long-term decline due to changes in the economic and demographic circumstances in the related area. In 2015 no impairment charges were required to be recorded. 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 expensed 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 and deterioration in general economic market conditions. 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. Any changes to the reserve are recorded in general and administrative expenses. The

## **Table of Contents**

allowance for uncollectible accounts was approximately \$270,000 and \$246,000, at January 1, 2017 and January 3, 2016, respectively. In fiscal 2015, the increase in the allowance for doubtful accounts was primarily due to the aging of receivables associated with certain franchisee groups. 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. Outstanding past due accounts receivable are subject to a monthly interest charge on unpaid balances which is recorded as interest income in our consolidated statements of operations. 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 the franchisees are required to submit to us.

***Stock-based compensation*** 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. 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 (see Note 9 to our financial statements).

***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**

***Revenue*** Our revenue consists of four components: Company-owned restaurant sales, franchise-related revenue from royalties and franchise fees, licensing revenue from the retail sale of our sauces and rubs, and other revenue from the opening assistance we provide to franchise partners. We record restaurant sales at the time food and beverages are served. Our revenue recognition policies for franchising are discussed under **Recognition of Franchise-Related Revenue** above. Our franchise-related revenue consists of area development fees, initial franchise fees and continuing royalty payments. We record sales of merchandise items at the time items are delivered to the customer.

We have a licensing agreement for our retail products, with renewal options of five years, subject to the licensee's attainment of identified minimum product sales levels. Based on achievement of the required minimum product sales, the agreement will be in force until April 2020 at which time these levels will be re-evaluated.

Periodically, we provide additional services, beyond the general franchise agreement, to our franchise operations, such as new restaurant training and décor installation services. The cost of these services is billed to the respective franchisee, is recorded as other income when the service is provided, and is generally payable on net 30-day terms. Since 2010, the franchise agreements require a 50% deposit be paid in advance for these services.

***Costs and Expenses*** Restaurant costs and expenses include food and beverage costs, labor and benefits costs, operating expenses which include occupancy costs, repair and maintenance costs, supplies, advertising and promotion, and restaurant depreciation and amortization. Certain of these costs and expenses are variable and will increase or decrease with sales volume. The primary fixed costs are corporate and 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 four months of operation. As restaurant management and team members 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.



**Table of Contents**

**General and Administrative Expenses** General and administrative expenses include all corporate and administrative functions that provide an infrastructure to support existing operations and support future growth. Salaries, including restaurant-level supervision, bonuses, team member benefits, legal fees, accounting fees, consulting fees, travel, rent, and general insurance are major items in this category. Additionally, we record expenses for Managers in Training ( MITs ) in this category for approximately six weeks prior to a restaurant opening. We also provide franchise services, the revenue from which are included in other revenue and the expenses of which are included in general and administrative expenses.

The following table presents items in our consolidated statements of operations as a percentage of total revenue or net restaurant sales, as indicated, for the following fiscal years:<sup>(4)</sup>

|   | 2016   | 2015  | 2014  |
|---|--------|-------|-------|
| Food and beverage costs <sup>(1)</sup>                  | 31.0%  | 30.5% | 29.5% |
| Labor and benefits costs <sup>(1)</sup>                 | 34.6%  | 34.1% | 32.5% |
| Operating expenses <sup>(1)(3)</sup>                    | 30.4%  | 29.1% | 27.8% |
| Restaurant level operating margin <sup>(1)</sup>        | 4.0%   | 6.3%  | 10.2% |
| Depreciation and amortization expenses <sup>(2)</sup>   | 4.0%   | 4.1%  | 3.8%  |
| General and administrative <sup>(2)</sup>               | 16.9%  | 16.7% | 12.1% |
| (Loss) income from continuing operations <sup>(2)</sup> | (4.1)% | 1.9%  | 2.9%  |

<sup>(1)</sup> As a percentage of restaurant sales, net

<sup>(2)</sup> As a percentage of total revenue

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

<sup>(4)</sup> Data regarding our restaurant operations as presented in this table includes sales, costs and expenses associated with our Rib Team, which netted a loss of \$7,000 in fiscal year 2014. In fiscal years 2016 and 2015 we did not have any Rib Team operations. Our Rib Team traveled around the country introducing people to our brand of barbeque and building brand awareness.

**Fiscal Year 2016 Compared to Fiscal Year 2015**

Due to the strategic operational changes we continued throughout 2016 and 2015, we are continuing to evaluate and assess various aspects of our business that may impact our budgets and expected financial performance for fiscal 2017. As a result, we believe that it is premature to provide any guidance for fiscal 2017 in this report and have elected not to do so.

**Total Revenue**

Total revenue of approximately \$99.2 million for fiscal 2016 decreased approximately \$15.0 million, or 13.2%, from total revenue of \$114.2 in fiscal 2015, reflecting the annualized impact of refranchising five Company-owned restaurants and closure of one Company-owned restaurants during 2015. Other factors included a Company-owned restaurant comparable sales decline of 5.0% in 2016, a reduction in royalty revenues due to 4.7% franchise-operated comparable sales decline, and the loss of Company sales and royalties from the 53<sup>rd</sup> operating week which occurred in fiscal 2015. Fiscal 2016 consisted of 52 weeks while 2015 consisted of 53 weeks.

**Restaurant Sales, net**

Restaurant sales, net for fiscal 2016 were approximately \$81.5 million, compared to approximately \$95.5 million for fiscal 2015 reflecting a 14.6% decrease. Total restaurant sales, net reflected the annualized impact of refranchising five Company-owned restaurants and closure of one Company-owned restaurant during 2015. During fiscal 2016 there was a 5.0% comparable sales decrease which, on a weighted basis, comprised a 4.3% comparable sales decrease for dine-in sales, a 0.7% comparable sales decrease for To Go and a 0.1% comparable sales decrease for catering.



## **Table of Contents**

### ***Franchise-Related Revenue***

Franchise-related revenue consists of royalty revenue and franchise fees, which includes initial franchise fees and area development fees. Franchise-related revenue was approximately \$16.7 million for fiscal 2016 and \$17.8 million for fiscal 2015. The franchise-related revenue reflected four franchise-operated openings and seven Company-owned restaurants that were refranchised during fiscal 2016 offset by the closure of seven franchise-operated restaurants in fiscal 2016 and the impact of the loss of the 53<sup>rd</sup> operating week which occurred in 2015. Additionally, franchise-operated restaurants experienced a 4.7% comparable sales decline. Fiscal 2016 included 7,215 franchise operating weeks, compared to 7,107 franchise operating weeks in fiscal 2015. There were 139 franchise-operated restaurants open at January 1, 2017, compared to 135 at January 3, 2016.

### ***Licensing and Other Revenue***

Licensing revenue includes royalties from a retail line of business, including sauces, rubs, marinades and seasonings. Other revenue includes opening assistance and training we provide to our franchise partners. Licensing revenue was approximately \$981,000 for fiscal 2016 as compared to \$940,000 for fiscal 2015.

Other revenue for fiscal 2016 was approximately \$22,000 compared to approximately \$14,000 for fiscal 2015. The increase was primarily due to the increase in the number of franchise openings from three in 2015 to four in 2016.

### ***Same Store Net Sales (or Comparable Net Sales)***

It is our policy to include in our same store net sales base, restaurants that are open year-round and have been open at least 24 months. Same store net sales for Company-owned restaurants open at least 24 months ended January 1, 2017 decreased 5.0%, compared to fiscal 2015's decrease of 9.3%. For fiscal 2016 and fiscal 2015, there were 37 and 35 restaurants, respectively, included in the Company-owned 24 month comparable sales base.

Same store net sales on a 24 month basis for franchise-operated restaurants for fiscal 2016 decreased 4.7%, compared to fiscal 2015's comparable same store net sales which were down 2.5%. For fiscal 2016 and fiscal 2015, there were 116 and 115 restaurants, respectively, included in the franchise-operated 24 month comparable sales base.

Same store net sales for franchise-operated restaurants are not our revenues and are not included in our consolidated financial statements. Our management believes that disclosure of comparable restaurant net sales 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 the Company receives 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.

**Table of Contents****Average Weekly Net Sales and Operating Weeks**

The following table shows Company-owned and franchise-operated average weekly net sales for fiscal 2016 and fiscal 2015:

|  | <b>Fiscal Years Ended</b>  |                            |
|--|----------------------------|----------------------------|
|  | <b>January 1,<br/>2017</b> | <b>January 3,<br/>2016</b> |
| <b>Average Weekly Net Sales (AWS):</b> |                            |                            |
| Company-Owned                          | \$ 42,365                  | \$ 42,661                  |
| Full-Service                           | \$ 43,348                  | \$ 43,330                  |
| Counter-Service                        | \$ 36,073                  | \$ 37,896                  |
| Franchise-Operated <sup>(1)</sup>      | \$ 48,194                  | \$ 50,202                  |

(1) AWS for franchise-operated restaurants are not revenues of the Company and are not included in the Company's consolidated financial statements. The Company's management believes that disclosure of comparable restaurant net sales 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 the Company receives 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**

Food and beverage costs for fiscal 2016 were approximately \$25.3 million, or 31.0%, of net restaurant sales compared to approximately \$29.1 million, or 30.5%, of net restaurant sales for fiscal 2015. This increase as a percent of sales was the result of investments in portion size to improve the Guest experience and a shift in product mix given additional affordable menu options presented to our Guest. These increases were partially offset by food contract deflation and a focus on reducing food waste.

**Labor and Benefits Costs**

Labor and benefits costs for fiscal 2016 were approximately \$28.2 million, or 34.6%, of net restaurant sales, compared to approximately \$32.6 million, or 34.1%, of net restaurant sales for fiscal 2015. This increase as a percent of sales was primarily due to sales deleverage on fixed and management labor costs and increased direct labor costs partially offset by a decline in management labor costs.

**Operating Expenses**

Operating expenses for fiscal 2016 were approximately \$24.8 million, or 30.4%, of net restaurant sales, compared to approximately \$27.8 million, or 29.1%, of net restaurant sales for fiscal 2015. This increase as a percent of sales was primarily related to sales deleverage on fixed operating and occupancy costs as well as a year over year increase in supplies and repairs and maintenance costs, and other operating costs partially offset by a decline in utility costs.

In fiscal 2016, advertising, as a percentage of sales, was approximately 2.5%, compared to fiscal 2015's percentage at 2.6%. For 2016 and 2015, the Marketing Fund contribution was 1.0%.

**Depreciation and Amortization**

Depreciation and amortization expense for fiscal 2016 and 2015 was approximately \$3.7 million and \$4.5 million, respectively, and was 3.7% and 3.9%, respectively, of total revenue. The decline in total expense reflects the reduction in total property, equipment and leasehold improvements due to the refranchising and closing of six restaurants during 2015.

**General and Administrative Expenses**

General and administrative expenses for fiscal 2016 were approximately \$16.8 million, or 16.9%, of total revenue compared to approximately \$19.0 million, or 16.7% of total revenue for fiscal 2015. Recurring core general and administrative expenses have decreased year over year, reflecting our continued, successful initiative to reduce use, redesign services, and restructure capabilities as we optimize our business model. This initiative serves to clarify what support functions are expected to deliver, focuses on eliminating nonessential activities, and scrutinizing the

processes that deliver support services.

**Table of Contents**

***Asset Impairment and Estimated Lease Termination and Other Closing Costs***

Following is a summary of events for fiscal 2016 and fiscal 2015:

**Restaurant Optimization**

During fiscal 2016, the Company recorded approximately \$4.4 million in asset impairment charges associated with 11 restaurants which were slow to respond to several initiatives to turnaround operating performance. As a result, the Company determined that the estimated fair value of the assets was less than the net book value and recognized an impairment charge to reduce the related assets to their estimated fair value. As we continue to evaluate our restaurant portfolio we anticipate addressing the ongoing operation of the 11 locations impaired over the next 3 years by way of lease restructuring, lease assignment, subleasing or subsequent closure at the end of their natural lease term.

**Richmond, VA Area Restaurant Closures**

On December 29, 2014, the Company announced the closure of its three underperforming Company-owned restaurants located in and around Richmond, Virginia. The associated impairment charges primarily related to the write-off of the book value of the related property, plant and equipment, net of estimated proceeds from the sale of these assets (primarily derived from the sale of real property). Loss before taxes associated with these operations for the year ended December 28, 2014 totaled approximately \$187,000.

On December 28, 2014, the remaining book values, were valued at the estimated proceeds from the sale and were recorded as assets held for sale in the consolidated balance sheets. Two of these properties were sold during the third quarter of fiscal 2015 and the first quarter of 2016, respectively. On January 3, 2016, the remaining property's fair value was reclassified to property, equipment and leasehold improvements, net because it was not probable that the assets would be sold in the next 12 months.

**Table of Contents**

|  | Fiscal Year Ended  |                    |
|--|--------------------|--------------------|
|  | January 1,<br>2017 | January 3,<br>2016 |
| <i>(dollars in thousands)</i>                    |                    |                    |
| Asset Impairments                                |                    |                    |
| Restaurant optimization                          | \$ 4,376           | \$                 |
| Software <sup>(1)</sup>                          | 156                |                    |
| May s Landing, NJ                                | 50                 |                    |
| Smithtown, NY <sup>(2)</sup>                     |                    | 935                |
| Total  | \$ 4,582           | \$ 935             |
| Restaurant closure expenses                      |                    |                    |
| Smithtown, NY <sup>(3)</sup>                     | 200                |                    |
| Other <sup>(6)</sup>                             | 6                  | (6)                |
| N. Riverside, IL <sup>(4)</sup>                  |                    | 368                |
| Richmond, VA area                                |                    | 143                |
| N. Riverside, IL <sup>(5)</sup>                  |                    | 122                |
| Eden Prairie, MN                                 |                    | (42)               |
| Total restaurant closure expenses                | \$ 206             | \$ 585             |
| Provision for impairment and restaurant closings | \$ 4,788           | \$ 1,520           |

(1) Asset impairment calculated at July 3, 2016 related to a software implementation project that was discontinued.

(2) Asset impairment calculated at June 28, 2015 based upon expected sale of Smithtown restaurant.

(3) Lease termination reserve associated with a letter of credit provided to a landlord for a previously closed restaurant.

(4) Lease termination costs associated with the cancellation of a potential new restaurant location.

(5) Write off of development costs associated with the cancellation of a potential new restaurant location.

(6) Includes \$191,000 in costs written-off associated with closing the Lombard, Illinois field office partially offset by an \$86,000 recapture of deferred rent credits.

**Pre-opening Expenses**

Pre-opening expenses consist of labor, food, utilities, training and rent costs incurred prior to the opening of a restaurant. Included in pre-opening costs is pre-opening rent for approximately 16 weeks prior to opening but this will vary based on lease terms. During fiscal 2016 and 2015, we had \$0 and \$1,000, respectively, of pre-opening expenses which included pre-opening rent and other pre-opening expenses.

**Interest Expense**

Interest expense was approximately \$855,000, or 0.9%, of total revenue for fiscal 2016, and \$1.0 million, or 0.9%, of total revenue for fiscal 2015.

**Interest Income**

## Edgar Filing: FAMOUS DAVES OF AMERICA INC - Form 10-K

Interest income was approximately \$2,000 for fiscal 2016 and \$11,000 for fiscal 2015. Interest income reflects interest received on short-term cash and cash equivalent balances as well as on outstanding accounts receivable balances.

### *Provision for Income Taxes*

For fiscal 2016, our tax provision was a benefit of approximately \$2.0 million, or 40.5%, of loss before income taxes, compared to the prior year comparable period expense of approximately \$48,000, or 4.3% of income before income taxes. Our effective tax rate for fiscal 2016 reflected year over year changes in pre-tax income (loss).



---

## **Table of Contents**

### ***Income or loss from discontinued operations, net of taxes***

For fiscal 2016, our income from discontinued operations was approximately \$511,000 reflecting two months of operations prior to the disposal of discontinued operations offset by approximately \$442,000 of tax expense. This compares to a loss from discontinued operations totaling approximately \$5.5 million for fiscal 2015, reflecting a \$2,000 operating loss combined with an \$8.8 million asset impairment charge, offset by a \$3.3 million tax benefit.

### ***Basic and Diluted Net Income (Loss) Per Common Share***

Net loss for fiscal 2016 was approximately \$2.9 million, or \$0.42 per basic and diluted share, respectively, on approximately 6,950,000 weighted average basic and diluted shares outstanding. Net income for fiscal 2015 was approximately \$1.1 million, or \$0.15 per basic and diluted share, respectively, on approximately 6,992,000 weighted average basic shares outstanding and approximately 7,013,000 weighted average diluted shares outstanding, respectively.

### **Fiscal Year 2015 Compared to Fiscal Year 2014**

#### ***Total Revenue***

Total revenue of approximately \$114.2 million for fiscal 2015 decreased approximately \$17.6 million, or 13.4%, from total revenue of \$131.9 million in fiscal 2014, reflecting the refranchising of five Company-owned restaurants and the closure of one Company-owned restaurant as well as a comparable sales decline, partially offset by revenues from the 53<sup>rd</sup> week of fiscal 2015. Fiscal 2015 had 53 operating weeks while 2014 consisted of 52 weeks.

#### ***Restaurant Sales, net***

Restaurant sales, net for fiscal 2015 were approximately \$95.5 million, compared to approximately \$113.5 million for fiscal 2014 reflecting a 15.9% decrease. Total restaurant sales reflected the refranchising of five Company-owned restaurants, closure of one Company-owned restaurant during 2015, and the annualized impact of three restaurants closed at the end of fiscal 2014. During fiscal 2015 there was a 9.3% comparable sales decrease which was, on a weighted basis, comprised of a 7.7% comparable sales decrease for dine-in sales, a 2.0% comparable sales decrease for To Go, and a 0.4% comparable sales increase for catering.

#### ***Franchise-Related Revenue***

Franchise-related revenue consists of royalty revenue and franchise fees, which includes initial franchise fees and area development fees. Franchise-related revenue was approximately \$17.8 million in fiscal 2015 and \$17.4 million in fiscal 2014. The franchise-related revenue reflected three franchise-operated openings in fiscal 2015 and five Company-owned restaurants that were refranchised, combined with the impact of the 53<sup>rd</sup> week. These increases were partially offset by the closure of twelve franchise-operated restaurants in fiscal 2015 and a comparable sales decline of 2.5%. Fiscal 2015 included 7,107 franchise operating weeks, compared to 7,244 franchise operating weeks in fiscal 2014. There were 135 franchise-operated restaurants open at January 3, 2016, compared to 139 at December 28, 2014.

#### ***Licensing and Other Revenue***

Licensing revenue includes royalties from a retail line of business, including sauces, rubs, marinades and seasonings. Other revenue includes opening assistance and training we provide to our franchise partners. Licensing revenue was approximately \$940,000 for fiscal 2015 as compared to \$878,000 for fiscal 2014.

Other revenue for fiscal 2015 was approximately \$14,000 compared to approximately \$76,000 for the comparable period of fiscal 2014. The decrease was primarily due to a decrease in the number of franchise openings year over year and a corresponding decrease in the opening assistance required.

#### ***Same Store Net Sales***

It is our policy to include in our same store net sales base, restaurants that are open year-round and have been open at least 24 months. Same store net sales for Company-owned restaurants open at least 24 months ended January 3, 2016 decreased 9.3%, compared to fiscal 2014's decrease of 5.7%. For fiscal 2015 and fiscal 2014, there were 35 and 42 restaurants, respectively, included in the Company-owned 24 month

comparable sales base.

**Table of Contents**

Same store net sales on a 24 month basis for franchise-operated restaurants for fiscal 2015 decreased 2.5%, compared to fiscal 2014's comparable same store net sales which were down 2.5%. For fiscal 2015 and fiscal 2014, there were 115 and 117 restaurants, respectively, included in the franchise-operated 24 month comparable sales base.

Same store net sales for franchise-operated restaurants are not revenues of the Company and are not included in the Company's consolidated financial statements. The Company's management believes that disclosure of comparable restaurant net sales 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 the Company receives 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.

***Average Weekly Net Sales and Operating Weeks***

The following table shows Company-owned and franchise-operated average weekly net sales for fiscal 2015 and fiscal 2014:

|  | Fiscal Years Ended |                      |
|--|--------------------|----------------------|
|  | January 3,<br>2016 | December 28,<br>2014 |
| <b>Average Weekly Net Sales (AWS):</b> |                    |                      |
| Company-Owned                          | \$ 42,661          | \$ 46,836            |
| Full-Service                           | \$ 43,330          | \$ 47,784            |
| Counter-Service                        | \$ 37,896          | \$ 39,034            |
| Franchise-Operated <sup>(1)</sup>      | \$ 50,202          | \$ 51,059            |

(1) AWS for franchise-operated restaurants are not revenues of the Company and are not included in the Company's consolidated financial statements. The Company's management believes that disclosure of comparable restaurant net sales 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 the Company receives 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***

Food and beverage costs for fiscal 2015 were approximately \$29.1 million, or 30.5%, of net restaurant sales compared to approximately \$33.5 million, or 29.5%, of net restaurant sales for fiscal 2014. This increase as a percent of sales was the result of anticipated food contract inflation partially offset by a settlement of a class action suit.

***Labor and Benefits Costs***

Labor and benefits costs for fiscal 2015 were approximately \$32.6 million, or 34.1%, of net restaurant sales, compared to approximately \$36.9 million, or 32.5%, of net restaurant sales for fiscal 2014. This increase as a percent of restaurant sales, net was primarily due to sales deleverage on fixed and management labor costs and in efficiencies in direct labor controls as a result of the implementation of a new labor management system for part of fiscal 2015.

***Operating Expenses***

Operating expenses for fiscal 2015 were approximately \$27.8 million, or 29.1%, of net restaurant sales, compared to approximately \$31.5 million, or 27.8%, of net restaurant sales for fiscal 2014. This increase as a percent of sales was primarily related to sales deleverage on fixed operating costs as well as a year over year increase in repairs and maintenance.

## **Table of Contents**

In fiscal 2015, advertising, as a percentage of sales, was approximately 2.6% compared to fiscal 2014's percentage at 2.7%. For 2015, the Marketing Fund contribution returned to 1.0% and was 0.75% in fiscal 2014.

### ***Depreciation and Amortization***

Depreciation and amortization expense for fiscal 2015 and 2014 was approximately \$4.5 million and \$5.2 million, respectively, and was 3.9% and 3.9%, respectively, of total revenue. The decline in total expense reflects the reduction in total property, equipment and leasehold improvements due to the refranchising or closure of six restaurants during fiscal 2015.

### ***General and Administrative Expenses***

General and administrative expenses for fiscal 2015 were approximately \$19.0 million or 16.7% of total revenue compared to approximately \$15.9 million, or 12.1%, of total revenue for fiscal 2014. Recurring core general and administrative expenses have decreased year over year. However, these reductions were offset by expenses incurred for professional and consulting fees related to brand development, legal fees, a reserve for obsolete plate ware, and severance costs incurred for the closure of the Chicago office, compounded by revenue deleverage.

### ***Asset Impairment and Estimated Lease Termination and Other Closing Costs***

The following is a summary of events for fiscal 2015 and fiscal 2014:

#### **Richmond, VA Area Restaurant Closures**

On December 29, 2014, the Company announced the closure of its three underperforming Company-owned restaurants located in and around Richmond, Virginia. The associated impairment charges primarily related to the write-off of the book value of the related property, plant and equipment, net of estimated proceeds from the sale of these assets (primarily derived from the sale of real property). Loss before taxes associated with these operations for the year ended December 28, 2014 totaled approximately \$187,000.

On December 28, 2014 the remaining book values, were valued at the estimated proceeds from the sale and were recorded as assets held for sale in the Consolidated Balance Sheet. Two of these properties were sold during the third quarter of fiscal 2015 and the first quarter of 2016, respectively. On January 3, 2016, the remaining property's fair value was reclassified to property, equipment and leasehold improvements, net because it was not probable that the assets would be sold in the next 12 months.

**Table of Contents**

| <i>(dollars in thousands)</i>                        | January 3,<br>2016 | December 28,<br>2014 |
|--|--------------------|----------------------|
| Asset Impairments                                    |                    |                      |
| Smithtown, NY <sup>(1)</sup>                         | \$ 935             | \$                   |
| May s Landing, NJ                                    |                    | 766                  |
| Richmond, VA area                                    |                    | 2,285                |
| Two Minneapolis, MN area restaurants                 |                    | 544                  |
| Décor  |                    | 342                  |
| Des Moines, IA                                       |                    | 226                  |
| <br>Total  | <br>\$ 935         | <br>\$ 4,163         |
| Restaurant closure expenses                          |                    |                      |
| N. Riverside, IL <sup>(2)</sup>                      | 368                |                      |
| Richmond, VA area                                    | 143                | 54                   |
| N. Riverside, IL <sup>(3)</sup>                      | 122                |                      |
| Other <sup>(4)</sup>                                 | (6)                |                      |
| Eden Prairie, MN                                     | (42)               |                      |
| Salisbury, MD  |                    | 206                  |
| Décor Warehouse                                      |                    | 94                   |
| <br>Total restaurant closure expenses                | <br>\$ 585         | <br>\$ 354           |
| <br>Provision for impairment and restaurant closings | <br>\$ 1,520       | <br>\$ 4,517         |

(1) Asset impairment calculated at June 28, 2015 based upon expected sale of Smithtown restaurant.

(2) Lease termination costs associated with the cancellation of a potential new restaurant location.

(3) Write off of development costs associated with the cancellation of a potential new restaurant location.

(4) Includes \$191,000 in costs written-off associated with closing the Lombard, Illinois field office partially offset by an \$86,000 recapture of deferred rent credits.

***Pre-opening Expenses***

Pre-opening expenses consist of labor, food, utilities, training and rent costs incurred prior to the opening of a restaurant. Included in pre-opening costs is pre-opening rent for approximately 16 weeks prior to opening but this will vary based on lease terms. During fiscal 2015 and 2014, we had \$1,000 and \$7,000, respectively, of pre-opening expenses which included pre-opening rent and other pre-opening expenses.

***Interest Expense***

Interest expense was approximately \$1.0 million, or 0.9%, of total revenue for fiscal 2015 and approximately \$867,000, or 0.7%, of total revenue for fiscal 2014. This year over year increase was the result of the write-off of deferred financing costs related to the December 2015 credit facility amendment.

***Interest Income***

Interest income was approximately \$11,000 for fiscal 2015 and approximately \$2,000 for fiscal 2014, respectively. Interest income reflects interest received on short-term cash and cash equivalent balances as well as on outstanding notes receivable and accounts receivable balances.

*Provision for Income Taxes*

For fiscal 2015, our tax provision was approximately \$48,000, or 4.3%, of income before income taxes, compared to the fiscal 2014 tax provision of approximately \$732,000, or 24.5%, of income before income taxes. Our effective tax rate for fiscal 2015 reflected year over year change in pre-tax income.

---

## **Table of Contents**

### ***Income or loss from discontinued operations, net of taxes***

For fiscal 2015, our income from discontinued operations totaled approximately \$5.5 million reflecting an operating loss of approximately \$2,000 combined with an \$8.8 million asset impairment charge, offset by a \$3.3 million tax benefit. This compares to income of approximately \$642,000 from discontinued operations in 2014 reflecting operating income of \$1.0 million offset by approximately \$367,000 of income tax expense.

### ***Basic and Diluted Net Income Per Common Share***

Net income for fiscal 2015 was approximately \$1.1 million, or \$0.15 per basic and diluted share, respectively, on approximately 6,992,000 weighted average basic shares outstanding and approximately 7,013,000 weighted average diluted shares outstanding, respectively. Net income for fiscal 2014 was approximately \$2.3 million, or \$0.31 per basic and diluted share, respectively, on approximately 7,199,000 weighted average basic shares outstanding and approximately 7,226,000 weighted average diluted shares outstanding, respectively.

### **Financial Condition, Liquidity and Capital Resources**

As of January 1, 2017, our Company held cash and cash equivalents of approximately \$4.5 million compared to approximately \$5.3 million as of January 3, 2016. Our cash balance primarily reflects net cash flows from operations of \$1.3 million and \$1.1 million generated from the sales of restaurant assets and décor, offset by net debt repayments of \$2.7 million and the purchases of property, equipment, and leasehold improvements for approximately \$758,000.

Our current ratio, which measures our immediate short-term liquidity, was 1.48 at January 1, 2017, compared to 1.18 at January 3, 2016. The current ratio is computed by dividing total current assets by total current liabilities. The change in our current ratio was primarily due to an \$822,000 reduction in the current portion of long-term debt due to the long-term refinancing of the debt and a \$579,000 increase in accounts receivable. This was partially offset by the disposal of \$2.2 million of net assets held for sale in conjunction with the refranchising of our Chicago restaurants and the sale of land for a previously closed restaurant.

Net cash provided by (used for) operations for each of the last three fiscal years was approximately \$1.3 million in fiscal 2016, \$(1.9) million in fiscal 2015, and \$11.1 million in fiscal 2014. Cash generated by operations in fiscal 2016 was primarily from depreciation and amortization of approximately \$3.7 million, and asset impairment, lease reserve and closing costs of \$4.8 million. These net increases were partially offset by a net loss of approximately (\$2.9) million, an increase in accounts receivable of \$1.2 million, and an increase in prepaid expense and other current assets of \$1.9 million.

Cash used by operations in fiscal 2015 was primarily from net income of approximately \$1.1 million, increased by depreciation and amortization of approximately \$4.5 million, and asset impairment, lease reserve and closing costs of \$1.5 million. These net increases were partially offset by a \$2.3 million gain on the disposal of property, a decrease in accrued compensation and benefits of \$2.2 million, and an increase in accounts receivable of \$1.2 million.

Cash generated by operations in fiscal 2014 was primarily from net income of approximately \$2.3 million, depreciation and amortization of approximately \$5.2 million, and asset impairment, lease reserve and closing costs of \$4.5 million and a \$1.2 million increase in other liabilities. These net increases were partially offset by a decrease in accrued compensation and benefits of \$1.2 million, a tax benefit for equity awards issued of \$1.2 million, and a decrease in accounts payable of \$866,000.

Net cash provided by investing activities for fiscal 2016 and 2015 was approximately \$310,000 and \$4.3 million, respectively. Net cash used for investing activities for fiscal 2014 was approximately \$1.5 million. In fiscal 2016 we generated \$1.1 million from the sale of real estate for one previously closed restaurant. In fiscal 2015 we generated \$7.5 million from the refranchising of five company-owned restaurants and the sale of real estate for two previously closed restaurants. In fiscal 2014 we used approximately \$1.4 million for capital expenditures for remodeling projects and various corporate infrastructure projects.

Net cash used for financing activities was approximately \$2.7 million in fiscal 2016, \$3.1 million in fiscal 2015, and \$9.0 million in fiscal 2014. In fiscal 2016, we had draws on our line of credit of approximately \$1.9 million.

---

## Table of Contents

We had repayments of approximately \$4.4 million on our long-term debt. The maximum balance on our line of credit during fiscal 2016 was \$1.9 million. In fiscal 2015 we had draws on our line of credit of approximately \$27.7 million and had repayments of approximately \$24.4 million. The maximum balance on our line of credit during fiscal 2015 was \$17.7 million. Additionally, in fiscal 2015, we used approximately \$5.7 million to repurchase approximately 195,899 shares of our common stock at an average price of \$28.92 per share, including commissions. In fiscal 2014, we had draws on our line of credit of approximately \$22.4 million and had repayments of approximately \$28.8 million. The maximum balance on our line of credit during fiscal 2014 was \$14.9 million. Additionally, in fiscal 2014, we used approximately \$2.7 million to repurchase approximately 101,000 shares of our common stock at an average price of \$25.72 per share, including commissions.

On December 2, 2016 (the *Effective Date*), the Company entered into a Loan Agreement (the *First Loan Agreement*) among the Company and Minwood Partners, Inc., as borrowers, and Venture Bank, as lender (the *Lender*). Also on the Effective Date, the Company entered into a loan agreement providing among the Company, as lead borrower, certain of its affiliates also as borrowers, and the Lender for two additional loans (the *Second Loan Agreement*). See *Long-Term Debt* under Note 7 of our Consolidated Financial Statements included in this Annual Report on Form 10-K.

The First Loan Agreement provides for a loan from the Lender to the borrowers set forth therein in the principal amount of \$3.7 million and is evidenced by a promissory note (the *First Note*) executed and delivered by the borrowers to the Lender on the Effective Date. The First Note has a maturity date of December 2, 2026 and shall be paid in monthly installments of principal and interest based on a twenty-year amortization period. Interest per annum shall be at a rate of 4.25% for years 1 through 5 and for years 6 through the end of the term LIBOR rate plus 375 basis points, subject to adjustment at the discretion of the Lender, as further set forth therein. The First Note may be prepaid, subject to certain prepayment premiums, provided, however, that during any calendar year the borrowers may prepay principal of up to 20% of the original principal amount without paying a prepayment premium.

The Second Loan Agreement provides for two separate loans from the Lender to the borrowers set forth therein in the aggregate principal amount of \$7.3 million, one in the principal amount of \$6.3 million (*Loan 2*) and the other in the principal amount of \$1 million (*Loan 3*). Loan 2 is evidenced by a promissory note in the principal amount of \$6.3 million (the *Second Note*). The Second Note has a maturity date of December 2, 2023 and shall be paid in monthly installments of principal and interest based on a seven-year amortization period. Interest per annum shall be at a rate equal to the LIBOR rate plus 325 basis points (each of such terms as defined in the Second Note), subject to adjustment at the discretion of the Lender and as further set forth therein. The Second Note may be prepaid at any time without incurring a prepayment premium.

Loan 3 is evidenced by a promissory note in the principal amount of \$1 million (the *Third Note*). The Third Note has a maturity date of December 2, 2019 and shall first be paid in monthly installments of the interest then accrued on the principal balance and then in full on the maturity date. Interest per annum shall be at a rate equal to the LIBOR rate plus 325 basis points (each of such terms as defined in the Third Note), subject to adjustment at the discretion of the Lender, as further set forth therein. The Third Note may be prepaid at any time without incurring a prepayment premium.

The weighted average interest rate of the First, Second and Third notes for the fiscal year ended January 1, 2017 was 4.0%. The weighted average interest rate of the Term Loans for fiscal years ended January 1, 2017 and January 3, 2016 was 3.69% and 2.66%, respectively.

The First and Second Loan Agreements contain customary representations and warranties and financial and other covenants and conditions, including, among other things, minimum debt service coverage ratio and a post-closing covenant to obtain certain letters of credit. The First Loan Agreement also places certain restrictions on, among other things, the borrowers' ability to incur additional indebtedness, to create liens or other encumbrances, to use funds for purposes other than as stated therein, to sell or otherwise dispose of assets and to expand on or erect any new material improvements, as such term is defined therein.

In addition, the First and Second Loan Agreements contain events of default (subject to certain materiality thresholds and grace periods), including, without limitation, payment defaults; breaches of covenants; breaches of representations and warranties; failure to perform remediation of any environmental matters on the mortgaged property, as set forth in the First Mortgage; failure to perform or observe the covenants, conditions or terms of the First Loan Agreement and related agreements; certain bankruptcy events of the borrowers and failure to timely provide financial statements.



**Table of Contents**

If, in the event of a default, the Lender were to call the debt prior to expiration, the Company believes there are multiple options available to obtain other sources of financing. Although possibly at different terms, the Company believes there would be other lenders available and willing to finance a new credit facility. However, if replacement financing were unavailable to us, termination of the Facility without adequate replacement would have a material and adverse impact on our ability to continue our business operations.

On December 2, 2016, the Company used approximately \$9.9 million of the proceeds from borrowings under the First Loan Agreement and Second Loan Agreement to fund repayment of certain outstanding amounts under that certain Third Amended and Restated Credit Agreement dated as of May 8, 2015, as amended (the "Credit Agreement") by and among the Company and its subsidiaries and Wells Fargo Bank, National Association, as administrative agent on behalf of the Lenders under the Credit Agreement and the Lenders. For a period of up to 45 days following December 2, 2016, one letter of credit in the amount of \$625,000 and a related cash collateral pledge remained outstanding under the Credit Agreement. Other than in respect of this letter of credit and related pledge, as well as certain breakage and treasury service management fees, the Company's obligations under the Credit Agreement were terminated on December 2, 2016. At January 1, 2017, the Company had \$1.0 million of additional borrowing capacity in Loan 3. We expect to use any additional borrowings under the Loan 3 for general working capital purchases as needed.

The First Loan Agreement is secured by a mortgage and security agreement and fixture financing statement (the "First Mortgage") granting to the Lender a security interest in and title to certain real property in the state of Minnesota and as more fully described therein. Loan 2 is secured by a mortgage dated as of the Effective Date (the "Second Mortgage") which is subordinate to the First Mortgage, a security interest in substantially all of the personal property of the borrowers pursuant to a security agreement dated as of the Effective Date (the "Security Agreement") and a pledge of certain certificates of deposit pursuant to a pledge agreement also dated as of the Effective Date (the "Pledge Agreement"). Loan 3 is secured by a security interest on substantially all of the personal property of the borrowers pursuant to the Security Agreement and a pledge of certain certificates of deposit pursuant to the Pledge Agreement.

As of January 1, 2017, we were in compliance with all of our covenants.

**Contractual Obligations**

(In thousands)

Payments Due by Period (including interest)

|                               | Total      | 2017     | 2018     | 2019                 | 2020     | 2021     | Thereafter |
|-------------------------------|------------|----------|----------|----------------------|----------|----------|------------|
| Long Term Debt <sup>(1)</sup> | \$ 12,225  | \$ 1,308 | \$ 1,308 | \$ 1,308             | \$ 1,308 | \$ 1,308 | \$ 5,685   |
| Financing Leases              | 3,245      | 700      | 707      | 1,838 <sup>(2)</sup> |          |          |            |
| Operating Lease Obligations   | 114,444    | 5,765    | 5,776    | 5,856                | 5,949    | 5,849    | 85,249     |
| Total                         | \$ 129,914 | \$ 7,773 | \$ 7,791 | \$ 9,002             | \$ 7,257 | \$ 7,157 | \$ 90,934  |

<sup>(1)</sup> This is variable interest rate debt and the interest expense assumption was based on projected interest rates averaging either 4.25% or 3.885% over the term of the loan at January 1, 2017.

<sup>(2)</sup> Includes \$1.7 million of land to be conveyed at the end of the lease term.

See Notes 7 and 8 to our Consolidated Financial Statements included in this Annual Report on Form 10-K for details of our contractual obligations.

---

## **Table of Contents**

### **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**

In fiscal 2016, we had cumulative state net operating loss carry-forwards for tax reporting purposes of approximately \$43.4 million which if not used, will begin to expire in fiscal 2018. This amount may be adjusted when we file our fiscal 2016 income tax returns in fiscal 2017.

### **Recent Accounting Guidance**

#### ***Recently adopted accounting guidance***

In January 2015, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2015-01, Income Statement Extraordinary and Unusual Items. This update eliminates from Generally Accepted Accounting Principles ( GAAP ) the concept of extraordinary items. ASU 2015-01 is effective for the first interim period within fiscal years beginning after December 15, 2015, with early adoption permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. A reporting entity may apply the amendments prospectively or retrospectively to all prior periods presented in the financial statements. The Company adopted this ASU in the first quarter of 2016, but it had no impact on the consolidated financial statements.

In April 2015, the FASB issued guidance on the financial statement presentation of debt issuance costs. This guidance requires debt issuance costs to be presented in the balance sheet as a reduction of the related debt liability rather than as an asset. The standard will become effective for annual periods beginning after December 15, 2015 and for interim periods beginning after December 15, 2016. Early adoption is permitted. The standard requires companies to apply the guidance retrospectively to all prior periods. The Company adopted this at fiscal year-end of 2016 but it did not have a material impact on its consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, Income Taxes: Balance Sheet Classification of Deferred Taxes, which requires entities to present deferred tax assets and deferred tax liabilities as noncurrent in a classified balance sheet. The ASU is effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted for all entities. The Company adopted this at fiscal year-end of 2016 but it did not have a material impact on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 simplifies several aspects related to the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures, statutory tax withholding requirements and classification on the statement of cash flows. For public entities, ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The Company adopted this at fiscal year-end of 2016 but it did not have a material impact on its consolidated financial statements.

#### ***Recent accounting guidance not yet adopted***

In May 2014, the FASB issued 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. It will replace most existing revenue recognition guidance under U.S. GAAP when it becomes effective. It permits the use of either a retrospective

---

**Table of Contents**

or cumulative effect transition method and early adoption is not permitted. The Company has not yet selected a transition method and is currently evaluating the impact these standards will have on its consolidated financial statements and related disclosures.

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. ASU 2016-02 requires a modified retrospective 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. As shown in Note 8, there are \$114.4 million in future minimum rental payments for operating leases that are not currently on our balance sheet; therefore, we expect this will have a material impact on our balance sheet and related disclosures.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 addresses how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash flow, and other Topics. ASU 2016-15 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2017. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

**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**

Our Company's consolidated financial instruments include cash and cash equivalents and long-term debt. Our Company includes as unrestricted cash and cash equivalents, investments with original maturities of three months or less when purchased and that are readily convertible into known amounts of cash. Our Company's unrestricted cash and cash equivalents are not subject to significant interest rate risk due to the short maturities of these instruments. We have no derivative financial instruments or derivative commodity instruments included in our cash and cash equivalents. The total outstanding long-term debt of our Company as of January 1, 2017 was approximately \$12.5 million, including our Loan 1, Loan 2, and Loan 3 with Venture Bank and financing lease obligations. The terms of our loans with Venture Bank, are discussed above under *Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition, Liquidity and Capital Resources*.

Some of the food products purchased by us are affected by commodity pricing and are, therefore, subject to price volatility caused by weather, production problems, delivery difficulties and other factors that are outside our control. To control this risk in part, we have fixed-price purchase commitments for food from vendors. In addition, we believe that substantially all of our food is available from several sources, which helps to manage food commodity risks. We now have secondary, and in some cases tertiary, source suppliers for key items in order to protect the supply chain and to ensure a competitive pricing environment. We believe we have some ability to increase menu prices, or vary the menu options offered, if needed, in response to a food product price increase.

**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.



**Table of Contents**

**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, 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 were effective.

**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 of January 1, 2017. 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 January 1, 2017, 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.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal controls over financial reporting during our most recently-completed fiscal quarter ended January 1, 2017 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

On February 24, 2017, Abelardo Ruiz ceased his employment with the Company.

**Table of Contents****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.

The Company has adopted a Code of Ethics specifically applicable to its CEO, CFO and Key Financial & Accounting Management. In addition, there is a more general Code of Ethics applicable to all team members. The Code of Ethics is available on our website at [www.famousdaves.com](http://www.famousdaves.com) and a copy is available free of charge to anyone requesting it.

**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.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS****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." Under the 2015 Plan, an aggregate of 34,050 shares of our Company's common stock remained unreserved and available for issuance at January 1, 2017.

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 January 1, 2017, with respect to the 2005 Plan and the 2015 Plan.

|  | Number of        | Weighted-      | Number of Securities    |
|--|------------------|----------------|-------------------------|
|  | Securities to be | Average        | Remaining Available for |
|  | Issued Upon      | Exercise Price | Future Issuance         |
|  | Exercise of      | of Outstanding | Under                   |
|  | Outstanding      | Options,       | Equity                  |
|  | Options Warrants | Warrants       | Compensation            |
|  | and Rights       | and            | Plans (Excluding        |
|  |                  | Rights         | Securities Reflected    |
|  |                  |                | in                      |
|  |                  |                | Column (A))             |

Edgar Filing: FAMOUS DAVES OF AMERICA INC - Form 10-K

| Plan Category                                       | (A)     | (B)      | (C)    |
|---|---------|----------|--------|
| Equity compensation plans approved by shareholders: |         |          |        |
| 2005 Stock Incentive Plan                           | 25,850  | \$ 30.95 |        |
| 2015 Stock Incentive Plan                           | 659,950 | \$ 8.30  | 34,050 |
| TOTAL   | 685,800 | \$ 9.15  | 34,050 |

**Table of Contents**

Additional 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.



**Table of Contents**

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

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

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets January 1, 2017 and January 3, 2016

Consolidated Statements of Operations Fiscal Years ended January 1, 2017, January 3, 2016 and December 28, 2014

Consolidated Statements of Shareholders Equity Fiscal Years ended January 1, 2017, January 3, 2016 and December 28, 2014

Consolidated Statements of Cash Flows Fiscal Years ended January 1, 2017, January 3, 2016 and December 28, 2014

Notes to Consolidated Financial Statements

Financial Statement Schedule:

Schedule II. Schedule of Valuation and Qualifying Accounts

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

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

Board of Directors and Shareholders

Famous Dave s of America, Inc.

We have audited the accompanying consolidated balance sheets of Famous Dave s of America, Inc. (a Minnesota corporation) and subsidiaries (the Company ) as of January 1, 2017 and January 3, 2016, and the related consolidated statements of operations, shareholders equity, and cash flows for each of the three years in the period ended January 1, 2017. Our audits of the basic consolidated financial statements included the financial statement schedule listed in the index appearing under Item 15. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Famous Dave s of America, Inc. and subsidiaries as of January 1, 2017 and January 3, 2016, and the results of their operations and their cash flows for each of the three years in the period ended January 1, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Grant Thornton LLP

Minneapolis, Minnesota

March 21, 2017

F-1

**Table of Contents****FAMOUS DAVES OF AMERICA, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****JANUARY 1, 2017 AND JANUARY 3, 2016***(in thousands, except per share data)*

|  | January 1,<br>2017 | January 3,<br>2016 |
|--|--------------------|--------------------|
| <b>ASSETS</b>  |                    |                    |
| <b>Current assets:</b>   |                    |                    |
| Cash and cash equivalents  | \$ 4,450           | \$ 5,300           |
| Restricted cash  | 1,714              | 1,087              |
| Accounts receivable, net   | 5,257              | 4,678              |
| Inventories  | 1,499              | 2,070              |
| Prepaid expenses and other current assets  | 3,531              | 1,671              |
| Assets held for sale   | 1                  | 2,211              |
| <b>Total current assets</b>  | <b>16,452</b>      | <b>17,017</b>      |
| <b>Property, equipment and leasehold improvements, net</b>   | <b>25,912</b>      | <b>32,491</b>      |
| <b>Other assets:</b>   |                    |                    |
| Intangible assets, net   | 2,565              | 2,902              |
| Deferred tax asset   | 4,633              | 4,491              |
| Other assets   | 1,383              | 710                |
|  | <b>\$ 50,945</b>   | <b>\$ 57,611</b>   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                    |                    |
| <b>Current liabilities:</b>  |                    |                    |
| Current portion of long-term debt and financing lease obligations  | \$ 1,371           | \$ 2,193           |
| Accounts payable   | 5,311              | 5,685              |
| Accrued compensation and benefits  | 1,321              | 1,390              |
| Other current liabilities  | 3,140              | 3,406              |
| Liabilities held for sale  |                    | 1,747              |
| <b>Total current liabilities</b>   | <b>11,143</b>      | <b>14,421</b>      |
| <b>Long-term liabilities:</b>  |                    |                    |
| Long-term debt, less current portion   | 8,849              | 10,120             |
| Financing lease obligations, less current portion  | 2,280              | 2,724              |
| Other liabilities  | 8,705              | 8,285              |
| <b>Total liabilities</b>   | <b>30,977</b>      | <b>35,550</b>      |
| <b>Shareholders' equity:</b>   |                    |                    |
| Common stock, \$.01 par value, 100,000 shares authorized, 6,958 shares issued and outstanding at January 1, 2017 and January 3, 2016 | 66                 | 66                 |
| Retained earnings  | 19,902             | 21,995             |
| <b>Total shareholders' equity</b>  | <b>19,968</b>      | <b>22,061</b>      |

See accompanying notes to consolidated financial statements.

F-2

**Table of Contents****FAMOUS DAVES OF AMERICA, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****FOR THE YEARS ENDED****JANUARY 1, 2017, JANUARY 3, 2016, AND DECEMBER 28, 2014***(in thousands, except per share data)*

|  | January 1,<br>2017 | January 3,<br>2016 | December 28,<br>2014 |
|--|--------------------|--------------------|----------------------|
| <b>Revenue:</b>  |                    |                    |                      |
| Restaurant sales, net  | \$ 81,511          | \$ 95,475          | \$ 113,522           |
| Franchise royalty revenue  | 16,375             | 17,542             | 17,196               |
| Franchise fee revenue  | 290                | 255                | 190                  |
| Licensing and other revenue  | 1,003              | 954                | 954                  |
| <b>Total revenue</b>   | 99,179             | 114,226            | 131,862              |
| <b>Costs and expenses:</b>   |                    |                    |                      |
| Food and beverage costs  | 25,256             | 29,093             | 33,478               |
| Labor and benefits costs   | 28,208             | 32,553             | 36,945               |
| Operating expenses   | 24,780             | 27,780             | 31,540               |
| Depreciation and amortization  | 3,681              | 4,452              | 5,183                |
| General and administrative expenses                                      | 16,753             | 19,021             | 15,906               |
| Asset impairment and estimated lease termination and other closing costs | 4,788              | 1,520              | 4,517                |
| Pre-opening expenses   |                    | 1                  | 7                    |
| Net (gain) loss on disposal of property                                  | (197)              | (2,337)            | 430                  |
| <b>Total costs and expenses</b>  | 103,269            | 112,083            | 128,006              |
| <b>(Loss) income from operations</b>                                     | (4,090)            | 2,143              | 3,856                |
| <b>Other expense:</b>  |                    |                    |                      |
| Interest expense   | (855)              | (1,027)            | (867)                |
| Interest income  | 2                  | 11                 | 2                    |
| Other income (expense), net  | 1                  |                    | (4)                  |
| <b>Total other expense</b>   | (852)              | (1,016)            | (869)                |
| <b>(Loss) income before income taxes</b>                                 | (4,942)            | 1,127              | 2,987                |
| <b>Income tax benefit (expense)</b>                                      | 2,000              | (48)               | (732)                |
| <b>Net (loss) income from continuing operations</b>                      | (2,942)            | 1,079              | 2,255                |
| <b>Net income (loss) from discontinued operations, net of taxes</b>      | 511                | (5,463)            | 642                  |
| <b>Net (loss) income</b>   | \$ (2,431)         | \$ (4,384)         | \$ 2,897             |
| <b>Income (loss) income per common share:</b>                            |                    |                    |                      |
| <b>Basic net (loss) income from continuing operations</b>                | \$ (0.42)          | \$ 0.15            | \$ 0.31              |

Edgar Filing: FAMOUS DAVES OF AMERICA INC - Form 10-K

|   |           |           |         |
|---|-----------|-----------|---------|
| <b>Basic net income (loss) from discontinued operations</b>   | \$ 0.07   | \$ (0.78) | \$ 0.09 |
| <b>Basic net (loss) income</b>                                | \$ (0.35) | \$ (0.63) | \$ 0.40 |
| <b>Diluted net (loss) income from continuing operations</b>   | \$ (0.42) | \$ 0.15   | \$ 0.31 |
| <b>Diluted net income (loss) from discontinued operations</b> | \$ 0.07   | \$ (0.78) | \$ 0.09 |
| <b>Diluted net (loss) income</b>                              | \$ (0.35) | \$ (0.63) | \$ 0.40 |
| <b>Weighted average common shares outstanding basic</b>       | 6,950     | 6,992     | 7,199   |
| <b>Weighted average common shares outstanding diluted</b>     | 6,950     | 7,013     | 7,226   |

See accompanying notes to consolidated financial statements.

F-3

Table of Contents

**FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**  
**FOR THE YEARS ENDED**  
**JANUARY 1, 2017, JANUARY 3, 2016, AND DECEMBER 28, 2014**

*(in thousands)*

|  | Common Stock |        | Additional         | Retained  | Total     |
|--|--------------|--------|--------------------|-----------|-----------|
|  | Shares       | Amount | Paid-in<br>Capital | Earnings  |           |
| <b>Balance December 29, 2013</b>                               | 7,274        | \$ 70  | \$                 | \$ 32,721 | \$ 32,791 |
| Exercise of stock options                                      | 24           |        | (114)              |           | (114)     |
| Tax benefit for equity awards issued                           |              |        | 1,153              | 24        | 1,177     |
| Common stock issued, net of cancellations                      | (4)          | (1)    |                    |           | (1)       |
| Performance shares surrendered to cover payroll taxes incurred | (56)         |        | (28)               | (1,492)   | (1,520)   |
| Repurchase of common stock                                     | (101)        | (1)    |                    | (2,610)   | (2,611)   |
| Stock-based compensation                                       |              |        | (1,011)            | 220       | (791)     |
| Deferred compensation  |              |        |                    | (26)      | (26)      |
| Net income   |              |        |                    | 2,897     | 2,897     |
| <b>Balance December 28, 2014</b>                               | 7,137        | \$ 68  | \$                 | \$ 31,734 | \$ 31,802 |
| Tax benefit for equity awards issued                           |              |        | 144                |           | 144       |
| Common stock issued, net of cancellations                      | 25           |        |                    |           |           |
| Performance shares surrendered to cover payroll taxes incurred | (9)          |        |                    | (215)     | (215)     |
| Repurchase of common stock                                     | (195)        | (2)    |                    | (5,670)   | (5,672)   |
| Stock-based compensation                                       |              |        | (144)              | 470       | 326       |
| Deferred compensation  |              |        |                    | 60        | 60        |
| Net loss   |              |        |                    | (4,384)   | (4,384)   |
| <b>Balance January 3, 2016</b>                                 | 6,958        | \$ 66  | \$                 | \$ 21,995 | \$ 22,061 |
| Exercise of stock options                                      |              |        |                    | (1)       | (1)       |
| Stock-based compensation                                       |              |        |                    | 312       | 312       |
| Deferred compensation  |              |        |                    | 27        | 27        |
| Net loss   |              |        |                    | (2,431)   | (2,431)   |
| <b>Balance January 1, 2017</b>                                 | 6,958        | \$ 66  | \$                 | \$ 19,902 | \$ 19,968 |

See accompanying notes to consolidated financial statements.

**Table of Contents****FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED****JANUARY 1, 2017, JANUARY 3, 2016, AND DECEMBER 28, 2014***(in thousands)*

|  | January 1,<br>2017 | January 3,<br>2016 | December 28,<br>2014 |
|--|--------------------|--------------------|----------------------|
| <b>Cash flows from operating activities:</b>   |                    |                    |                      |
| Net (loss) income from continuing operations   | \$ (2,942)         | \$ 1,079           | \$ 2,255             |
| Adjustments to reconcile net (loss) income to cash flows provided by (used for) continuing operations: |                    |                    |                      |
| Depreciation and amortization  | 3,681              | 4,452              | 5,183                |
| Amortization of deferred financing costs   | 115                | 212                | 84                   |
| Net (gain) loss on disposal of property  | (149)              | (2,337)            | 430                  |
| Asset impairment and estimated lease termination and other closing costs                               | 4,788              | 1,520              | 4,517                |
| Deferred income taxes  | (142)              | (4,255)            | (728)                |
| Deferred rent and net amortization of lease interest assets and liabilities                            | 676                | 909                | 940                  |
| Stock-based compensation   | 339                | 386                | (817)                |
| Tax benefit for equity awards issued   |                    | (144)              | (1,177)              |
| Changes in operating assets and liabilities, net of acquisition:                                       |                    |                    |                      |
| Restricted cash  | (828)              | (439)              | 453                  |
| Accounts receivable, net   | (1,191)            | (1,257)            | 483                  |
| Inventories  | 191                | 140                | (40)                 |
| Prepaid expenses and other current assets  | (1,876)            | 267                | 531                  |
| Deposits   | (277)              | 9                  | (27)                 |
| Accounts payable   | (696)              | (305)              | (866)                |
| Accrued compensation and benefits  | (184)              | (2,165)            | (1,224)              |
| Other current liabilities  | (311)              | 162                | 1,229                |
| Other liabilities  | 105                | (38)               | 31                   |
| Long-term deferred compensation  |                    | (74)               | (135)                |
| Cash flows provided by (used for) continuing operating activities                                      | 1,299              | (1,878)            | 11,122               |
| Cash flows (used for) provided by discontinued operating activities                                    | (955)              | 3,862              | 1,557                |
| Cash flows provided by operating activities  | 344                | 1,984              | 12,679               |
| <b>Cash flows from investing activities:</b>   |                    |                    |                      |
| Proceeds from the sale of restaurant assets and décor  | 1,068              | 7,502              | 95                   |
| Purchases of property, equipment and leasehold improvements  | (758)              | (3,197)            | (1,568)              |
| Cash flows provided by (used for) continuing investing activities                                      | 310                | 4,305              | (1,473)              |
| Cash flows provided by (used for) discontinued investing activities                                    | 1,150              | (60)               | (1,317)              |
| Cash flows provided by (used for) for investing activities   | 1,460              | 4,245              | (2,790)              |
| <b>Cash flows from financing activities:</b>   |                    |                    |                      |
| Proceeds from long-term debt   | 103                |                    |                      |
| Proceeds from draws on line of credit  | 1,855              | 27,700             | 22,400               |
| Payments on line of credit   |                    | (24,440)           | (28,800)             |
| Payments for debt issuance costs   | (259)              | (160)              | (40)                 |



Edgar Filing: FAMOUS DAVES OF AMERICA INC - Form 10-K

|  |                 |                 |                 |
|--|-----------------|-----------------|-----------------|
| Payments on long-term debt and financing lease obligations | (4,352)         | (634)           | (981)           |
| Payments from exercise of stock options                    | (1)             |                 | (114)           |
| Tax benefit for equity awards issued                       |                 | 144             | 1,177           |
| Repurchase of common stock                                 |                 | (5,672)         | (2,691)         |
| Cash flows used for financing activities                   | (2,654)         | (3,062)         | (9,049)         |
| <b>(Decrease) increase in cash and cash equivalents</b>    | <b>(850)</b>    | <b>3,167</b>    | <b>840</b>      |
| <b>Cash and cash equivalents, beginning of year</b>        | <b>5,300</b>    | <b>2,133</b>    | <b>1,293</b>    |
| <b>Cash and cash equivalents, end of year</b>              | <b>\$ 4,450</b> | <b>\$ 5,300</b> | <b>\$ 2,133</b> |

See accompanying notes to consolidated financial statements.

F-5

---

**Table of Contents**

**FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(1) NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**

**Nature of business** We, Famous Dave s of America, Inc. ( Famous Dave s or the Company ), were incorporated in Minnesota on March 14, 1994. We develop, own, operate and franchise restaurants under the name Famous Dave s . As of January 1, 2017, there were 176 Famous Dave s restaurants operating in 32 states, the Commonwealth of Puerto Rico, Canada, and the United Arab Emirates, including 37 Company-owned restaurants and 139 franchise-operated restaurants. An additional 62 franchise restaurants were committed to be developed through signed area development agreements as of January 1, 2017.

**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 customer and team member transportation to our restaurants.

**Principles of consolidation** The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned and majority-owned subsidiaries. Any inter-company transactions and balances have been eliminated in consolidation.

**Management s use of estimates** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ( GAAP ) requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassifications** Certain reclassifications have been made to prior year amounts to conform to the current year s presentation of discontinued operations, deferred taxes and deferred financing costs.

**Financial instruments** Due to their short-term nature, the carrying value of our current financial assets and liabilities approximates their fair value. The fair value of long-term debt approximates the carrying amount based upon our expected borrowing rate for debt with similar remaining maturities and comparable risk.

**Segment reporting** We have Company-owned and franchise-operated restaurants in the United States, the Commonwealth of Puerto Rico, Canada, and the United Arab Emirates, and operate within the single industry segment of foodservice. We make operating decisions on behalf of the Famous Dave s brand which includes both Company-owned and franchise-operated restaurants. In addition, all operating expenses are reported in total and are not allocated to franchising operations for either external or internal reporting. As a result, we have concluded that we have a single reporting segment.

**Fiscal year** Our fiscal year ends on the Sunday nearest December 31 of each year. Our fiscal year is generally 52 weeks; however, it periodically consists of 53 weeks. The fiscal years ended January 1, 2017 (fiscal 2016), and December 28, 2014 (fiscal 2014) consisted of 52 weeks while the fiscal year ended January 3, 2016 (fiscal 2015), consisted of 53 weeks. The fiscal year ending December 31, 2017 (fiscal 2017) will consist of 52 weeks.

**Cash and cash equivalents** Cash equivalents include all investments with original maturities of three months or less or which are readily convertible into known amounts of cash and are not legally restricted. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000, while the remaining balances are uninsured at January 1, 2017 and January 3, 2016. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

---

**Table of Contents**

**FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Restricted cash and marketing fund** We have a system-wide marketing fund. Company-owned restaurants and franchise-operated restaurants that entered into franchise agreements with the Company after December 17, 2003, are required to contribute a percentage of net sales to the fund that is used for public relations and marketing development efforts throughout the system. These restaurants were required to contribute 1.0% of net sales to this fund during fiscal 2016 and fiscal 2015. In fiscal 2017, the contribution will remain at 1.0% of net sales. The assets held by this fund are considered restricted and are in an interest-bearing account. Accordingly, we reflected the cash related to this fund in restricted cash and the liability is included in accounts payable on our consolidated balance sheets. As of January 1, 2017 and January 3, 2016, we had approximately \$946,000 and \$1.1 million in this fund, respectively.

In conjunction with the Company's Credit Agreement, we have deposited 105% and 100% of the face amount of the undrawn letters of credit in a cash collateral account with Wells Fargo, National Association and Venture Bank. We had approximately \$768,000 in restricted cash as of January 1, 2017, related to these undrawn letters of credit. We were not required to deposit funds in the cash collateral account as of January 3, 2016.

**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 and deterioration in general economic market conditions. 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. 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 the franchisees are required to submit to us. Any changes to the reserve are recorded in general and administrative expenses. The allowance for uncollectible accounts was approximately \$270,000 and \$246,000, at January 1, 2017 and January 3, 2016, respectively. In fiscal 2016, the increase in the allowance for doubtful accounts was primarily due to delays in collections associated with certain franchises. Accounts receivable are written off when they become uncollectible, and payments subsequently received on such receivables are credited to allowance for doubtful accounts. 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. Outstanding past due accounts receivable are subject to a monthly interest charge on unpaid balances which is recorded as interest income in our consolidated statements of operations.

**Inventories** Inventories consist principally of small wares and supplies, food and beverages, and retail goods, and are recorded at the lower of cost (first-in, first-out) or market.

**Property, equipment and leasehold improvements, net** Property, equipment and leasehold improvements are capitalized at a level of \$250 or greater and are recorded at cost. Repair and maintenance costs are charged to operations when incurred. Furniture, fixtures, and equipment are depreciated using the straight-line method over estimated useful lives ranging from 3-7 years, with the exception of restaurant signage which, is included in furniture, fixtures, and equipment and is depreciated over 10 to 15 years, while buildings are depreciated over 30 years. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term, including reasonably assured renewal options, or the estimated useful life of the assets. Décor that has been installed in the restaurants is recorded at cost and is depreciated using the straight-line method over seven years.

**Liquor licenses** The Company has transferable liquor licenses in jurisdictions with a limited number of authorized liquor licenses. These licenses were capitalized as indefinite-lived intangible assets and are included in intangible assets, net in our consolidated balance sheets (see Note 3). We review annually the 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 expensed over the renewal term.

---

**Table of Contents**

**FAMOUS DAVES OF AMERICA, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Debt issuance costs** Debt issuance costs are amortized to interest expense over the term of the related financing. The carrying value of our deferred debt issuance costs, which are netted against the related debt on the consolidated balance sheets, is approximately \$257,000, and \$112,000, net of accumulated amortization of \$345,000 and \$453,000, as of January 1, 2017 and January 3, 2016, respectively.

**Construction overhead and capitalized interest** We capitalize construction overhead costs until the time a building is turned over to operations, which is approximately two weeks prior to opening. In fiscal 2016 and 2015 we did not capitalize any construction overhead costs while in 2014 we capitalized construction overhead costs of approximately \$48,000. These reflect two remodel projects that occurred in fiscal 2014. In fiscal 2016 and 2015 there were no new restaurant openings or remodel projects. In fiscal 2016 and 2015 we did not capitalize any interest costs, while in fiscal 2014 we capitalized interest costs of approximately \$7,000. We depreciate and amortize construction overhead and capitalized interest over the same useful life as leasehold improvements.

**Advertising costs** Advertising costs are charged to expense as incurred. Advertising costs were approximately \$2.0 million, \$2.5 million, and \$3.0 million for fiscal years 2016, 2015, and 2014, respectively, and are included in operating expenses in the consolidated statements of operations.

**Software implementation costs** We capitalize labor costs associated with the implementation of significant information technology infrastructure projects based on actual labor rates per person including benefits, for all time spent on the implementation of software and are depreciated over 5 years. In fiscal 2016 and 2015 we did not capitalize any software implementation costs, while in 2014 we capitalized software implementation costs of \$102,000.

**Research and development costs** Research and development costs represent salaries and expenses of personnel engaged in the creation of new menu and promotional offerings, recipe enhancements and documentation activities. Research and development costs were approximately \$510,000, \$668,000, and \$468,000, for fiscal years 2016, 2015, and 2014, respectively, and are included in general and administrative expenses in the consolidated statements of operations.

**Pre-opening expenses** All start-up and pre-opening costs are expensed as incurred. Pre-opening rent during the build-out period is included in pre-opening expense. In fiscal 2016 we had no pre-opening expenses. In 2015 and 2014, we had pre-opening expenses of approximately \$1,000, and \$7,000 respectively. The low levels of pre-opening expenses in the recent years are a result of no new Company-owned restaurants opening during fiscal years 2016, 2015 or 2014.

**Lease accounting** We recognize lease expense on a straight-line basis for our operating leases over the entire lease term, including lease renewal options and build-out periods where the renewal is reasonably assured and the build-out period takes place prior to the restaurant opening or lease commencement date. Rent expense recorded during the build-out period is reported as pre-opening expense. We account for construction allowances by recording a receivable when collectability is considered to be probable, and relieve the receivable once the cash is obtained from the landlord for the construction allowance. Construction allowances are amortized as a credit to rent expense over the full term of the lease, including reasonably assured renewal options and build-out periods.

**Recoverability of property, equipment and leasehold improvements, impairment charges, and exit and disposal costs** We evaluate restaurant sites (asset groups) and long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset (asset group) may not be

---

**Table of Contents**

**FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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 site is determined to be impaired, the loss is measured as the amount by which the carrying amount of the restaurant site exceeds its fair value. Fair value, as determined by the discounted future net cash flows, is estimated based on the best information available including estimated future cash flows, expected growth rates in comparable restaurant sales, remaining lease terms and other factors. If these assumptions change in the future, we may be required to recognize additional impairment charges for the related assets. Considerable management judgment is necessary to estimate future cash flows. Accordingly, actual results could vary significantly from the estimates.

Exit or disposal activities, including restaurant closures, include the cost of disposing of the assets and other facility-related expenses from previously closed restaurants. These costs are generally expensed as incurred. Additionally, at the date we cease using a property under an operating lease, we record a liability for the net present value of any remaining lease obligations, net of estimated sublease income. Any subsequent adjustments to that liability as a result of lease termination or changes in estimates of sublease income are recorded in the period incurred. Upon disposal of the assets associated with a closed restaurant, any gain or loss is recorded in the same caption as the original impairment within our consolidated statements of operations.

**Asset retirement obligation** We recognize a liability for the fair value of a required asset retirement obligation ( ARO ) when such obligation is incurred. Our AROs are primarily associated with leasehold improvements which, at the end of a lease, we are contractually obligated to remove in order to comply with the lease agreement. The net ARO liability included in other long term liabilities in our consolidated balance sheets was \$119,000 and \$111,000 at January 1, 2017 and January 3, 2016, respectively.

**Gift cards** We record a liability in the period in which a gift card is issued and proceeds are received. As gift cards are redeemed, this liability is reduced and revenue is recognized. We recognize gift card breakage income as an offset to operating expense based on a stratified breakage rate per year. This breakage rate is based on a percentage of sales when the likelihood of the redemption of the gift card becomes remote.

**Interest income** We recognize interest income when earned.

**Net (loss) income per common share** Basic net (loss) income per common share ( EPS ) is computed by dividing net (loss) income by the weighted average number of common shares outstanding for the reporting period. Diluted EPS equals net (loss) income divided by the sum of the weighted average number of shares of common stock outstanding plus all additional common stock equivalents, such as stock options and restricted stock units, when dilutive.

**Table of Contents****FAMOUS DAVES OF AMERICA, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Following is a reconciliation of basic and diluted net (loss) income per common share:

| <i>(in thousands, except per share data)</i>                                   | <b>2016</b>      | <b>Fiscal Year<br/>2015</b> | <b>2014</b>    |
|--|------------------|-----------------------------|----------------|
| <b>Net (loss) income per common share basic:</b>                               |                  |                             |                |
| Net (loss) income from continuing operations, net of taxes                     | \$ (2,942)       | \$ 1,079                    | \$ 2,255       |
| Net income (loss) from discontinued operations, net of taxes                   | 511              | (5,463)                     | 642            |
| Net (loss) income  | (2,431)          | (4,384)                     | 2,897          |
| Weighted average shares outstanding  | 6,950            | 6,992                       | 7,199          |
| <b>Net (loss) income from continuing operations per common share basic</b>     | <b>\$ (0.42)</b> | <b>\$ 0.15</b>              | <b>\$ 0.31</b> |
| <b>Net income (loss) from discontinued operations per common share basic</b>   | <b>\$ 0.07</b>   | <b>\$ (0.78)</b>            | <b>\$ 0.09</b> |
| <b>Net (loss) income per common share basic</b>                                | <b>\$ (0.35)</b> | <b>\$ (0.63)</b>            | <b>\$ 0.40</b> |
| <b>Net (loss) income per common share diluted:</b>                             |                  |                             |                |
| Net (loss) income from continuing operations, net of taxes                     | \$ (2,942)       | \$ 1,079                    | \$ 2,255       |
| Net income (loss) from discontinued operations, net of taxes                   | 511              | (5,463)                     | 642            |
| Net (loss) income  | (2,431)          | (4,384)                     | 2,897          |
| Weighted average shares outstanding  | 6,950            | 6,992                       | 7,199          |
| Dilutive impact of common stock equivalents outstanding                        |                  | 21                          | 27             |
| Adjusted weighted average shares outstanding                                   | 6,950            | 7,013                       | 7,226          |
| <b>Net (loss) income from continuing operations per common share diluted</b>   | <b>\$ (0.42)</b> | <b>\$ 0.15</b>              | <b>\$ 0.31</b> |
| <b>Net income (loss) from discontinued operations per common share diluted</b> | <b>\$ 0.07</b>   | <b>\$ (0.78)</b>            | <b>\$ 0.09</b> |
| <b>Net (loss) income per common share diluted</b>                              | <b>\$ (0.35)</b> | <b>\$ (0.63)</b>            | <b>\$ 0.40</b> |

There were approximately 683,000, 507,000 and 118,000 options outstanding as of January 1, 2017, January 3, 2016 and December 28, 2014, respectively that were not included in the computation of diluted EPS because they were anti-dilutive.

**Stock-based compensation** We recognize compensation cost for share-based awards granted to team members and Board members based on their fair values at the time of grant over the requisite service period. Stock options granted to non-employees are marked to market when they vest. Our pre-tax compensation cost for stock options and other incentive awards is included in general and administrative expenses in our consolidated statements of operations (see Note 9).

Cash flows from the exercise of stock options resulting from tax benefits in excess of recognized cumulative compensation cost (excess tax benefits) is classified as cash flows from financing activities. During fiscal years 2016, 2015 and 2014, 416,250, 464,774 and 190,500 stock options were granted, respectively. During fiscal 2016, 171,690 stock options were forfeited.

**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

## Edgar Filing: FAMOUS DAVES OF AMERICA INC - Form 10-K

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.

**Revenue recognition** We record restaurant sales at the time food and beverages are served. We record sales of merchandise items at the time items are delivered to the guest. All sales taxes are excluded from revenue. We have detailed below our revenue recognition policies for franchise and licensing agreements.

F-10

---

**Table of Contents**

**FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*Franchise arrangements* Initial franchise fee revenue is recognized when we have performed substantially all of our obligations as franchisor. Franchise royalties are recognized when earned.

Our franchise-related revenue is comprised of three separate and distinct earnings processes: area development fees, initial franchise fees and continuing royalty payments. Currently, our area development fee for domestic growth consists of a one-time, non-refundable payment of approximately \$10,000 per restaurant in consideration for the services we perform in preparation of executing each area development agreement. For our foreign area development agreements the one time, non-refundable payment is negotiated on a per development basis and is determined based on the costs incurred to sell that development agreement. Substantially all of these services, which include, but are not limited to, conducting market and trade area analysis, a meeting with Famous Dave s Executive Team, and performing a potential franchise background investigation, are completed prior to our execution of the area development agreement and receipt of the corresponding area development fee. As a result, we recognize this fee in full upon receipt. Currently, our initial, non-refundable, franchise fee for domestic growth is \$45,000 per restaurant, of which approximately \$5,000 is recognized immediately when a franchise agreement is signed, reflecting expenses incurred related to the sale. The remaining non-refundable fee is included in deferred franchise fees and is recognized as revenue when we have performed substantially all of our obligations, which generally occurs upon the franchise entering into a lease agreement for the restaurant(s). Finally, franchisees are also required to pay us a monthly royalty equal to a percentage of their net sales, which has historically varied from 4% to 5%. In general, new franchises pay us a monthly royalty of 5% of their net sales.

*Licensing and other revenue* We have a licensing agreement for our retail products, the current term of which expires in April 2020 with renewal options of five years, subject to the licensee s attainment of identified minimum product sales levels. Licensing revenue is recorded based on royalties earned by us in accordance with our agreement. Licensing revenue for fiscal years 2016, 2015, and 2014 was approximately \$981,000, \$940,000, and \$878,000, respectively.

Periodically, we provide additional services, beyond the general franchise agreement, to our franchise operations, such as new restaurant training, information technology setup and décor installation services. The cost of these services is recognized upon completion and is billed to the respective franchisee and is generally payable on net 30-day terms. Other revenue related to these services for fiscal years 2016, 2015, and 2014 was approximately \$22,000, \$14,000, and \$76,000, respectively. These year over year changes are a result of fewer franchise-operated restaurant openings as well as a level of assistance we provided during those openings.

**Recent Accounting Guidance**

***Recently adopted accounting guidance***

In January 2015, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2015-01, Income Statement Extraordinary and Unusual Items. This update eliminates from Generally Accepted Accounting Principles ( GAAP ) the concept of extraordinary items. ASU 2015-01 is effective for the first interim period within fiscal years beginning after December 15, 2015, with early adoption permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. A reporting entity may apply the amendments prospectively or retrospectively to all prior periods presented in the financial statements. The Company adopted this ASU in the first quarter of 2016, but it had no impact on the consolidated financial statements.

In April 2015, the FASB issued guidance on the financial statement presentation of debt issuance costs. This guidance requires debt issuance costs to be presented in the balance sheet as a reduction of the related debt liability rather than as an asset. The standard will become effective for annual periods beginning after December 15, 2015 and for interim periods beginning after December 15, 2016. Early adoption is permitted. The standard requires companies to apply the guidance retrospectively to all prior periods. The Company adopted this at fiscal year-end of 2016 but it did not have a material impact on its consolidated financial statements.



**Table of Contents**

**FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

In November 2015, the FASB issued ASU 2015-17, Income Taxes: Balance Sheet Classification of Deferred Taxes, which requires entities to present deferred tax assets and deferred tax liabilities as noncurrent in a classified balance sheet. The ASU is effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted for all entities. The Company adopted this at fiscal year-end of 2016 but it did not have a material impact on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 simplifies several aspects related to the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures, statutory tax withholding requirements and classification on the statement of cash flows. For public entities, ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The Company adopted this at fiscal year-end of 2016 but it did not have a material impact on its consolidated financial statements.

***Recent accounting guidance not yet adopted***

In May 2014, the FASB issued 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. It will replace most existing revenue recognition guidance under GAAP when it becomes effective. The new standard permits the use of either a retrospective or cumulative effect transition method and early adoption is not permitted. The Company has not yet selected a transition method and is currently evaluating the impact these standards will have on its consolidated financial statements and related disclosures.

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. ASU 2016-02 requires a modified retrospective 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. As shown in Note 8, there are \$114.4 million in future minimum rental payments for operating leases that are not currently on our balance sheet; therefore, we expect this will have a material impact on our consolidated balance sheets and related disclosures.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 addresses how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flow, and other Topics. ASU 2016-15 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2017. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

**Table of Contents****FAMOUS DAVES OF AMERICA, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(2) INVENTORIES**

Inventories consisted approximately of the following at:

| <i>(in thousands)</i>    | January 1,<br>2017 | January 3,<br>2016 |
|--------------------------|--------------------|--------------------|
| Small wares and supplies | \$ 730             | \$ 1,251           |
| Food and beverage        | 711                | 761                |
| Retail goods             | 58                 | 58                 |
|                          | \$ 1,499           | \$ 2,070           |

**(3) INTANGIBLE ASSETS**

The Company has intangible assets that consist of liquor licenses and lease interest assets. The liquor licenses are indefinite lived assets (see Note 1) and are not subject to amortization. The lease interest assets are amortized, to occupancy costs, on a straight-line basis over the remaining term of each respective lease. Amortization for each of the next five years is expected to be approximately \$36,500.

A summary of intangible assets for the years ended January 1, 2017 and January 3, 2016, respectively, is presented in a table below:

| <i>(in thousands)</i>             | Remaining<br>estimated<br>useful<br>life<br>(years) | Original<br>Cost | Impairment              | Accumulated<br>Amortization | Net<br>Book<br>Value | Less<br>Current<br>Portion <sup>(3)</sup> | Non-<br>Current<br>Portion |
|-----------------------------------|---|------------------|-------------------------|-----------------------------|----------------------|---|----------------------------|
| <b>Balance at January 1, 2017</b> |   |                  |                         |                             |                      |   |                            |
| Lease interest assets             | 23.1  | \$ 1,417         | \$ (326) <sup>(1)</sup> | \$ (249)                    | \$ 842               | \$ (37)                                   | \$ 805                     |
| Liquor licenses                   |   | 1,810            | (50) <sup>(2)</sup>     |                             | 1,760                |   | 1,760                      |
| Total                             |   | \$ 3,227         | \$ (376)                | \$ (249)                    | \$ 2,602             | \$ (37)                                   | \$ 2,565                   |

| <i>(in thousands)</i>             | Remaining<br>estimated<br>useful<br>life<br>(years) | Original<br>Cost | Impairment | Accumulated<br>Amortization | Net<br>Book<br>Value | Less<br>Current<br>Portion <sup>(1)</sup> | Non-<br>Current<br>Portion |
|-----------------------------------|---|------------------|------------|-----------------------------|----------------------|---|----------------------------|
| <b>Balance at January 3, 2016</b> |   |                  |            |                             |                      |   |                            |
| Lease interest assets             | 24.1  | \$ 1,417         | \$         | \$ (277)                    | \$ 1,140             | \$ (48)                                   | 1,092                      |
| Liquor licenses                   |   | 1,810            |            |                             | 1,810                |   | 1,810                      |
| Total                             |   | \$ 3,227         | \$         | \$ (277)                    | \$ 2,950             | \$ (48)                                   | 2,902                      |

## Edgar Filing: FAMOUS DAVES OF AMERICA INC - Form 10-K

- (1) Recorded in connection with the restaurant optimization. See Note 16.
- (2) Based upon a quantitative analysis of this intangible asset, we determined that the fair value of one liquor license was less than its carrying value.
- (3) The current portion of lease interest assets are recorded in prepaid expenses and other current assets.

F-13

**Table of Contents****FAMOUS DAVES OF AMERICA, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(4) PROPERTY, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS, NET**

Property, equipment and leasehold improvements, net, consisted approximately of the following at:

| <i>(in thousands)</i>                               | <b>January 1,<br/>2017</b> | <b>January 3,<br/>2016</b> |
|---|----------------------------|----------------------------|
| Land, buildings, and improvements                   | \$ 50,851                  | \$ 50,713                  |
| Furniture, fixtures, and equipment                  | 35,609                     | 34,866                     |
| Décor   | 1,553                      | 1,553                      |
| Construction in progress                            | 181                        | 471                        |
| Accumulated depreciation and amortization           | (62,282)                   | (55,112)                   |
| Property, equipment and leasehold improvements, net | \$ 25,912                  | \$ 32,491                  |

**(5) OTHER CURRENT LIABILITIES**

Other current liabilities consisted of the following at:

| <i>(in thousands)</i>                    | <b>January 1,<br/>2017</b> | <b>January 3,<br/>2016</b> |
|--|----------------------------|----------------------------|
| Gift cards payable                       | \$ 1,448                   | \$ 1,616                   |
| Other liabilities                        | 1,140                      | 902                        |
| Sales tax payable                        | 454                        | 674                        |
| Accrued real estate tax                  | 79                         |                            |
| Deferred franchise fees                  | 16                         | 134                        |
| Accrued property and equipment purchases | 3                          | 40                         |
| Income taxes payable                     |                            | 40                         |
|  | \$ 3,140                   | \$ 3,406                   |

**(6) OTHER LIABILITIES**

Other liabilities consisted of the following at:

| <i>(in thousands)</i>           | <b>January 1,<br/>2017</b> | <b>January 3,<br/>2016</b> |
|---------------------------------|----------------------------|----------------------------|
| Deferred rent                   | \$ 7,802                   | \$ 7,191                   |
| Other liabilities               | 358                        | 455                        |
| Asset retirement obligations    | 119                        | 111                        |
| Long term lease reserve         | 145                        | 258                        |
| Long term deferred compensation | 142                        | 258                        |
| Income taxes payable            | 139                        | 12                         |

**(7) CREDIT FACILITY AND DEBT COVENANTS, AND FINANCING LEASE OBLIGATIONS**

On December 2, 2016 (the Effective Date ), Famous Dave s of America, Inc. (the Company ) entered into a Loan Agreement (the First Loan Agreement ) among the Company and Minwood Partners, Inc., as borrowers, and

---

**Table of Contents**

**FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Venture Bank, as lender (the Lender ). Also on the Effective Date, the Company entered into a loan agreement providing among the Company, as lead borrower, certain of its affiliates also as borrowers, and the Lender for two additional loans (the Second Loan Agreement ).

The First Loan Agreement provides for a loan from the Lender to the borrowers set forth therein in the principal amount of \$3.7 million and is evidenced by a promissory note (the First Note ) executed and delivered by the borrowers to the Lender on the Effective Date. The First Note has a maturity date of December 2, 2026 and shall be paid in monthly installments of principal and interest based on a twenty-year amortization period. Interest per annum shall be at a rate of 4.25% for years 1 through 5 and for years 6 through the end of the term LIBOR rate plus 375 basis points, subject to adjustment at the discretion of the Lender, as further set forth therein. The First Note may be prepaid, subject to certain prepayment premiums, provided, however, that during any calendar year the borrowers may prepay principal of up to 20% of the original principal amount without paying a prepayment premium.

Proceeds from the First Loan Agreement were used to repay the Company s debt to Wells Fargo Bank, National Association and to pay certain other costs approved by the Lender.

The First Loan Agreement is secured by a mortgage and security agreement and fixture financing statement (the First Mortgage ) granting to the Lender a security interest in and title to certain real property in the state of Minnesota and as more fully described therein.

The First Loan Agreement contains customary representations and warranties and financial and other covenants and conditions, including, among other things, minimum debt service coverage ratio and a post-closing covenant to obtain certain letters of credit. The First Loan Agreement also places certain restrictions on, among other things, the borrowers ability to incur additional indebtedness, to create liens or other encumbrances, to use funds for purposes other than as stated therein, to sell or otherwise dispose of assets and to expand on or erect any new material improvements, as such term is defined therein.

In addition, the First Loan Agreement contains events of default (subject to certain materiality thresholds and grace periods), including, without limitation, payment defaults; breaches of covenants; breaches of representations and warranties; failure to perform remediation of any environmental matters on the mortgaged property, as set forth in the First Mortgage; failure to perform or observe the covenants, conditions or terms of the First Loan Agreement and related agreements; certain bankruptcy events of the borrowers and failure to timely provide financial statements.

The Second Loan Agreement provides for two separate loans from the Lender to the borrowers set forth therein in the aggregate principal amount of \$7.3 million, one in the principal amount of \$6.3 million ( Loan 2 ) and the other in the principal amount of \$1.0 million ( Loan 3 ). Loan 2 is evidenced by a promissory note in the principal amount of \$6.3 million (the Second Note ). The Second Note has a maturity date of December 2, 2023 and shall be paid in monthly installments of principal and interest based on a seven-year amortization period. Interest per annum shall be at a rate equal to the LIBOR rate plus 325 basis points (each of such terms as defined in the Second Note), subject to adjustment at the discretion of the Lender and as further set forth therein. The Second Note may be prepaid at any time without incurring a prepayment premium.

Loan 3 is evidenced by a promissory note in the principal amount of \$1.0 million (the Third Note ). The Third Note has a maturity date of December 2, 2019 and shall first be paid in monthly installments of the interest then accrued on the principal balance and then in full on the maturity date. Interest per annum shall be at a rate equal to the LIBOR rate plus 325 basis points (each of such terms as defined in the Third Note), subject to adjustment at the discretion of the Lender, as further set forth therein. The Third Note may be prepaid at any time without incurring a prepayment premium.

Proceeds from the Second Loan Agreement were used to repay the Company s debt to Wells Fargo Bank, National Association, with the remainder to be used as a line of credit as working capital for borrowers business and pay certain other costs approved by the Lender.

---

**Table of Contents**

**FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Loan 2 is secured by a mortgage dated as of the Effective Date (the Second Mortgage ) which is subordinate to the First Mortgage, a security interest in substantially all of the personal property of the borrowers pursuant to a security agreement dated as of the Effective Date (the Security Agreement ) and a pledge of certain certificates of deposit pursuant to a pledge agreement also dated as of the Effective Date (the Pledge Agreement ). Loan 3 is secured by a security interest on substantially all of the personal property of the borrowers pursuant to the Security Agreement and a pledge of certain certificates of deposit pursuant to the Pledge Agreement.

The Second Loan Agreement contains customary representations and warranties and financial and other covenants and conditions, including, among other things, minimum debt service coverage ratio and a post-closing covenant to obtain certain letters of credit. The Second Loan Agreement also places certain restrictions on, among other things, the borrowers ability to incur additional indebtedness, to use funds for purposes other than as stated therein, to create liens or other encumbrances, to sell or otherwise dispose of assets and to expand on or erect any new material improvements, as such term is defined therein.

In addition, the Second Loan Agreement contains events of default (subject to certain materiality thresholds and grace periods), including, without limitation, payment defaults; breaches of covenants; breaches of representations and warranties; failure to perform remediation of any environmental matters on the mortgaged property, as set forth in the Second Mortgage; failure to perform or observe the covenants, conditions or terms of the Second Loan Agreement and related agreements; certain bankruptcy events of the borrowers and failure to timely provide financial statements. If an event of default were to occur, the Lender has the right to call the debt prior to expiration.

On December 2, 2016, the Company refinanced approximately \$9.9 million from borrowings under the First Loan Agreement and Second Loan Agreement to fund repayment of certain outstanding amounts under the Third Amended and Restated Credit Agreement dated as of May 8, 2015, as amended (the Credit Agreement ) by and among the Company and its subsidiaries and Wells Fargo Bank, National Association, as administrative agent on behalf of the Lenders under the Credit Agreement. For a period of up to 45 days following December 2, 2016, one letter of credit in the amount of \$625,000 and a related cash collateral pledge remained outstanding under the Credit Agreement. Other than this letter of credit and related pledge, as well as certain breakage and treasury service management fees, the Company s obligations under the Credit Agreement were terminated on December 2, 2016. At January 1, 2017, the Company had \$1.0 million of additional borrowing capacity in Loan 3.

The weighted average interest rate of the First, Second and Third notes for the fiscal year ended January 1, 2017 was 4.0%. The weighted average interest rate of the Term Loans for fiscal years ended January 1, 2017 and January 3, 2016 was 3.69% and 2.66%, respectively.

As of January 1, 2017, we were in compliance with all of our covenants.

If, in the event of a default, the Lender were to call the debt prior to expiration, the Company believes there are multiple options available to obtain other sources of financing. Although possibly at different terms, the Company believes there would be other lenders available and willing to finance a new credit facility. However, if replacement financing were unavailable to us, termination of the Facility without adequate replacement would have a material and adverse impact on our ability to continue our business operations.

We expect to use any borrowings under the Credit Agreement for general working capital purchases as needed.

**Table of Contents****FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Long-term debt consisted approximately of the following at:

| <i>(in thousands)</i>  | January 1,<br>2017 | January 3,<br>2016 |
|--|--------------------|--------------------|
| Notes Payable Wells Fargo minimum monthly installments of \$150 until December 31, 2018, followed by a balloon payment of approximately \$6,750 plus interest. | \$                 | \$ 12,000          |
| First Note Venture Bank monthly installments of principal and interest until December 2, 2026  | 3,700              |                    |
| Second Note Venture Bank monthly payments of principal and interest until December 2, 2023   | 6,300              |                    |
| Less: deferred financing fees  | (234)              | (80)               |
| Less: current maturities   | (917)              | (1,800)            |
| Long-term debt net of current maturities   | \$ 8,849           | \$ 10,120          |

Required principal payments on long-term debt are as follows:

| <i>(in thousands)</i> |           |
|-----------------------|-----------|
| Fiscal Year           |           |
| 2017                  | \$ 917    |
| 2018                  | 954       |
| 2019                  | 993       |
| 2020                  | 1,120     |
| 2021                  | 988       |
| Thereafter            | 5,028     |
| Total                 | \$ 10,000 |

**Financing Lease Obligation**

On March 31, 1999, the Company completed a \$4.5 million financing obligation involving three existing restaurants as part of a sale/leaseback transaction. Under this financing, we are obligated to make monthly payments of \$56,627 (which increases 4.04% every two years) for a minimum of 20 years. At the end of the 20 year lease term, we may extend the lease for up to two additional five year terms. We also have the option to purchase the leased restaurants on the 20<sup>th</sup> anniversary of the lease term and between the first and second five year option terms. The option purchase price is the greater of \$4.5 million or the fair market value, as defined in the agreement, of the properties at the time the purchase option is exercised. Based upon our continued involvement in the leased property and its purchase option, the transaction has been accounted for as a financing arrangement. Accordingly, the three existing restaurants are included in property, equipment and leasehold improvements, and are being depreciated over a 20 year term. In addition, as the monthly lease payments are made, the obligation will be reduced by the 20 year amortization table.



**Table of Contents****FAMOUS DAVES OF AMERICA, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Financing lease obligations consisted of the following at:

| <i>(in thousands)</i>  | <b>January 1,<br/>2017</b> | <b>January 3,<br/>2016</b> |
|--|----------------------------|----------------------------|
| Financing lease Spirit Financial monthly installments of \$54-\$59 including an interest rate of 9.63%, due in March 2019. | \$ 2,757                   | \$ 3,150                   |
| Less: deferred financing fees  | (23)                       | (33)                       |
| Less: current maturities   | (454)                      | (393)                      |
| Long-term financing lease net of current maturities  | \$ 2,280                   | \$ 2,724                   |

Required future minimum payments under our financing leases are as follows:

| <i>(in thousands)</i>                          |          |
|--|----------|
| Fiscal Year                                    |          |
| 2017   | \$ 700   |
| 2018   | 707      |
| 2019   | 1,838    |
| Total minimum payments                         | \$ 3,245 |
| Imputed interest component of minimum payments | (488)    |
| Total financing lease payable                  | \$ 2,757 |

**(8) OPERATING LEASE OBLIGATIONS**

We have various operating leases for existing and future restaurants and corporate office space with remaining lease terms ranging from 4 months to 31 years, including lease renewal options. Of the total operating leases, 13 require percentage rent between 3% and 8% of annual gross sales, typically above a natural breakeven point, in addition to the base rent. All of these leases contain provisions for payments of real estate taxes, insurance and common area maintenance costs. Total occupancy lease costs for fiscal years 2016, 2015 and 2014, including rent, common area maintenance costs, real estate taxes and percentage rent, were approximately \$7.5 million, \$7.6 million and \$8.6 million, respectively. Cash rent expense was approximately \$5.0 million, \$5.8 million, and \$6.1 million, for fiscal years 2016, 2015, and 2014, respectively. Percentage rent was approximately \$18,000, \$10,000, and \$6,000 for fiscal years 2016, 2015, and 2014, respectively.

The Company sublet its Chicago field office in 2015 in addition to 10,340 square feet of its corporate office space. In 2016, 2015, and 2014, the Company recognized \$386,000, \$104,000, and \$0, respectively, of sublease income which partially offset its total rent expense.

**Table of Contents****FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Future minimum lease payments (including reasonably assured renewal options) existing at January 1, 2017 were:

*(in thousands)*

|                                   |           |
|-----------------------------------|-----------|
| Fiscal Year                       |           |
| 2017                              | \$ 5,765  |
| 2018                              | 5,776     |
| 2019                              | 5,856     |
| 2020                              | 5,949     |
| 2021                              | 5,849     |
| Thereafter                        | 85,249    |
| Total operating lease obligations | 114,444   |
| Sublease income                   | (15,565)  |
| Total                             | \$ 98,879 |

**(9) PERFORMANCE SHARES, STOCK OPTIONS, OTHER FORMS OF COMPENSATION, AND COMMON SHARE REPURCHASES****Stock-based Compensation**

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 ). Together, the 2015 Plan and 2005 Plan are referred to herein as the Plans. Under the 2015 Plan, an aggregate of 34,050 shares of our Company's common stock remained unreserved and available for issuance at January 1, 2017. The 2005 Plan prohibits the granting of incentives after May 12, 2015. Nonetheless, the 2005 Stock Incentive Plan will remain in effect until all outstanding incentives granted thereunder have either been satisfied or terminated.

**Table of Contents****FAMOUS DAVES OF AMERICA, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

We recognized stock-based compensation expense in our consolidated statements of operations for the fiscal years ended 2016, 2015, and 2014, respectively, as follows:

| <i>(in thousands)</i>                                      | <b>January 1,<br/>2017</b> | <b>For the Years Ended<br/>January 3,<br/>2016</b> | <b>December 28,<br/>2014</b> |
|--|----------------------------|--|------------------------------|
| <b>Performance Share Programs:</b>                         |                            |  |                              |
| 2011 Program <sup>(1)(3)</sup>                             |                            |  | (55)                         |
| 2012 Program <sup>(1)(4)</sup>                             |                            |  | (761)                        |
| 2013 Program <sup>(2)(5)(6)(7)(8)</sup>                    |                            | (169)  | (412)                        |
| <b>Performance Shares and Performance Stock Units</b>      | <b>\$</b>                  | <b>\$</b>  | <b>\$</b>                    |
| Stock Options <sup>(10)(11)(12)</sup>                      | 311                        | 459  | 371                          |
| Restricted Stock and Restricted Stock Units <sup>(8)</sup> |                            |  | (73)                         |
| Director Shares <sup>(9)(12)</sup>                         | 28                         | 60   | 47                           |
|  | <b>\$ 339</b>              | <b>\$ 350</b>                                      | <b>\$ (883)</b>              |

(1) The 2011 and 2012 Programs consisted entirely of performance shares.

(2) The 2013 Program consisted of performance shares and performance stock units.

(3) Includes a \$55,000 recapture of stock-based compensation due to employee departures for the year ended December 28, 2014.

(4) Includes a \$761,000 recapture of stock-based compensation due to employee departures and the failure to achieve performance targets for the year ended December 28, 2014.

(5) Includes the recapture of stock-based compensation related to performance shares of approximately \$458,000 and performance stock units of approximately \$135,000 due to the employee departures for the year ended December 28, 2014.

(6) Includes the recapture of stock-based compensation for performance shares of approximately \$131,000 and performance stock units of approximately \$38,000 due to the failure to achieve threshold performance levels for the program as of January 3, 2016.

(7) Includes a mark-to-market adjustment for performance stock units of approximately \$22,000 for the year ended December 28, 2014.

(8) Includes a \$128,000 recapture of stock-based compensation due to the departure of our former CEO for the year ended December 28, 2014.

## Edgar Filing: FAMOUS DAVES OF AMERICA INC - Form 10-K

(9) Includes a \$20,000 recapture of stock-based compensation due to the departure of our former CEO for the year ended December 28, 2014.

(10) Includes a \$105,000 recapture of stock-based compensation due to employee departures for the year ended January 3, 2016.

(11) Includes a \$126,000 recapture of stock-based compensation due to the departure of our former CFO for the year ended January 1, 2017.

(12) Includes a \$27,000 recapture of stock-based compensation due to the departure of our former CEO for the year ended January 1, 2017.

### Performance Shares and Performance Stock Units

No shares were issued during fiscal 2016 or 2015 related to performance share programs. During the first quarter of fiscal 2014, we issued 86,519 shares upon satisfaction of conditions under the 2011 performance share program, representing the achievement of approximately 86.7% of the target payout for this program. Recipients elected to forfeit 30,518 of those shares to satisfy tax withholding obligations, resulting in a net issuance of 56,001 shares.

The Compensation Committee did not implement performance share programs for fiscal 2014, 2015 or 2016.

We recognize compensation cost for performance share awards and incentive stock option awards over the requisite service period (i.e. fixed treatment) based on their fair value, which is the closing stock price at the date of grant. Participants in each performance share program are entitled to receive a number of shares of our common stock ( Performance Shares ) based upon the extent to which we achieve the cumulative total of the earnings per share or Adjusted EBITDA goals established by our Compensation Committee for each fiscal year within a three-year performance period (the Cumulative Adjusted EBITDA Goal ). Receipt of any performance shares is contingent upon us achieving a specified minimum percentage of the Cumulative Adjusted EBITDA Goal (as applicable).

We recognize compensation cost for performance stock unit awards over the requisite service period based on their initial fair value, which is the closing stock price at the date of grant. This award is adjusted to fair value based on the closing stock price at the end of each fiscal quarter. Recipients of performance stock unit awards are entitled to receive a cash payout based on a number of our stock units awarded ( Performance Stock Unit ) to the extent we achieve the Cumulative Adjusted EBITDA Goal, and the market value of our common stock.

Table of Contents

## FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At January 1, 2017, no performance share programs were in progress.

Board of Directors Compensation

We recognized Board of Directors compensation expense in our consolidated statements of operations for the fiscal years ended January 1, 2017, January 3, 2016, and December 28, 2014, respectively, as follows:

| <i>(in thousands)</i>                 | Fiscal Years |        |        |
|---------------------------------------|--------------|--------|--------|
|                                       | 2016         | 2015   | 2014   |
| Stock-based compensation              | \$ 28        | \$ 60  | \$ 47  |
| Stock option compensation             | 90           | 69     | 155    |
| Cash compensation                     | 95           | 201    | 358    |
| Total Board of Directors compensation | \$ 213       | \$ 330 | \$ 560 |

Stock Options

The compensation expense for stock option grants is recognized under general and administrative expense in our consolidated statements of operations through the applicable service period.

Other options granted to certain non-executive officer employees vest in equal annual installments over a period of four years and expire five years from the grant date. Compensation expense equal to the grant date fair value is generally recognized for these awards over the vesting period.

Options granted to certain non-employees in exchange for future services vest in monthly installments over a period of approximately two years and expire five years from the grant date. Expense is recognized over the vesting period, with previously unvested options being marked to market at the date of vesting.

The fair value of each stock option is estimated on the date of grant using the Black-Scholes valuation method with the assumptions noted in the table below. Due to a lack of recent historical share option exercise experience, the Company uses a simplified method for estimating the expected life, as outlined in Accounting Standards Codification 718, calculated using the following formula: (vesting term + original contract term)/2. Expected volatilities are based on the movement of the Company's common stock over the most recent historical period equivalent to the expected life of the option. The risk-free interest rate for periods equal to the expected life of the option is based on the U.S. maturities over the expected life at the time of grant.

**Table of Contents****FAMOUS DAVES OF AMERICA, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Information regarding our Company's stock options is summarized below:

| <i>(number of options in thousands)</i>  | <b>Number of<br/>Options</b> | <b>Weighted Average<br/>Exercise Price</b> |
|--|------------------------------|--|
| Options outstanding at December 29, 2013 | 48                           | \$ 7.77                                    |
| Granted                                  | 191                          | 28.11                                      |
| Exercised <sup>(1)</sup>                 | (43)                         | 7.40                                       |
| Options outstanding at December 28, 2014 | 196                          | 27.67                                      |
| Granted                                  | 465                          | 15.75                                      |
| Canceled, forfeited or expired           | (154)                        | 28.07                                      |
| Options outstanding at January 3, 2016   | 507                          | 16.66                                      |
| Granted                                  | 416                          | 5.55                                       |
| Exercised                                | (6)                          | 5.90                                       |
| Canceled, forfeited or expired           | (231)                        | 19.44                                      |
| Options outstanding at January 1, 2017   | 686                          | \$ 9.15                                    |
| Options Exercisable at December 28, 2014 | 18                           | \$ 17.39                                   |
| Options Exercisable at January 3, 2016   | 77                           | \$ 21.48                                   |
| Options Exercisable at January 1, 2017   | 259                          | \$ 10.87                                   |

<sup>(1)</sup> In 2014, option holders elected to forfeit approximately 18,000 shares to satisfy the strike price and tax withholding obligations, resulting in a net issuance of approximately 25,000 shares.

The following are weighted-average values and assumptions for valuing grants made during fiscal 2016:

|  |         |
|--|---------|
| Weighted-average fair value of options granted during the year | \$ 1.97 |
| Expected life (in years)                                       | 5.2     |
| Expected stock volatility                                      | 39.98%  |
| Risk-free interest rate  | 1.2%    |

As of January 1, 2017, there was \$1.0 million of total unrecognized compensation cost related to stock option arrangements granted under the Company's stock option plan. The cost is expected to be recognized over a weighted average period of 3.0 years.

**Table of Contents****FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following table summarizes information about stock options outstanding at January 1, 2017:

*(number outstanding and number exercisable in thousands)*

| Exercise prices   | Options Outstanding |  |                                 | Exercisable        |                                 |
|-------------------|---------------------|--|---------------------------------|--------------------|---------------------------------|
|                   | Number outstanding  | Weighted-average remaining contractual life in years | Weighted-average exercise price | Number exercisable | Weighted-average exercise price |
| \$4.55 - \$9.99   | 417                 | 7.3  | \$5.61                          | 91                 | \$5.85                          |
| \$10.00 - \$19.99 | 243                 | 2.8  | \$12.90                         | 158                | \$12.55                         |
| \$20.00 - \$31.66 | 26                  | 7.6  | \$30.95                         | 10                 | \$31.18                         |
| \$4.55 - \$31.66  | 686                 | 5.7  | \$9.15                          | 259                | \$10.87                         |

The aggregate intrinsic value of options (the amount by which the market price of the stock on the date of exercise exceeds the exercise price of the option) exercised during fiscal 2016 was approximately \$3,900. As of January 1, 2017, the aggregate intrinsic value of options outstanding and exercisable was approximately \$1,200.

**Restricted Stock Units**

Employees forfeited 8,622 and 24,685 shares of restricted stock units during fiscal 2015 and 2014, at a price of \$25.05 and \$26.59 per share, respectively, to cover withholding taxes that were due from the employees at the time that the applicable forfeiture restrictions lapsed.

No restricted stock units were outstanding as of January 1, 2017.

**Common Share Repurchases**

On May 1, 2012, our Board of Directors approved a stock repurchase program that authorized the repurchase of up to 1.0 million shares of our common stock in both the open market or through privately negotiated transactions. The program was completed during fiscal 2015. Over the course of the program, we repurchased all of the 1.0 million shares in this authorization for approximately \$18.6 million at an average market price per share of \$18.57, excluding commissions.

**(10) RETIREMENT SAVINGS PLANS****401(k) Plan**

We have a pre-tax salary reduction/profit-sharing plan under the provisions of Section 401(k) of the Internal Revenue Code, which covers employees meeting certain eligibility requirements. In fiscal 2016, 2015, and 2014 we matched 25.0%, of the employee's contribution up to 4.0% of their earnings. Team member contributions were approximately \$338,000, \$399,000, and \$518,000, for fiscal 2016, 2015, and 2014, respectively. The employer match was \$54,000, \$58,000, and \$87,000 for fiscal 2016, 2015, and 2014, respectively. There were no discretionary contributions to the plan in fiscal years 2016, 2015 or 2014.

**Non-Qualified Deferred Compensation Plan**

## Edgar Filing: FAMOUS DAVES OF AMERICA INC - Form 10-K

We have a Non-Qualified Deferred Compensation Plan effective as of February 25, 2005 (the Plan ). Eligible participants are those team members who are at the director level and above and who are selected by the Company to participate in the Plan. Participants must complete a deferral election each year to indicate the level of compensation (salary, bonus and commissions) they wish to have deferred for the coming year. This deferral election is irrevocable except to the extent permitted by the Plan Administrator, and the Regulations promulgated by the IRS. During fiscal

F-23



---

**Table of Contents**

**FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

2016, 2015, and 2014, we matched 25.0% of the first 4.0% contributed and paid a declared interest rate of 6.0% on balances outstanding. The Board of Directors administers the Plan and may change the rate or any other aspects of the Plan at any time.

Deferral periods are limited to the earlier of termination of employment or not less than three calendar years following the end of the applicable Plan Year. Extensions of the deferral period for a minimum of five years are allowed provided an election for extension is made at least one year before the first payment affected by the change. Payments can be in a lump sum or in equal payments over a two-, five- or ten-year period, plus interest from the commencement date.

The Plan assets are kept in an unsecured account that has no trust fund. In the event of bankruptcy, participants entitled to future payments under the Plan would have no greater rights than that of an unsecured general creditor of the Company and the Plan confers no legal rights for interest or claim on any specific assets of the Company. Benefits provided by the Plan are not insured by the Pension Benefit Guaranty Corporation (PBGC) under Title IV of the Employee Retirement Income Security Act of 1974 ( ERISA ), because the pension insurance provisions of ERISA do not apply to the Plan.

For fiscal years ended January 1, 2017, January 3, 2016 and December 28, 2014, eligible participants contributed approximately \$35,000, \$64,000 and \$99,000 to the Plan and the Company provided matching funds and interest of approximately \$18,000, \$35,000 and \$58,000, net of distributions of approximately \$238,000, \$368,000 and \$418,000, respectively. The distributions were due to executive departures and required distributions in accordance with our Plan. The outstanding deferred compensation balance at January 1, 2017 and January 3, 2016, was approximately \$179,000 and \$365,000 respectively.

**(11) DISCONTINUED OPERATIONS**

On December 14, 2015, Famous Dave s of America, Inc. and certain of its subsidiaries (collectively, the Company ) entered into an Asset Purchase Agreement and related Real Estate Purchase Agreement (the Purchase Agreements ) with Windy City Restaurant Holdings LLC and its affiliate (together, the Purchaser ) pursuant to which the Company agreed to sell the assets comprising its seven Chicago, Illinois area Company-owned restaurants located in Addison, Algonquin, Bolingbrook, Evergreen Park, North Riverside, Orland Park and Oswego (collectively, Purchased Restaurants ) to the Purchaser. As consideration for the Purchased Restaurants, which included the real property on which the Company operates the Purchased Restaurant located in Addison, Illinois, the Purchaser paid the Company \$1.15 million, plus \$315,000 for the purchase of inventory on hand on the closing date, and assumed specified liabilities of the Company. Included among the assumed liabilities were the Company s existing leases for the Purchased Restaurants located in Bolingbrook, North Riverside and Orland Park, Illinois. This transaction closed on March 1, 2016.

Under the Purchase Agreements, the Purchaser also agreed to enter into (i) sublease agreements for the real property on which Purchased Restaurants are located in Algonquin, Evergreen Park and Oswego, Illinois, (ii) franchise agreements for each Purchased Restaurant, and (iii) an Area Development Agreement pursuant to which the Purchaser agreed to use commercially reasonable efforts to develop ten additional Famous Dave s restaurants in the Chicago metropolitan area market. The Company agreed to waive its standard initial franchise fee for the Purchased Restaurants and the Company s standard franchise royalty rates were reduced as they relate to certain of the Purchased Restaurants for a limited period of time. The Purchaser has further agreed to invest no less than \$500,000 in refreshing and improving the Purchased Restaurants pursuant to an agreed upon work schedule no later than one year following the closing. To the extent Purchaser fails to invest such amount within the prescribed timeframe, it will remit the difference to the Company. Subsequent to January 1, 2017, the Purchaser closed the Evergreen Park restaurant. See Note 20.

In accordance with the Purchase Agreements, the Purchaser deposited earnest money in the amount of \$140,000 with a third party title company. The earnest money was delivered to the Company and applied against the purchase price at closing.

**Table of Contents****FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

In conjunction with this agreement, the Company recorded an \$8.8 million impairment charge. Subsequent to the close of this transaction, the Company recaptured approximately \$1.3 million in deferred rent credits. The net assets and liabilities of the Purchased Restaurants that were associated with this transaction are included in assets and liabilities held for sale on the accompanying consolidated balance sheets at January 3, 2016. No related assets or liabilities remain at January 1, 2017. The carrying value of the assets and liabilities included in the asset sale was as follows (in thousands):

| <i>(in thousands)</i>                               | <b>January 3,<br/>2016</b> |
|---|----------------------------|
| Accounts receivable, net                            | \$ 65                      |
| Inventories   | 344                        |
| Prepaid expenses and other current assets           | 30                         |
| <b>Total current assets</b>                         | <b>439</b>                 |
| Property, equipment and leasehold improvements, net | 991                        |
| <b>Total assets</b>                                 | <b>\$ 1,430</b>            |
| Accounts payable                                    | 10                         |
| Accrued compensation and benefits                   | 96                         |
| Other current liabilities                           | 389                        |
| <b>Total current liabilities</b>                    | <b>495</b>                 |
| Other liabilities                                   | 1,252                      |
| <b>Total liabilities</b>                            | <b>\$ 1,747</b>            |

The operating results of the Purchased Restaurants for the fiscal years ended January 1, 2017, January 3, 2016 and December 28, 2014 are summarized below. These results include costs directly attributable to the components of the business which were divested. Interest expense of approximately \$32,000, \$28,000 and \$27,000 was allocated to discontinued operations for the fiscal years ended January 1, 2017, January 3, 2016 and December 28, 2014, respectively, based upon the portion of the borrowing base associated with the discontinued operations. Income tax expense (benefit) of approximately \$442,000, \$(3.3 million) and \$367,000 for the fiscal years ended January 1, 2017, January 3, 2016 and December 28, 2014, respectively have also been allocated to discontinued operations. These adjustments have been made for all periods presented.

| <i>(in thousands)</i>   | <b>Fiscal Year</b> |             |             |
|---|--------------------|-------------|-------------|
|   | <b>2016</b>        | <b>2015</b> | <b>2014</b> |
| Revenue   | \$ 2,365           | \$ 17,002   | \$ 17,493   |
| Income (loss) from operations                                   | \$ 985             | \$ (8,763)  | \$ 1,036    |
| Income (loss) from discontinued operations, net of income taxes | \$ 511             | \$ (5,463)  | \$ 642      |

**Table of Contents****FAMOUS DAVES OF AMERICA, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(12) INCOME TAXES**

For financial reporting purposes, income before taxes includes the following components:

| <i>(in thousands)</i> | <b>Fiscal Year</b> |                 |                 |
|-----------------------|--------------------|-----------------|-----------------|
|                       | <b>2016</b>        | <b>2015</b>     | <b>2014</b>     |
| United States         | \$ (5,264)         | \$ 901          | \$ 2,764        |
| Foreign               | 322                | 226             | 223             |
| <b>Total</b>          | <b>\$ (4,942)</b>  | <b>\$ 1,127</b> | <b>\$ 2,987</b> |

The following table summarizes the income tax (expense) benefit for the last three fiscal years:

| <i>(in thousands)</i>                     | <b>Fiscal Year</b> |                |                 |
|---|--------------------|----------------|-----------------|
|   | <b>2016</b>        | <b>2015</b>    | <b>2014</b>     |
| <b>Current:</b>                           |                    |                |                 |
| Federal                                   | \$ (629)           | \$ (767)       | \$ (1,264)      |
| State                                     | 112                | (45)           | (263)           |
| Foreign                                   | (99)               | (87)           | (112)           |
|   | (616)              | (899)          | (1,639)         |
| <b>Deferred:</b>                          |                    |                |                 |
| Federal                                   | 2,428              | 514            | 879             |
| State                                     | 188                | 337            | 28              |
|   | 2,616              | 851            | 907             |
| <b>Total income tax benefit (expense)</b> | <b>\$ 2,000</b>    | <b>\$ (48)</b> | <b>\$ (732)</b> |

For financial reporting purposes, total income tax benefit (expense) includes the following components:

| <i>(in thousands)</i>                     | <b>Fiscal Year</b> |                 |                   |
|---|--------------------|-----------------|-------------------|
|   | <b>2016</b>        | <b>2015</b>     | <b>2014</b>       |
| Continuing operations                     | \$ 2,000           | \$ (48)         | \$ (732)          |
| Discontinued operations                   | (442)              | 3,328           | (367)             |
| <b>Total income tax benefit (expense)</b> | <b>\$ 1,558</b>    | <b>\$ 3,280</b> | <b>\$ (1,099)</b> |

The impact of uncertain tax positions taken or expected to be taken on income tax returns must be recognized in the financial statements at the largest amount that is more likely than not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized in the financial statements unless it is more likely than not of being sustained.



**Table of Contents****FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

A reconciliation of the beginning and ending amounts of gross unrecognized tax benefits for the years ended January 1, 2017, January 3, 2016 and December 28, 2014, respectively, is presented in the table below:

*(in thousands)*

|  |            |
|--|------------|
| Balance at December 29, 2013                                       | \$ 45      |
| Increases attributable to tax positions taken during prior periods | 69         |
| Audit settlements  | (19)       |
| Decreases due to lapses of statutes of limitations                 | (14)       |
| <br>Balance at December 28, 2014                                   | <br>81     |
| Decreases due to lapses of statutes of limitations                 | (34)       |
| <br>Balance at January 3, 2016                                     | <br>47     |
| Increases attributable to tax positions taken during prior periods | 142        |
| Audit settlements  | (41)       |
| Decreases due to lapses of statutes of limitations                 | (33)       |
| <br>Balance at January 1, 2017                                     | <br>\$ 115 |

At January 1, 2017, January 3, 2016 and December 28, 2014, there are \$115,000, \$47,000, and \$81,000 of unrecognized tax benefits that if recognized would affect the annual effective tax rate.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense. During fiscal years 2016, 2015, and 2014, we recognized interest and penalties of \$20,000, \$(2,000), and \$(7,000), respectively. Excluded from the above reconciliation were \$25,000, \$5,000 and \$7,000, of accrued interest and penalties, net of tax benefit, for fiscal 2016, 2015, and 2014, respectively.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The preparation of these income tax returns requires the Company to interpret and apply relevant federal and state income tax laws. It is common for federal and state taxing authorities to periodically examine filed tax returns. During these examinations, it is possible for taxing authorities to interpret facts or tax law differently than the Company. As a result, the Company may be required to adjust tax liabilities affecting its effective tax rate. Tax years 2013 and forward remain subject to federal examination. Tax years 2012 and forward remain subject to state examination.

It is possible that the liability associated with the unrecognized tax benefits will increase or decrease within the next 12 months. These changes may be the result of new audits or the expiration of statutes of limitations and could range up to \$138,000 based on current estimates.

Deferred taxes, detailed below, recognize the impact of temporary differences between the amounts of assets and liabilities recorded for financial statement purposes and such amounts measured in accordance with tax laws. Realization of the net operating loss carry forwards and other deferred tax temporary differences are contingent on future taxable earnings. During fiscal years 2016 and 2015, our deferred tax asset was reviewed for expected utilization using a more likely than not approach as required by assessing the available positive and negative evidence surrounding its recoverability.

At January 1, 2017, it is more likely than not that all deferred tax assets attributable to temporary differences taken on federal and state tax returns will be realized based on our consolidated taxable income for fiscal 2016 and fiscal 2015 as well as the expectation that reversing deferred tax assets will be offset by reversing deferred tax liabilities and certain tax planning strategies. However, there is a portion of deferred tax assets attributable to temporary differences taken on stand-alone state returns and stand-alone state net operating losses and credit carry forwards that are unlikely to be realized due to insufficient future earnings. For these deferred tax assets, the Company has created a valuation

allowance listed in the table below. The 2016 net change in valuation allowance is an increase to the valuation allowance in the amount of \$531,000.

F-27

**Table of Contents****FAMOUS DAVES OF AMERICA, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

| <i>(in thousands)</i>                   | <b>January 1,<br/>2017</b> | <b>January 3,<br/>2016</b> |
|---|----------------------------|----------------------------|
| <b>Deferred tax asset:</b>              |                            |                            |
| Deferred rent                           | \$ 3,184                   | \$ 3,379                   |
| State net operating loss carry-forwards | 2,325                      | 1,779                      |
| Financing lease obligation              | 1,028                      | 1,170                      |
| Tax credit carryover                    | 910                        | 376                        |
| Accrued expenses                        | 585                        | 284                        |
| Stock-based compensation                | 472                        | 344                        |
| Deferred revenue                        | 452                        | 476                        |
| Lease reserve                           | 222                        | 223                        |
| Accrued and deferred compensation       | 67                         | 151                        |
| Contribution carryover                  | 18                         |                            |
| Inventories                             | 9                          | 10                         |
| <b>Total deferred tax asset</b>         | <b>\$ 9,272</b>            | <b>\$ 8,192</b>            |
| <b>Deferred tax liability:</b>          |                            |                            |
| Property and equipment basis difference | \$ (1,671)                 | \$ (952)                   |
| Inventories                             | (295)                      | (562)                      |
| Prepaid expenses                        | (269)                      | (236)                      |
| Intangible property basis difference    | (56)                       | (134)                      |
| <b>Total deferred tax liability</b>     | <b>\$ (2,291)</b>          | <b>\$ (1,884)</b>          |
| Net deferred tax assets                 | 6,981                      | 6,308                      |
| Valuation allowance                     | (2,348)                    | (1,817)                    |
| Total net deferred tax asset            | \$ 4,633                   | \$ 4,491                   |

In 2016, we had cumulative net operating loss carry-forwards for tax reporting purposes of approximately \$43.4 million for state purposes, which if not used, will begin to expire in fiscal 2018.

We made federal income tax payments, net of federal refunds, of \$210,000, \$166,000, and \$369,000 in 2016, 2015 and 2014, respectively. State and foreign income taxes paid by the Company, net of refunds, totaled \$180,000, \$232,000, and \$231,000 in 2016, 2015 and 2014, respectively.

**Table of Contents****FAMOUS DAVES OF AMERICA, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Reconciliation between the statutory rate and the effective tax rate is as follows:

|   | 2016  | Fiscal Year<br>2015 | 2014   |
|---|-------|---------------------|--------|
| Federal statutory tax rate                                  | 34.0% | 34.0%               | 34.0%  |
| State taxes, net of valuation allowance and federal benefit | 5.8   | 5.4                 | 3.2    |
| Foreign taxes   | (2.0) | 7.7                 | 3.7    |
| Tax effect of permanent differences meals and entertainment | (1.5) | 1.4                 | 1.5    |
| Tax effect of permanent differences tip credit              | (3.4) | 17.2                | 8.1    |
| Tax effect of permanent differences other                   | 0.3   | (0.6)               | (1.4)  |
| Tax effect of general business credits                      | 8.9   | (50.7)              | (23.8) |
| Tax effect of foreign tax credit                            | 2.0   | (7.7)               | (3.7)  |
| Uncertain tax positions                                     | (2.7) |                     |        |
| Other   | (0.9) | (2.4)               | 2.9    |
| Effective tax rate <sup>(1)</sup>                           | 40.5% | 4.3%                | 24.5%  |

<sup>(1)</sup> The decrease in the 2015 effective tax rate is primarily due to the small amount of 2015 pre-tax book income.

**(13) SUPPLEMENTAL CASH FLOWS INFORMATION**

| <i>(in thousands)</i>   | For the Fiscal Year Ended |        |          |
|---|---------------------------|--------|----------|
|   | 2016                      | 2015   | 2014     |
| Cash paid for interest, net of capitalized interest   | \$ 729                    | \$ 975 | \$ 790   |
| Cash paid for income taxes, net of refunds  | \$ 390                    | \$ 398 | \$ 600   |
| <b>Non-cash investing and financing activities:</b>   |                           |        |          |
| Reclassification of additional paid-in-capital to payroll taxes payable for performance shares issued | \$                        | \$ 215 | \$ 1,520 |
| Accrued property and equipment purchases  | \$ 37                     | \$ 10  | \$ (32)  |
| Refinancing of debt   | \$ 9,897                  | \$     | \$       |



**Table of Contents****FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(14) SELECTED QUARTERLY DATA (UNAUDITED)**

The following represents selected quarterly financial information for fiscal years 2016 and 2015 (*in thousands, except per-share data*).

|  | First Quarter |           | Second Quarter |           | Third Quarter |           | Fourth Quarter |            |
|--|---------------|-----------|----------------|-----------|---------------|-----------|----------------|------------|
|  | 2016          | 2015      | 2016           | 2015      | 2016          | 2015      | 2016           | 2015       |
| Revenue  | \$ 23,540     | \$ 28,264 | \$ 28,044      | \$ 32,714 | \$ 25,510     | \$ 27,881 | \$ 22,085      | \$ 25,367  |
| Income (loss) from operations  | \$ 395        | \$ 302    | \$ 334         | \$ 981    | \$ (3,749)    | \$ 1,307  | \$ (1,070)     | \$ (447)   |
| Net income (loss) from continuing operations                             | \$ (69)       | \$ 108    | \$ 113         | \$ 547    | \$ (2,378)    | \$ 731    | \$ (826)       | \$ (307)   |
| Net income (loss) from discontinued operations                           | \$ 681        | \$ 89     | \$ 27          | \$ 107    | \$ (81)       | \$ (23)   | \$ (116)       | \$ (5,636) |
| Basic net income (loss) from continuing operations per common share      | \$ 0.02       | \$ 0.02   | \$ 0.02        | \$ 0.07   | \$ (0.34)     | \$ 0.11   | \$ (0.12)      | \$ (0.05)  |
| Basic net income (loss) from discontinued operations per common share    | \$ 0.10       | \$ 0.01   | \$             | \$ 0.02   | \$ (0.01)     | \$        | \$ (0.02)      | \$ (0.81)  |
| Diluted net income (loss) from continuing operations per diluted share   | \$ 0.02       | \$ 0.02   | \$ 0.02        | \$ 0.07   | \$ (0.34)     | \$ 0.10   | \$ (0.12)      | \$ (0.04)  |
| Diluted net income (loss) from discontinued operations per diluted share | \$ 0.10       | \$ 0.01   | \$             | \$ 0.02   | \$ (0.01)     | \$        | \$ (0.02)      | \$ (0.81)  |

**(15) LITIGATION**

In the normal course of business, the Company is involved in a number of litigation matters that are incidental to the operation of the business. These matters generally include, among other things, matters with regard to employment and general business-related issues. The Company currently believes that the resolution of any of these pending matters will not have a material adverse effect on its financial position or liquidity, but an adverse decision in more than one of the matters could be material to its consolidated results of operations.

Famous Dave s of America, Inc. ( Famous Dave s ) filed a complaint on July 14, 2015, against a group of former franchisees in California seeking injunctive relief and damages for: (1) Federal Trademark Infringement; (2) Federal Trademark Dilution; (3) Federal Unfair Competition; (4) Federal Trade Dress Dilution; (5) Trademark Infringement under California Business and Professions Code § 14200; (6) Trademark Dilution under California Business and Professions Code § 14200; (7) Common Law Trademark Infringement; (8) Unfair Competition under California Business and Professions Code § 17200; (9) False Advertising; (10) Breach of Contract; (11) Breach of Implied Covenant of Good Faith and Fair Dealing; and (12) Intentional Interference with Contract. The claims stem from the former franchisees' breaches of their franchise agreements, including the failure to pay franchise fees and their continued operation of five restaurants utilizing Famous Dave s intellectual property without authorization. After two defendants in the case, Kurt Schneider and M Mart 1, filed a demurrer to the Complaint, Famous Dave s filed an Amended Complaint on October 9, 2015, reasserting the same claims. The case is captioned Famous Dave s of America, Inc., v. SR El Centro FD, Inc., et al., Case No. BC589329, and is currently pending before the Honorable Elihu M. Berle in the Superior Court of Los Angeles. By court order, dated June 6, 2016, Famous Dave s successfully obtained a preliminary injunction, enjoining the former franchisee defendants from using Famous Dave s intellectual property, including its trademarks and restaurant system. The preliminary injunction is currently the subject of a pending interlocutory appeal which Famous Dave s intends to oppose vigorously.

**Table of Contents**

**FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

On July 28, 2015, these franchisees (the Plaintiffs ) filed a complaint against Famous Dave s in the South Judicial District of the Superior Court of the County of Los Angeles. On March 10, 2016, Plaintiffs re-filed this Complaint as a First Amended Cross-Complaint [Famous Dave s of America, Inc. v. SR El Centro, Inc., et al., Superior Court of the State of California, County of Los Angeles, Central Division, Case No. BC589329] alleging that Famous Dave s breached the Franchise Agreements for these restaurants by failing to provide certain marketing support and access to customer contact data, vendors, internet reporting and support to Plaintiffs, and failing to provide operations and preferred practices training to Plaintiffs designated representative. Plaintiffs further allege that such conduct by Famous Dave s is a breach of the covenant of good faith and fair dealing. Plaintiffs also allege that Famous Dave s aided and abetted John and Allan Gantes in breach of their fiduciary duty to Plaintiffs. Plaintiffs are seeking compensatory damages in amount not less than \$20 million, punitive damages, costs and attorneys fees. Famous Dave s denies the allegations and intends to vigorously defend against them. The foregoing litigation is pending and in the early stages of discovery. No trial date has been set.

**(16) ASSET IMPAIRMENT AND ESTIMATED LEASE TERMINATION AND OTHER CLOSING COSTS**

In accordance with FASB Accounting Standards Codification 360 for Property, Plant, and Equipment, 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 s assets 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, anticipated sale prices 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. The following is a summary of impairment costs for fiscal 2016, fiscal 2015, and fiscal 2014. These costs are included in asset impairment and estimated lease termination and other closing costs in the Consolidated Statements of Operations.

**Table of Contents****FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

| <i>(dollars in thousands)</i>                    | Year Ended         |                    |                      |
|--|--------------------|--------------------|----------------------|
|  | January 1,<br>2017 | January 3,<br>2016 | December 28,<br>2014 |
| Asset Impairments                                |                    |                    |                      |
| Restaurant optimization                          | \$ 4,376           | \$                 | \$                   |
| Software <sup>(1)</sup>                          | 156                |                    |                      |
| May s Landing, NJ                                | 50                 |                    | 766                  |
| Smithtown, NY <sup>(2)</sup>                     |                    | 935                |                      |
| Richmond, VA area                                |                    |                    | 2,285                |
| Two Minneapolis, MN area restaurants             |                    |                    | 544                  |
| Décor  |                    |                    | 342                  |
| Des Moines, IA                                   |                    |                    | 226                  |
| Total  | \$ 4,582           | \$ 935             | \$ 4,163             |
| Restaurant closure expenses                      |                    |                    |                      |
| Smithtown, NY <sup>(3)</sup>                     | 200                |                    |                      |
| Other <sup>(6)</sup>                             | 6                  | (6)                |                      |
| N. Riverside, IL <sup>(4)</sup>                  |                    | 368                |                      |
| Richmond, VA area                                |                    | 143                | 54                   |
| N. Riverside, IL <sup>(5)</sup>                  |                    | 122                |                      |
| Eden Prairie, MN                                 |                    | (42)               |                      |
| Salisbury, MD                                    |                    |                    | 206                  |
| Décor Warehouse                                  |                    |                    | 94                   |
| Total restaurant closure expenses                | \$ 206             | \$ 585             | \$ 354               |
| Provision for impairment and restaurant closings | \$ 4,788           | \$ 1,520           | \$ 4,517             |

(1) Asset impairment calculated at July 3, 2016 related to a software implementation project that was discontinued.

(2) Asset impairment calculated at June 28, 2015 based upon expected sale of Smithtown restaurant.

(3) Lease termination reserve associated with a letter of credit provided to a landlord for a previously closed restaurant.

(4) Lease termination costs associated with the cancellation of a potential new restaurant location.

(5) Write off of development costs associated with the cancellation of a potential new restaurant location.

(6) Includes \$191,000 in costs written-off associated with closing the Lombard, Illinois field office partially offset by an \$86,000 recapture of deferred rent credits.

## Edgar Filing: FAMOUS DAVES OF AMERICA INC - Form 10-K

*Restaurant Optimization* - During fiscal 2016, the Company recorded approximately \$4.4 million in asset impairment charges associated with 11 restaurants which were slow to respond to several initiatives to turnaround operating performance. As a result, the Company determined that the estimated fair value of the assets was less than the net book value and recognized an impairment charge to reduce the related assets to their estimated fair value. As the Company continues to evaluate the restaurant portfolio we anticipate addressing the ongoing operation of the 11 locations impaired over the next three years by way of lease restructuring, lease assignment or subsequent closure at the end of their natural lease term.

*Richmond, VA Area Restaurant Closures* - On December 29, 2014, the Company announced the closure of its three underperforming Company-owned restaurants located in and around Richmond, Virginia. The associated impairment charges primarily related to the write-off of the book value of the related property, plant and equipment, net of estimated proceeds from the sale of these assets (primarily derived from the sale of real property). Loss before taxes associated with these operations for the fiscal year ended December 28, 2014 totaled approximately \$187,000.

F-32

**Table of Contents****FAMOUS DAVES OF AMERICA, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

On December 28, 2014 the restaurants were valued at the estimated proceeds from the sale and were recorded as assets held for sale in the consolidated balance sheets. Two of these properties were sold during the third quarter of fiscal 2015 and the first quarter of fiscal 2016, respectively. On January 3, 2016, the remaining property's fair value was reclassified to property, equipment and leasehold improvements, net because it was probable that the assets would not be sold in the next two months.

Below reflects the change in our reserve for lease termination costs for fiscal 2016 and 2015:

| <i>(in thousands)</i>               | Balance at<br>Beginning<br>of Period | Additions<br>Charged to<br>Costs and<br>Expenses | Deductions<br>Credits to<br>Costs and<br>Expenses<br>and Other<br>Accounts | Balance at<br>End of<br>Period |
|-------------------------------------|--------------------------------------|--|--|--------------------------------|
| <b>Year ended January 1, 2017</b>   |                                      |  |  |                                |
| Reserve for lease termination costs | \$ 489.9                             | 89.1   | (104.4)  | \$ 474.6                       |
| <b>Year ended January 3, 2016</b>   |                                      |  |  |                                |
| Reserve for lease termination costs | \$ 16.0                              | 543.2  | (69.3)   | \$ 489.9                       |
| <b>Year ended December 28, 2014</b> |                                      |  |  |                                |
| Reserve for lease termination costs | \$                                   | 116.0  | (100.0)  | \$ 16.0                        |

These amounts were recorded in other current liabilities or other liabilities depending on when we expected the amounts to be paid.

**(17) FAIR VALUE MEASUREMENTS**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement framework establishes a three-tier hierarchy. The three levels, in order of priority, are as follows:

- Level 1:* Unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date. Level 1 measurements are determined by observable inputs which include data sources and market prices available and visible outside of the entity.
- Level 2:* Observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly.
- Level 3:* Inputs that are used to estimate the fair value of the asset or liability. Level 3 measurements are determined by unobservable inputs, which include data and analyses developed within the entity to assess the fair value.

**Table of Contents****FAMOUS DAVES OF AMERICA, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For assets and liabilities falling within Level 3 of the fair value hierarchy, a change in the input assumptions used could result in a change in the estimated fair value of the asset or liability. Transfers in and out of levels will be based on our judgment of the availability of unadjusted quoted prices in active markets, other observable inputs, and non-observable inputs.

The carrying amounts of cash and cash equivalents reported in the consolidated balance sheets approximates fair value based on current interest rates and short-term maturities. The carrying amount of accounts receivable approximates fair value due to the short-term nature of accounts receivable. We believe that the carrying amount of long-term debt approximates fair value due to the variable interest rates charged on long-term debt or as a result of the proximity of the refinancing to the end of the fiscal year.

The following table (in thousands) summarizes the assets held for sale and property and equipment, net, measured at fair value in our consolidated balance sheet as of January 1, 2017 and January 3, 2016:

|                                   | <i>Level 1</i> | <i>Level 2</i> | <i>Level 3</i> | <i>Total</i> |
|-----------------------------------|----------------|----------------|----------------|--------------|
| <b>Balance at January 1, 2017</b> |                |                |                |              |
| <b>Assets</b>                     |                |                |                |              |
| Assets Held for Sale              | \$             | \$ 1           | \$             | \$ 1         |
| Property and Equipment, net       | \$             | \$             | \$ 1,742       | \$ 1,742     |
| <b>Balance at January 3, 2016</b> |                |                |                |              |
| <b>Assets</b>                     |                |                |                |              |
| Assets Held for Sale              | \$             | \$ 1,431       | \$ 780         | \$ 2,211     |
| Property and Equipment, net       | \$             | \$             | \$ 507         | \$ 507       |

Assets held for sale are recorded at fair value, which was valued based upon a real estate broker's estimate of value for the properties (Level 3) or negotiated sale price (Level 2). Property and Equipment, net, recorded at fair upon broker's estimate of value or estimated discounted future cash flows (Level 3). These assets have been adjusted to net realizable value based upon the decision to dispose of the property. The Company completed its sale of assets held for sale recorded in Level 3 during fiscal 2016. The fair value of amounts disclosed as property and equipment, net, reported in the table above within Level 3 changed during fiscal 2016 as a result of the Company's impairment analysis surrounding certain of its property and equipment assets.

**(18) VARIABLE INTEREST ENTITIES**

A variable interest holder is considered to be the primary beneficiary of a variable interest entity (VIE) if it has the power to direct the activities of a VIE that most significantly impact the entity's economic performance and has the obligation to absorb losses of, or the right to receive benefits from, the entity that could potentially be significant to the VIE. Once an entity is determined to be a variable interest entity (VIE), the primary beneficiary is required to consolidate the entity. The Company has an installment agreement with one of its franchisees as the result of refranchising its Lincoln, Nebraska restaurant. This franchisee is a VIE, however, the owners of the franchise operations are the primary beneficiaries of the entities, not the Company. Therefore, the franchise operations are not required to be consolidated in the Company's consolidated financial statements.

**Table of Contents**

**FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

On August 11, 2015, the Company consummated the sale of its Greenwood, Indiana and Florence, Kentucky restaurants. In conjunction with that agreement, the Company entered into lease assignment agreements with the respective purchasers and landlords, releasing the Company of its obligations except in the event of default by the purchasers. As of January 1, 2017, the amount of the future lease payments for which the Company would be liable in the event of a default are approximately \$352,000. An accrual related to any future obligation was not considered necessary at January 1, 2017 as the Company has determined the fair value of this guarantee was zero as there was no indication that the purchasers would not be able to pay the required lease payments. While this franchise meets the definition of a VIE, the owners of the franchise operations are the primary beneficiaries of the entities, not the Company. Therefore, the franchise operations are not required to be consolidated in the Company's consolidated financial statements.

On March 1, 2016, the Company consummated the sale of its Chicago-area restaurants. In conjunction with that agreement, the Company entered into lease assignment agreements with the respective purchasers and three of the landlords, releasing the Company of its obligations except in the event of default by the purchasers. As of January 1, 2017, the amount of the future lease payments for which the company would be liable in the event of a default are approximately \$1.9 million. An accrual related to any future obligation was not considered necessary at January 1, 2017 as the Company has determined the fair value of this guarantee was zero as there was no indication that the purchasers would not be able to pay the required lease payments. Subsequent to the balance sheet date, the purchaser closed one of the seven restaurants, on which the Company has an outstanding lease obligation. See Note 20. While this franchise meets the definition of a VIE, the owners of the franchise operations are the primary beneficiaries of the entities, not the Company. Therefore, the franchise operations are not required to be consolidated in the Company's consolidated financial statements. See Note 20 for additional information.

**(19) RELATED PARTY TRANSACTIONS**

Michael Lister serves as our Chief Executive Officer, Chief Operating Officer and a director of the Company. Prior to joining the management team of the Company in October of 2016, Mr. Lister managed Famous Five, a corporation that owns five franchised Famous Dave's Restaurants. Famous Five paid an aggregate of approximately \$496,000, \$523,000 and \$505,000 in franchise royalties and contributions to the Company's system-wide Public Relations and Marketing Development Fund for fiscal 2016, 2015 and 2014, respectively. Approximately \$49,000 and \$61,000 associated with royalties and contributions to the Company's system-wide Public Relations and Marketing Development Fund is due from Famous Five and included in accounts receivable as of January 1, 2017 and January 3, 2016, respectively.

Anand D. Gala currently serves as a director of the Company and has been nominated for re-election at the Annual Meeting. Mr. Gala is the Founder, President and Chief Executive Officer of Gala Holdings International, a diversified holding company that conducts consulting, restaurant development and management operations. As a Company franchisee, Gala Holdings International paid approximately \$2.1 million in franchise royalties and contributions to the Company's system-wide Public Relations and Marketing Development Fund for fiscal 2016 and 2015, respectively, and \$1.9 million for fiscal 2014. Approximately \$369,000 and \$241,000 associated with royalties and contributions to the Company's system-wide Public Relations and Marketing Development Fund is due from Mr. Gala's companies and included in accounts receivable as of January 1, 2017 and January 3, 2016, respectively. Additionally, Mr. Gala's brother owns Altametrics, LLC, a software company to which we paid a total of approximately \$127,000 during fiscal 2016.

Adam J. Wright served as our Chief Executive Officer and a director of the Company until October of 2016. Mr. Wright's brother, Michael B. Wright, owns and controls Famous Products, Inc., a corporation that licenses a line of retail products from the Company, including sauces, rubs, marinades and seasonings, pursuant to a licensing agreement with a current term that expires in April 2020 and is subject to renewal options of five years, contingent upon the licensee's attainment of identified minimum product sales levels. The Company received licensing revenue from Famous Products, Inc. under the agreement of approximately \$981,000, \$940,000 and \$878,000 for fiscal years 2016, 2015 and 2014, respectively. Michael B. Wright also owns DTSG, Inc., a corporation that owns or controls five

**Table of Contents**

**FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

franchised Famous Dave s restaurants. DTSG, Inc. paid an aggregate of approximately \$636,000, \$678,000 and \$710,000 in franchise royalties and contributions to the Company s system-wide Public Relations and Marketing Development Fund for fiscal years 2016, 2015 and 2014, respectively. Approximately \$62,000 and \$73,000 associated with royalties and contributions to the Company s system-wide Public Relations and Marketing Development Fund is due from DTSG, Inc. and included in accounts receivable as of January 1, 2017 and January 3, 2016, respectively.

**(20) SUBSEQUENT EVENTS**

The Company evaluated for the occurrence of subsequent events through the issuance date of the Company s financial statements. No other recognized or non-recognized subsequent events occurred that require recognition or disclosure in the consolidated financial statements except as noted below.

On January 8, 2017 the Company closed its Stillwater, Minnesota restaurant. This restaurant was written down to anticipated net realizable value during the third quarter of 2016.

On February 19, 2017 a franchisee closed the Evergreen Park, Illinois restaurant. As this is a location for which we have an ongoing lease for an additional six years with a sublease to the franchisee, there is a risk that the franchisee will provide notice to the Company, making the Company responsible for the remaining approximately \$700,000 of related lease payments. If this occurs, it is unclear whether a new sub lessee would be identified by the Company. We recorded a lease reserve of approximately \$487,000 in February 2017 related to this closure.

On February 19, 2017 the Company closed its Falls Church, Virginia restaurant. This restaurant was written down to anticipated net realizable value during the third quarter of 2016.



**Table of Contents****FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES****Financial Statement Schedule****SCHEDULE II. VALUATION AND QUALIFYING ACCOUNTS***(in thousands)*

|                                      | <b>Balance at<br/>Beginning<br/>of Period</b> | <b>Additions<br/>Charged to<br/>Costs and<br/>Expenses</b> | <b>Deductions<br/>Credits to<br/>Costs and<br/>Expenses<br/>and Other<br/>Accounts</b> | <b>Balance at<br/>End of<br/>Period</b> |
|--------------------------------------|---|--|--|---|
| <b>Year ended December 28, 2014:</b> |   |  |  |   |
| Allowance for doubtful accounts      | \$ 72.5                                       | \$ 274.1   | \$ (132.2)   | \$ 214.4                                |
| Reserve for lease termination costs  | \$  | \$ 116.0   | \$ (100.0)   | \$ 16.0                                 |
| Reserve for corporate severance      | \$ 83.3                                       | \$ 931.1   | \$ (653.8)   | \$ 360.6                                |
| <b>Year ended January 3, 2016:</b>   |   |  |  |   |
| Allowance for doubtful accounts      | \$ 214.4                                      | \$ 295.9   | \$ (264.6)   | \$ 245.7                                |
| Reserve for lease termination costs  | \$ 16.0                                       | \$ 543.2   | \$ (69.3)  | \$ 489.9                                |
| Reserve for corporate severance      | \$ 360.6                                      | \$ 221.0   | \$ (561.5)   | \$ 20.1                                 |
| <b>Year ended January 1, 2017:</b>   |   |  |  |   |
| Allowance for doubtful accounts      | \$ 245.7                                      | \$ 86.6  | \$ (61.8)  | \$ 270.5                                |
| Reserve for lease termination costs  | \$ 489.9                                      | \$ 89.1  | \$ (104.4)   | \$ 474.6                                |
| Reserve for corporate severance      | \$ 20.1                                       | \$ 170.3   | \$ (190.4)   | \$                                      |

F-37

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FAMOUS DAVES OF AMERICA, INC.  
( Registrant )

Dated: March 21, 2017

By: /s/ Michael Lister  
Michael Lister  
Chief Executive Officer/Chief Operating Officer (Principal Executive Officer)

By: /s/ Dexter Newman  
Dexter Newman  
Chief Financial Officer and Secretary (Principal Financial Officer)

By: /s/ John P. Beckman  
John P. Beckman  
Chief Accounting Officer (Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 21, 2017 by the following persons on behalf of the registrant, in the capacities indicated.

| <i>Signature</i>                             | <i>Title</i> |
|--|--------------|
| /s/ Anand D. Gala<br>Anand D. Gala           | Director     |
| /s/ Joseph M. Jacobs<br>Joseph M. Jacobs     | Director     |
| /s/ Jonathan P. Lennon<br>Jonathan P. Lennon | Director     |
| /s/ Charles W. Mooty<br>Charles W. Mooty     | Director     |
| /s/ Richard A. Shapiro<br>Richard A. Shapiro | Director     |
| /s/ Patrick D. Walsh<br>Patrick D. Walsh     | Director     |
| /s/ Bryan L. Wolff<br>Bryan L. Wolff         | Director     |

**Table of Contents****EXHIBITS**

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 3.1                | Articles of Incorporation, incorporated by reference to Exhibit 3.1 to our Registration Statement on Form SB-2 (File No. 333-10675) filed with the Securities and Exchange Commission on August 23, 1996  |
| 3.2                | Amendment to Articles of Incorporation dated May 31, 1996, incorporated by reference to Exhibit 3.3 to our Registration Statement on Form SB-2/A (File No. 333-10675) filed with the Securities and Exchange Commission on October 1, 1996  |
| 3.3                | Second Amended and Restated Bylaws, as amended by Amendment Nos. 1 and 2, incorporated by reference to Exhibit 3.3 to Form 10-K, filed March 18, 2016   |
| 10.1               | Trademark License Agreement between Famous Dave's of America, Inc. and Grand Pines Resorts, Inc., incorporated by reference to Exhibit 10.11 to the Registration Statement on Form SB-2 (File No. 333-10675) filed on August 23, 1996   |
| 10.2               | Employee Stock Purchase Plan, incorporated by reference to Exhibit 10.1 to Form 10-Q filed May 9, 2008  |
| 10.3               | Second Amended and Restated Non-Qualified Deferred Compensation Plan, dated January 1, 2008, incorporated by reference to Exhibit 10.16 to Form 10-K filed March 14, 2008   |
| 10.4               | Second Amended and Restated Credit Agreement by and between Wells Fargo Bank, National Association and Famous Dave's of America, Inc., dated March 4, 2010, incorporated by reference to Exhibit 10.2 to Form 8-K filed March 9, 2010   |
| 10.5               | Letter amendment dated February 1, 2011, to the Second Amendment to the Amended and Restated Credit Agreement by and between Wells Fargo Bank, National Association and Famous Dave's of America, Inc., incorporated by reference to Exhibit 10.11 to Form 10-K filed March 18, 2011  |
| 10.6               | First Amendment to the Second Amended and Restated Credit Agreement by and between Wells Fargo Bank, National Association and Famous Dave's of America, Inc., dated July 5, 2011, incorporated by reference to Exhibit 10.1 to Form 8-K filed July 5, 2011  |
| 10.7               | Second Amendment to the Second Amended and Restated Credit Agreement by and between Wells Fargo Bank, National Association and Famous Dave's of America, Inc., dated November 1, 2012, incorporated by reference to Exhibit 10.1 to Form 10-Q filed November 2, 2012  |
| 10.8               | Third Amendment to the Second Amended and Restated Credit Agreement by and between Wells Fargo Bank, National Association and Famous Dave's of America, Inc., dated March 14, 2013, incorporated by reference to Exhibit 10.11 to Form 10-K filed March 14, 2013  |
| 10.9               | Fourth Amendment to the Second and Amended Restated Credit Agreement, incorporated by reference to Exhibit 10.1 to Form 10-Q filed May 9, 2014  |
| 10.10              | Third Amended and Restated Credit Agreement dated May 8, 2015 by and among Wells Fargo Bank, National Association, Famous Dave's of America, Inc. and certain subsidiaries of Famous Dave's of America, Inc., incorporated by reference to Exhibit 10.2 to Form 10-Q filed May 8, 2015  |
| 10.11              | Forbearance Agreement dated as of November 5, 2015 by and among Famous Dave's of America, Inc., D&D of Minnesota, Inc., Lake & Hennepin BBQ and Blues, Inc., Famous Dave's Ribs, Inc., Famous Dave's Ribs-U, Inc., and Famous Dave's Ribs of Maryland, Inc., each as borrowers, and Wells Fargo Bank, National Association, as administrative agent and lender, incorporated by reference to Exhibit 10.4 to Form 10-Q filed November 6, 2015 |

**Table of Contents**

**EXHIBITS**

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 10.12              | First Amendment to Forbearance Agreement dated as of December 2, 2015 by and among Famous Dave's of America, Inc., D&D of Minnesota, Inc., Lake & Hennepin BBQ and Blues, Inc., Famous Dave's Ribs, Inc., Famous Dave's Ribs-U, Inc., and Famous Dave's Ribs of Maryland, Inc., each as borrowers, and Wells Fargo Bank, National Association, as administrative agent and lender, incorporated by reference to Exhibit 10.1 to Form 8-K filed December 4, 2015                                 |
| 10.13              | First Amendment to Third Amended and Restated Credit Agreement dated as of December 11, 2015 by and among Famous Dave's of America, Inc., D&D of Minnesota, Inc., Lake & Hennepin BBQ and Blues, Inc., Famous Dave's RIBS, Inc., Famous Dave's RIBS-U, Inc., and Famous Dave's Ribs of Maryland, Inc., each as borrowers, and Wells Fargo Bank, National Association, as administrative agent and lender, incorporated by reference to Exhibit 10.1 to Form 8-K filed December 11, 2015         |
| 10.14              | Forbearance Agreement dated May 16, 2016 by and among Famous Dave's of America, Inc., D&D of Minnesota, Inc., Lake & Hennepin BBQ and Blues, Inc., Famous Dave's Ribs, Inc., Famous Dave's Ribs-U, Inc., and Famous Dave's Ribs of Maryland, Inc., each as borrowers, and Wells Fargo Bank, National Association, as administrative agent and lender, incorporated by reference to Exhibit 10.1 to Form 10-Q filed May 18, 2016   |
| 10.15              | Waiver and Second Amendment to Third Amended and Restated Credit Agreement dated as of June 10, 2016 by and among Famous Dave's of America, Inc., D&D of Minnesota, Inc., Lake & Hennepin BBQ and Blues, Inc., Famous Dave's RIBS, Inc., Famous Dave's RIBS-U, Inc., and Famous Dave's Ribs of Maryland, Inc., each as borrowers, and Wells Fargo Bank, National Association, as administrative agent and lender, incorporated by reference to Exhibit 10.1 to the Form 8-K filed June 10, 2016 |
| 10.16              | Forbearance Agreement dated November 9, 2016 by and among Famous Dave's of America, Inc., D&D of Minnesota, Inc., Lake & Hennepin BBQ and Blues, Inc., Famous Dave's Ribs, Inc., Famous Dave's Ribs-U, Inc., and Famous Dave's Ribs of Maryland, Inc., each as borrowers, and Wells Fargo Bank, National Association, as administrative agent and lender, incorporated by reference to Exhibit 10.1 to form 10-Q filed November 16, 2016  |
| 10.17              | Amended and Restated 2005 Stock Incentive Plan (as amended through January 21, 2013) incorporated by reference to Exhibit 10.6 to Form 10-K filed March 15, 2013  |
| 10.18              | Form of Director Restricted Stock Agreement Granted Under the Amended and Restated 2005 Stock Incentive Plan, incorporated by reference to Exhibit 10.4 to Form 10-K filed March 13, 2015   |
| 10.19              | Form of Director Restricted Stock Agreement Granted Under the Amended and Restated 2005 Stock Incentive Plan, incorporated by reference to Exhibit 10.4 to Form 10-K filed March 13, 2015   |
| 10.20              | Famous Dave's of America, Inc. 2015 Equity Incentive Plan, incorporated by reference to Exhibit 10.1 to Form 10-Q filed May 8, 2015   |
| 10.21              | Amendment No. 1 to 2015 Equity Incentive Plan, incorporated by reference to Exhibit 10.1 to Form 8-K filed July 31, 2015  |
| 10.22              | Amendment No. 2 to 2015 Equity Incentive Plan, incorporated by reference to Exhibit 10.1 to Form 10-Q filed November 6, 2015  |
| 10.23              | Form 2013-2015 Performance Share Agreement and Schedule of Grants under such form, incorporated by reference to Exhibits 10.1 and 10.2 to Form 8-K filed January 8, 2013  |
| 10.24              | Stock Option Agreement dated February 10, 2014 between Famous Dave's of America, Inc. and Edward H. Rensi, incorporated by reference to Exhibit 10.36 to Form 10-K filed March 14, 2014   |

**Table of Contents****EXHIBITS**

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 10.25              | Employment Letter dated February 10, 2014 between Famous Dave s of America, Inc. and Edward H. Rensi, incorporated by reference to Exhibit 10.35 to Form 10-K filed March 14, 2014  |
| 10.26              | Stock Option Agreement dated February 10, 2014 between Famous Dave s of America, Inc. and Edward H. Rensi, incorporated by reference to Exhibit 10.36 to Form 10-K filed March 14, 2014   |
| 10.27              | Employment Letter dated May 19, 2014 between Famous Dave s of America, Inc. and Richard A. Pawlowski, incorporated by reference to Exhibit 10.22 to Form 10-K filed March 13, 2015  |
| 10.28              | Stock Option Agreement dated June 2, 2014 between Famous Dave s of America, Inc. and Richard A. Pawlowski, incorporated by reference to Exhibit 10.23 to Form 10-K filed March 13, 2015   |
| 10.29              | Stock Option Agreement dated January 15, 2015 between Famous Dave s of America, Inc. and Edward H. Rensi, incorporated by reference to Exhibit 10.24 to Form 10-K filed March 13, 2015  |
| 10.30              | Employment Agreement entered into on August 3, 2015 between Famous Dave s of America, Inc. and Abelardo Ruiz, incorporated by reference to Exhibit 10.1 to Form 8-K filed August 7, 2015  |
| 10.31              | Severance Agreement dated August 17, 2015 between Famous Dave s of America, Inc. and Richard A. Pawlowski, incorporated by reference to Exhibit 10.1 to Form 8-K filed August 21, 2015  |
| 10.32              | Stock Option Agreement dated August 31, 2015 between Famous Dave s of America, Inc. and Abelardo Ruiz, incorporated by reference to Exhibit 10.29 to Form 10-K filed March 18, 2016   |
| 10.33              | Form of Indemnification Agreement between Famous Dave s of America, Inc. and each of its directors and officers, incorporated by reference to Exhibit 10.2 to Form 10-Q filed November 6, 2015  |
| 10.34              | Schedule of directors and officers subject to Indemnification Agreements in the form of Exhibit 10.30, incorporated by reference to Exhibit 10.3 to Form 10-Q filed November 6, 2015  |
| 10.35              | Employment Agreement dated effective January 1, 2016 between Famous Dave s of America, Inc. and Adam J. Wright, incorporated by reference to Exhibit 10.1 to Form 8-K filed January 4, 2016   |
| 10.36              | Stock Option Agreement dated January 1, 2016 between Famous Dave s of America, Inc. and Adam J. Wright, incorporated by reference to Exhibit 10.33 to Form 10-K filed March 18, 2016  |
| 10.37              | Employment Agreement dated February 12, 2016 between Famous Dave s of America, Inc. and Alfredo V. Martel, incorporated by reference to Exhibit 10.34 to Form 10-K filed March 18, 2016   |
| 10.38              | Employment Agreement dated effective April 11, 2016 between Famous Dave s of America, Inc. and Dexter Newman, incorporated by reference to Exhibit 10.1 to Form 8-K filed April 13, 2016  |
| 10.39              | Stock Option Agreement dated April 11, 2016 between Famous Dave s of America, Inc. and Dexter Newman, incorporated by reference to Exhibit 10.2 to Form 8-K filed April 13, 2016  |
| 10.40              | Employment Agreement dated October 11, 2016 between Famous Dave s of America, Inc. and Michael Lister, incorporated by reference to Exhibit 10.1 to Form 8-K filed October 17, 2016   |
| 10.41              | Employment Agreement dated October 11, 2016 between Famous Dave s of America and Doug Renegar, incorporated by reference to Exhibit 10.1 to form 10-Q filed November 16, 2016   |
| 10.42              | Loan Agreement dated December 2, 2016 among Famous Dave s of America, Inc., Minwood Partners, Inc. and Venture Bank, incorporated by reference to Exhibit 10.1 to form 8-K filed December 8, 2016   |
| 10.43              | Promissory Note (Note 1) dated December 2, 2016 in principal amount of \$3,700,000 from Famous Dave s of America, Inc. and Minwood Partners, Inc. to Venture Bank, incorporated by reference to Exhibit 10.2 to form 8-K filed December 8, 2016 |

**Table of Contents****EXHIBITS**

| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 10.44              | Mortgage and Security Agreement and Fixture Financing Statement dated December 2, 2016 by Famous Dave's of America, Inc. and Minwood Partners, Inc. to Venture Bank (Loan 1), incorporated by reference to Exhibit 10.3 to form 8-K filed December 8, 2016   |
| 10.45              | Loan Agreement dated December 2, 2016 among Famous Dave's of America, Inc., D&D of Minnesota, Inc., Famous Dave's Ribs of Maryland, Inc., Famous Dave's Ribs, Inc., Famous Dave's Ribs-U, Inc., Lake & Hennepin BBQ & Blues, Inc. and Venture Bank, incorporated by reference to Exhibit 10.4 to form 8-K filed December 8, 2016   |
| 10.46              | Promissory Note (Note 2) dated December 2, 2016 in principal amount of \$6,300,000 from Famous Dave's of America, Inc., D&D of Minnesota, Inc., Famous Dave's Ribs of Maryland, Inc., Famous Dave's Ribs, Inc., Famous Dave's Ribs-U, Inc. and Lake & Hennepin BBQ & Blues, Inc. to Venture Bank, incorporated by reference to Exhibit 10.5 to form 8-K filed December 8, 2016 |
| 10.47              | Promissory Note (Note 3) dated December 2, 2016 in principal amount of \$1,000,000 from Famous Dave's of America, Inc., D&D of Minnesota, Inc., Famous Dave's Ribs of Maryland, Inc., Famous Dave's Ribs, Inc., Famous Dave's Ribs-U, Inc. and Lake & Hennepin BBQ & Blues, Inc. to Venture Bank, incorporated by reference to Exhibit 10.6 to form 8-K filed December 8, 2016 |
| 10.48              | Mortgage and Security Agreement and Fixture Financing Statement dated December 2, 2016 by Famous Dave's of America, Inc. and Minwood Partners, Inc. to Venture Bank (Loan 2), incorporated by reference to Exhibit 10.7 to form 8-K filed December 8, 2016   |
| 10.49              | Security Agreement dated December 2, 2016 by Famous Dave's of America, Inc., D&D of Minnesota, Inc., Famous Dave's Ribs of Maryland, Inc., Famous Dave's Ribs, Inc., Famous Dave's Ribs-U, Inc. and Lake & Hennepin BBQ & Blues, Inc. for the benefit of Venture Bank, incorporated by reference to Exhibit 10.8 to form 8-K filed December 8, 2016                            |
| 10.50              | Pledge Agreement dated December 2, 2016 among Famous Dave's of America, Inc., D&D of Minnesota, Inc., Famous Dave's Ribs of Maryland, Inc., Famous Dave's Ribs, Inc., Famous Dave's Ribs-U, Inc., Lake & Hennepin BBQ & Blues, Inc. and Venture Bank, incorporated by reference to Exhibit 10.9 to form 8-K filed December 8, 2016   |
| 21.0*              | Subsidiaries of Famous Dave's of America, Inc.   |
| 23.1*              | Consent of Grant Thornton LLP  |
| 31.1*              | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| 31.2*              | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| 32.1*              | Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   |
| 32.2*              | Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   |
| 101.INS*           | XBRL Instance Document   |
| 101.SCH*           | XBRL Schema Document   |
| 101.CAL*           | XBRL Calculation Linkbase Document   |
| 101.LAB*           | XBRL Label Linkbase Document   |
| 101.PRE*           | XBRL Presentation Linkbase Document  |
| 101.DEF*           | XBRL Taxonomy Extension Definition Linkbase Document   |

\* Filed herewith

Management compensatory plan