FAMOUS DAVES OF AMERICA INC
Form 10-K
March 04, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 30, 2018

Commission File No. 0 21625

FAMOUS DAVE'S of AMERICA, INC.

(Exact name of registrant as specified in its charter)

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

12701 Whitewater Drive, Suite 290

Minnetonka, MN 55343

(Address of principal executive offices) (Zip code)

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

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

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

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

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

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

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

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

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

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE: None

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

PART I

ITEM 1. BUSINESS

Summary of Business Results and Plans

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

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

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

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

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

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

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

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

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

Financial Information about Segments

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

Narrative Description of Business

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

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

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We pride ourselves on the following:

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

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

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

Operating Strategy

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

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

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

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

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

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

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

Restaurant Operations

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

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

Off-Premise Occasions - Focus on Convenience

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

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

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

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

Marketing, Promotion and Sales

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

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

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

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

Location Strategy

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

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

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

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

Purchasing

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

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

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

Information Technology

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

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

Trademarks

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

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Franchise Program

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

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

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

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

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

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

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

Seasonality

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

Government Regulation

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

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

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

Team Members

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

Available Information

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

ITEM 1A. RISK FACTORS

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

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

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

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

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

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

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

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

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

We may choose not to open any more Company-owned restaurants and anticipate that most future restaurant growth will be through our franchisees. There is no guarantee that any of these franchise-operated restaurants will open when planned, or at all, due to many factors that may affect the development and construction of our restaurants, including landlord delays, weather interference, unforeseen engineering problems, environmental problems, construction or zoning problems, local government regulations, modifications in design to the size and scope of the project, and other unanticipated increases in costs, any of which could give rise to delays and cost overruns. There can be no assurance that we will successfully implement our growth plan for our Company-owned and franchise-operated restaurants. In addition, we also face all of the risks, expenses and difficulties frequently encountered in the development of an expanding business.

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

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

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

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

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

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

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

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

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

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

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

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

We are subject to laws and regulations relating to the preparation and sale of food, including regulations regarding product safety, nutritional content and menu labeling. We are subject to laws and regulations requiring disclosure of calorie, fat, trans fat, salt and allergen content. There is a risk that consumers' dining preferences may be impacted by such menu labeling. If we elect to alter our recipes in response to such a change in dining preferences, doing so could increase our costs and/or change the flavor profile of our menu offerings which could have an adverse impact on our results of operations.

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

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

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

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

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

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

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

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

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

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

We believe that our trademarks and other intellectual proprietary rights are important to our success and our competitive position. Accordingly, we have registered various trademarks and make use of various unregistered marks. However, the actions we have taken or may take in the future to establish and protect our trademarks and other intellectual proprietary rights may be inadequate to prevent others from imitating our products and concept or claiming violations of their trademarks and proprietary rights by us. Although we intend to defend against any improper use of our marks to the fullest extent allowable by law, litigation related to such defense, regardless of the merit or resolution, may be costly and time consuming and divert the efforts and attention of our management.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

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

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

All seat count and square footage amounts are approximate.

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

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

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

Market Information

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

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Holders

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

Dividends

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

Securities Authorized for Issuance under Equity Compensation Plans

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

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

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

Performance Graph

Not applicable to smaller reporting companies.

Purchases of Equity Securities by the Issuer

None

ITEM 6. SELECTED FINANCIAL DATA

Not applicable to smaller reporting companies.

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

Overview

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

Fiscal Year

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

Basis of Presentation

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

Application of Critical Accounting Policies and Estimates

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

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

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Recognition of Franchise-Related Revenue

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

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

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

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

Costs and Expenses

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

General and Administrative Expenses

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

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Asset Impairment, Estimated Lease Termination and Other Closing Costs

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

Lease Accounting

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

Liquor licenses

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

Accounts receivable, net

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

Stock-based compensation

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

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

Income Taxes

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

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

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

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

(1) As a percentage of restaurant sales, net
(2) As a percentage of total revenue
(3) Restaurant level cash operating margin is equal to restaurant sales, net, less food and beverage costs, labor and benefit costs, and operating expenses.

Total Revenue

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

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

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

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

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

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

Average Weekly Net Sales and Operating Weeks

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

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

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

Food and Beverage Costs

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

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

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

Labor and Benefits Costs

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

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

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

Operating Expenses

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

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

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

Depreciation and Amortization

Depreciation and amortization expense for the fiscal years ended December 30, 2018 and December 31, 2017 was approximately $1.3 million and $2.8 million, respectively, representing approximately 2.3% and 4.3% of total revenues, respectively. Depreciation and amortization expense decreased during the year ended December 30, 2018 primarily as a result of the closure of 14 Company-owned restaurants since January 2, 2017 and accelerated depreciation taken in the prior year on certain of these closed restaurants.

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General and Administrative Expenses

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

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

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

Asset Impairment, Estimated Lease Termination and Other Closing Costs

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

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

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

Total Other Expense

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

Income Tax Benefit

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

(Loss) from discontinued operations, net of taxes

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

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Basic and Diluted Net Income (Loss) Per Common Share

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

Financial Condition, Liquidity and Capital Resources

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

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

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

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

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

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

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

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

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Contractual Obligations

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

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

Off-Balance Sheet Arrangements

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

Income Taxes

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

Recent Accounting Guidance

Recent accounting guidance not yet adopted

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

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

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

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

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Inflation

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

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

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable to smaller reporting companies.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Management's Report on Internal Control over Financial Reporting

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

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Famous Dave's of America have been detected.

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

Changes in Internal Control over Financial Reporting

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

ITEM 9B. OTHER INFORMATION

Amendment to Employment Agreement

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

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

PART III

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

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

Code of Ethics

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

ITEM 11.EXECUTIVE COMPENSATION

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

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

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

ITEM 13.CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

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

ITEM 14.PRINCIPAL ACCOUNTING FEES AND SERVICES

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

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

Exhibits:

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

ITEM 16.FORM 10-K SUMMARY

Not applicable.

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Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders

Famous Dave's of America, Inc.

Opinion on the financial statements

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

Basis for opinion

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

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

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

/s/ Grant Thornton LLP

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

Minneapolis, Minnesota

March 4, 2019

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FAMOUS DAVE'S OF AMERICA, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

ASSETS

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

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Current portion of long-term debt and financing lease obligations	$ 1,369	$ 1,307
Accounts payable	3,765	4,365
Accrued compensation and benefits	808	1,545
Other current liabilities	2,970	3,118
Total current liabilities	8,912	10,335
Long-term liabilities:		
Long-term debt, less current portion	2,411	7,932
Financing lease obligation, less current portion	—	1,196
Other liabilities	4,492	3,963
Total liabilities	15,815	23,426
Shareholders' equity:		
Common stock, $.01 par value, 100,000 shares authorized, 9,085 and 7,376 shares issued and outstanding at December 30, 2018 and December 31, 2017, respectively	91	70
Additional paid-in capital	7,375	1,460
Retained earnings	15,075	11,951

Total shareholders’ equity	22,541	13,481
	$ 38,356	$ 36,907

See accompanying notes to consolidated financial statements.

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FAMOUS DAVE'S OF AMERICA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	Year Ended December 30, 2018	December 31, 2017
Revenue:		
Restaurant sales, net	$ 38,051	$ 48,874
Franchise royalty and fee revenue	13,871	14,767
Franchisee national advertising fund contributions	1,932	—
Licensing and other revenue	1,034	954
Total revenue	54,888	64,595
Costs and expenses:		
Food and beverage costs	11,973	14,782
Labor and benefits costs	13,663	17,653
Operating expenses	11,932	14,658
Depreciation and amortization expenses	1,264	2,785
General and administrative expenses	7,988	14,634
National advertising fund expenses	1,932	—
Asset impairment, estimated lease termination charges and other closing costs, net	145	6,816
Net loss on disposal of property	29	70
Total costs and expenses	48,926	71,398
Income (loss) from operations	5,962	(6,803)
Other income (expense):		
Interest expense	(493)	(661)
Interest income	122	22
Other expense, net	—	(82)
Total other expense	(371)	(721)
Income (loss) before income taxes	5,591	(7,524)
Income tax (expense) benefit	(729)	858
Net income (loss) from continuing operations	4,862	(6,666)
Net loss from discontinued operations, net of tax	—	(1,457)
Net income (loss)	$ 4,862	$ (8,123)
Income (loss) per common share:		
Basic net income (loss) per share - continuing operations	$ 0.57	$ (0.95)
Basic net loss per share - discontinued operations	—	(0.21)

Basic net income (loss) per share	$ 0.57	$ (1.16)
Diluted net income (loss) per share - continuing operations	$ 0.56	$ (0.95)
Diluted net loss per share - discontinued operations	—	(0.21)
Diluted net income (loss) per share	$ 0.56	$ (1.16)
Weighted average shares outstanding - basic	8,599	7,015
Weighted average shares outstanding - diluted	8,624	7,015

See accompanying notes to consolidated financial statements.

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FAMOUS DAVE’S OF AMERICA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS’ EQUITY

(in thousands)

	Common Stock		Additional Paid-in	Retained	
	Shares	Amount	Capital	Earnings	Total
Balance - January 1, 2017	6,958	$ 66	$ —	$ 19,902	$ 19,968
Issuance of common stock	418	4	1,460	—	1,464
Tax benefit for equity awards issued	—	—	—	(55)	(55)
Stock-based compensation	—	—	—	227	227
Net loss	—	—	—	(8,123)	(8,123)
Balance - December 31, 2017	7,376	$ 70	$ 1,460	$ 11,951	$ 13,481
Cumulative effect of change in accounting principle	—	—	—	(1,738)	(1,738)
Common stock issued pursuant to rights offering	1,582	18	5,119	—	5,137
Exercise of stock options	102	2	432	—	434
Stock-based compensation	25	1	364	—	365
Net income	—	—	—	4,862	4,862
Balance - December 30, 2018	9,085	$ 91	$ 7,375	$ 15,075	$ 22,541

See accompanying notes to consolidated financial statements.

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FAMOUS DAVE'S OF AMERICA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 30, 2018	December 31, 2017
Cash flows from operating activities:		
Net income (loss) from continuing operations	$ 4,862	$ (6,666)
Adjustments to reconcile net income (loss) to cash flows provided by operations:		
Depreciation and amortization	1,264	2,785
(Gain) loss from asset impairment and estimated lease termination and other closing costs	(46)	4,012
Net loss on disposal of property	29	70
Amortization of deferred financing costs	103	36
Amortization of lease interest assets	36	37
Deferred income taxes	639	(1,245)
Deferred rent	(654)	48
Bad debts (recovery) expense	(30)	1,172
Stock-based compensation	278	313
Changes in operating assets and liabilities:		
Accounts receivable, net	(225)	141
Inventories	(89)	467
Prepaid income taxes and income taxes receivable	103	1,479
Prepaid expenses and other current assets	(570)	473
Other assets	167	312
Accounts payable	(600)	(946)
Accrued compensation and benefits	(824)	(3)
Other current liabilities	58	(567)
Other liabilities	(624)	(139)
Cash flows provided by continuing operating activities	3,877	1,779
Cash flows provided by discontinued operating activities	—	1,350
Cash flows provided by operating activities	3,877	3,129
Cash flows from investing activities:		
Proceeds from the sale of assets	1,187	—
Payments for acquired restaurants	(229)	—
Advances on notes receivable	(750)	—
Purchases of held to maturity securities	(6,995)	—
Maturity of held to maturity securities	6,995	—
Purchases of property, equipment and leasehold improvements	(953)	(378)
Cash flows used for continuing investing activities	(745)	(378)
Cash flows used for discontinued investing activities	—	1,600
Cash flows used for investing activities	(745)	1,222

Cash flows from financing activities:		
Payments for debt issuance costs	—	(15)
Payments on long-term debt and financing lease obligations	(6,758)	(1,538)
Proceeds from sale of common stock, net of offering costs	5,120	1,464
Proceeds from exercise of stock options	520	—
Cash flows used for financing activities	(1,118)	(89)
Increase (decrease) in cash, cash equivalents and restricted cash	2,014	4,262
Cash, cash equivalents and restricted cash, beginning of period	10,426	6,164
Cash, cash equivalents and restricted cash, end of period	$ 12,440	$ 10,426

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	Year Ended	
	December 30, 2018	December 31, 2017
Supplemental Disclosures		
Cash paid for interest	$ 292	$ 617
Cash paid (refunds received) for income taxes, net	(148)	(1,842)
Non-cash investing and financing activities:		
Change in deferred taxes, recognized in additional paid-in capital	$ —	$ 55
Increase (decrease) in accrued property and equipment purchases	22	14

See accompanying notes to consolidated financial statements.

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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 December 30, 2018, there were 144 Famous Dave’s restaurants operating in 33 states, the Commonwealth of Puerto Rico, Canada, and the United Arab Emirates, including 17 Company-owned restaurants and 127 franchise-operated restaurants. An additional 63 franchise restaurants were committed to be developed through signed area development agreements as of December 30, 2018.

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. All inter-company transactions and balances have been eliminated in consolidation.

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 materially from those estimates.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year’s presentation.

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.

FAMOUS DAVE'S OF AMERICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fiscal year

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

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. As of December 30, 2018 and December 31, 2017, our uninsured cash and restricted cash balances were $4.6 million and $9.0 million, respectively. There have been no losses of uninsured amounts.

Restricted cash and marketing fund

We have a system-wide Marketing Development Fund, to which Company-owned restaurants, in addition to the majority of franchise-operated restaurants, contribute a percentage of net sales, currently 1.0%, for use in public relations and marketing development efforts. The assets held by this fund are considered to be restricted. Accordingly, we reflect the cash related to this fund within restricted cash and reflect the liability within accounts payable on our consolidated balance sheets. We had approximately $700,000 and $1.3 million in this fund as of December 30, 2018 and December 31, 2017, respectively.

In conjunction with certain lease agreements, we have deposited amounts for undrawn letters of credit in cash collateral accounts. We had approximately $143,000 for each of the years ended December 30, 2018 and December 31, 2017, related to these undrawn letters of credit.

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 our franchisees are required to submit to us. Any changes to the reserve are recorded in general and administrative expenses. Accounts receivable are written off when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Accounts receivable balances written off have not exceeded allowances provided and we believe all accounts receivable in excess of allowances provided 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. As of December 30, 2018, we had a receivable from one franchisee in the amount of $578,000, of which a portion was reserved in accordance with our standard policies.

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 net realizable value.

FAMOUS DAVE'S OF AMERICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Property, equipment and leasehold improvements, net

Property, equipment and leasehold improvements are stated at cost, net of accumulated depreciation. We recognize depreciation expense utilizing the straight-line method once an asset has been placed into service. The following table outlines the useful lives of our major classes of property, equipment and leasehold improvements:

Land	N/A
Buildings	30 years
Leasehold improvements	0 - 30 years
Furniture, fixtures, equipment and software (excluding restaurant signage)	3 - 7 years
Restaurant signage	10 - 15 years
Decor	7 years

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. We capitalize construction overhead costs until the time a building is turned over to operations, which is approximately two weeks prior to opening and depreciate these items over the same useful life as leasehold improvements.

We evaluate restaurant sites and other long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the 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 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 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.

Intangible Assets

We have 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. We review annually the liquor licenses for impairment. 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.

Goodwill represents the excess of cost over the fair value of identified net assets of businesses acquired. Goodwill is subject to an annual impairment analysis. We may assess qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. If it is more likely than not the fair value of the reporting unit is less than its carrying amount, we identify potential impairments of goodwill by comparing the fair value of the reporting unit to its carrying amount, which includes goodwill and other intangible assets. The fair value of the reporting unit is calculated using a market approach. If the fair value of the reporting unit exceeds the carrying amount, the assets are not impaired. If the carrying amount exceeds the fair value, this is an indication that impairment may exist. We calculate the amount of the impairment by comparing the fair value of the assets and liabilities to the fair value of the reporting unit. The fair value of the reporting unit in excess of the value of the assets and liabilities is the implied fair value of the goodwill. If this amount is less than the carrying amount of goodwill, impairment is recognized for the difference. No goodwill impairment charges were recognized during the year ended December 30, 2018.

FAMOUS DAVE'S OF AMERICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

We have lease interest assets that are reflected within intangible assets, net on our consolidated balance sheets. The current and long-term portion of lease interest liabilities are reflected within the other current liabilities and other liabilities line items on our consolidated balance sheets, respectively. Lease interest assets and liabilities are amortized to rent expense over the term of the leases to which they relate.

Reacquired franchise rights are amortized over the life of the related franchise agreement. We evaluate reacquired franchise rights in conjunction with our impairment evaluation of long-lived assets.

Advertising

Advertising costs are charged to expense as incurred. Advertising costs were approximately $2.7 million and $2.2 million for the years ended December 30, 2018 and December 31, 2017, respectively, and are included in operating expenses for local store marketing and in national advertising fund expenses for national advertising in the consolidated statements of operations.

Research and development costs

Research and development costs represent all expenses incurred in relation to the creation of new menu and promotional offerings, recipe enhancements and documentation activities. Research and development costs were approximately $441,000 and $382,000 for the years ended December 30, 2018 and December 31, 2017, 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. We did not incur any pre-opening expenses during the years ended December 30, 2018 and December 31, 2017.

Leases

Beginning in fiscal 2019, we are required to adopt ASC 842 – Leases. The new standard requires lessees to recognize a lease liability and a right-of-use asset for all leases which is equal to the present value of the remaining lease payments, discounted using the rate implicit in the lease (or the lessee's incremental borrowing rate to the extent the rate implicit in the lease cannot be readily determined). If applicable, a lessee should also include the exercise price of an option to purchase the underlying asset if the lessee is reasonably certain to exercise that option, payments for penalties for terminating the lease if the lease term reflects the lessee exercising an option to terminate the lease and any amounts that the lessee is probable to owe pursuant to residual value guarantees. We have evaluated this standard and have determined it will have a material impact on our consolidated balance sheets. We have not chosen to early adopt this standard, and as such, information contained within this Annual Report on Form 10-K is disclosed pursuant to ASC 840 –Leases.

We recognize rent 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.

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FAMOUS DAVE'S OF AMERICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Exit and disposal costs

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. Beginning in fiscal 2019, we will account for lease reserves pursuant to ASC 842.

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.

Costs incurred for restaurants that have been closed, after the date of their closure, are presented within the asset impairment, estimated lease termination and other closing costs line item of our consolidated statements of operations.

Net income (loss) per common share

Basic net income (loss) per common share ("EPS") is computed by dividing net income (loss) 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.

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

(in thousands, except per share data)	Year Ended December 30, 2018	December 31, 2017
Net (loss) income per share – basic:		
Net income (loss) from continuing operations	$ 4,862	$ (6,666)
Net loss from discontinued operations, net of tax	—	(1,457)
Net income (loss)	4,862	(8,123)
Weighted average shares outstanding - basic	8,599	7,015
Basic net income (loss) per share - continuing operations	$ 0.57	$ (0.95)
Basic net loss per share - discontinued operations	—	(0.21)
Basic net income (loss) per share	$ 0.57	$ (1.16)
Net (loss) income per share – diluted:		
Net income (loss) from continuing operations	$ 4,862	$ (6,666)
Net loss from discontinued operations, net of tax	—	(1,457)
Net income (loss)	4,862	(8,123)
Weighted average shares outstanding - diluted	8,624	7,015
Diluted net income (loss) per share - continuing operations	$ 0.56	$ (0.95)
Diluted net loss per share - discontinued operations	—	(0.21)

Diluted net income (loss) per share	$ 0.56	$ (1.16)

There were approximately 111,000 and 539,000 stock options as of December 30, 2018 and December 31, 2017, respectively that were not included in the computation of diluted EPS because they were anti-dilutive.

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FAMOUS DAVE'S OF AMERICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 as they vest. The bonus compensation of our Chief Executive Officer is issued in the form of unrestricted, freely tradable shares of our common stock and is expensed in full when earned. 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 "Stock-based compensation."

Beginning in fiscal 2019, we are required to adopt ASU 2018-07 – Stock Compensation, which simplifies the accounting related to nonemployee share-based payments. The update brings the accounting for nonemployees in line with that of awards granted to employees. The standard allows for measurement at the grant date for equity awards as opposed to the earlier of the performance commitment date or the date performance is complete. The new standard allows an entity to use the expected term or the contractual term. We chose not to early-adopt this standard, and do not expect this standard to have a material impact on 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.

Revenue recognition

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

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

FAMOUS DAVE'S OF AMERICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

The following table summarizes the impact of the adoption of the new revenue standard on the Company's previously reported consolidated balance sheets:

(in thousands)	December 31, 2017	New revenue standard adjustments	January 1, 2018
Deferred tax asset, net	$ 5,823	$ 579	$ 6,402
Other current liabilities	3,118	224	3,342
Other liabilities	3,963	2,077	6,040
Retained earnings	11,951	(1,722)	10,229

The increases to other current liabilities and other liabilities relate to deferred franchise fee revenue. The increase to deferred tax asset, net is related to the tax effects of these adjustments to deferred franchise fee revenue. These adjustments resulted in a net decrease to retained earnings as of the adoption date.

Contract liabilities consist of deferred revenue resulting from franchise fees paid by franchisees. We classify these liabilities within other current liabilities and other liabilities within our consolidated balance sheets based on the expected timing of revenue recognition associated with these liabilities. The following table reflects the change in contract liabilities between the date of adoption (January 1, 2018) and December 30, 2018:

(in thousands)	
Balance, January 1, 2018	$ 2,370
Revenue recognized	(372)
Balance, December 30, 2018	$ 1,998

The following table illustrates estimated revenues expected to be recognized in the future related to unsatisfied performance obligations as of December 30, 2018:

(in thousands)	
Fiscal Year	
2019	$ 209

2020		206
2021		201
2022		188
2023		166
Thereafter		1,028
Total	$	1,998

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FAMOUS DAVE'S OF AMERICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Adoption of the new revenue standard had no impact on the Company's cash flows from operating, investing or financing activities.

Recent Accounting Guidance

Recently adopted accounting guidance

Effective January 1, 2018, the Company adopted ASU No. 2016-18, "Statement of Cash Flows (Topic 230), Restricted Cash" ("ASU No. 2016-18"). ASU No. 2016-18 provides guidance on the presentation of restricted cash and restricted cash equivalents, which are now included with cash and cash equivalents when reconciling the beginning and ending cash amounts shown on the statements of cash flows. Using the retrospective transition method required under the standard, the Company has adjusted the presentation of its Consolidated Statement of Cash Flows for all periods presented. The adoption of ASU No. 2016-18 did not have any other impact on the Company's Consolidated Financial Statements.

Recent accounting guidance not yet adopted

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

We will adopt the new lease standard as of the effective date by applying the current period adjustment approach, utilizing the package of practical expedients available and the practical expedient to not reassess land easements. We are finalizing our analysis of the impact of Topic 842 to our accounting policies, processes, disclosures, and internal control over financial reporting and have implemented necessary upgrades to our existing lease system. We expect to record total operating lease liabilities of approximately $13.6 million and corresponding lease right of use assets of approximately $11.4 million based on the operating lease liabilities adjusted for deferred rent and liabilities associated with lease termination costs.

In June 2018, the FASB issued ASU 2018-07, Compensation-Stock Compensation (Topic 718), which expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. Under the updated standard, an entity should apply the requirements of Topic 718 to nonemployee awards, except for specific guidance on inputs to an option-pricing model and the attribution of cost. The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in the grantor's own operations by issuing share-based payment awards. The amendments also clarify that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling or goods or services as part of a contract accounted for under Topic 606, Revenue from Contracts with Customers. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018 and interim periods within that fiscal year. Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606. We expect to adopt this new standard as of the effective date. We do not believe that adoption of the new standard will have a material impact on our consolidated financial statements.

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(2) INVENTORIES

Inventories consisted approximately of the following at:

(in thousands)	December 30, 2018	December 31, 2017
Food and beverage	$ 389	$ 324
Other	—	58
Smallwares and supplies	333	251
	$ 722	$ 633

(3) INTANGIBLE ASSETS

The Company has intangible assets that consist of liquor licenses, lease interest assets, goodwill and reacquired franchise rights, net. The liquor licenses and goodwill are indefinite-lived assets 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. Reacquired franchise rights are amortized to depreciation and amortization expense on a straight-line basis over the remaining life of the reacquired franchise agreement.

Intangible assets consisted approximately of the following at:

(in thousands)	December 30, 2018	December 31, 2017
Lease interest assets, gross carrying amount	$ 1,091	$ 1,091
Lease interest assets, accumulated amortization	(323)	(286)
Lease interest assets, net carrying amount	768	805
Goodwill	61	—
Reacquired franchise rights, net	25	—
Liquor licenses	635	1,035
Intangible assets, net	$ 1,489	$ 1,840

The following table provides the projected future amortization of lease interest assets and reacquired franchise rights, net for the next five years, as of December 30, 2018:

(in thousands)	Reacquired Franchise Rights, net	Lease Interest Assets
Fiscal 2019	$ 4	$ 38
Fiscal 2020	4	36
Fiscal 2021	4	36

Fiscal 2022	4	36
Fiscal 2023	4	36
Thereafter	5	586
	$ 25	$ 768

We recognized amortization expense related to reacquired franchise rights of approximately $1,000 during the year ended December 30, 2018 and expect to recognize the remaining balance over a period of 7 years.

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(4) PROPERTY, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS, NET

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

(in thousands)	December 30, 2018	December 31, 2017
Land, buildings, and improvements	$ 24,191	$ 26,234
Furniture, fixtures, equipment and software	16,108	19,884
Décor	681	764
Construction in progress	138	187
Accumulated depreciation and amortization	(30,733)	(35,627)
Property, equipment and leasehold improvements, net	$ 10,385	$ 11,442

(5) OTHER CURRENT LIABILITIES

Other current liabilities consisted of the following at:

(in thousands)	December 30, 2018	December 31, 2017
Gift cards payable	$ 1,035	$ 1,000
Accrued expenses	1,238	694
Lease reserves, current	161	1,165
Sales tax payable	274	242
State income tax payable	16	—
Deferred franchise fees	207	—
Accrued property and equipment purchases	39	17
Other current liabilities	$ 2,970	$ 3,118

(6) OTHER LIABILITIES

Other liabilities consisted of the following at:

(in thousands)	December 30, 2018	December 31, 2017
Deferred rent	$ 1,787	$ 2,463
Deferred franchise fees	1,791	—

Miscellaneous other liabilities	441	730
Asset retirement obligations	16	119
Accrual for uncertain tax position	10	15
Long term lease reserve	254	514
Long term deferred compensation	193	122
Other liabilities	$ 4,492	$ 3,963

(7) LONG-TERM DEBT AND FINANCING LEASE OBLIGATIONS

Long-term debt

On December 2, 2016, we entered into two loan agreements (the "Loan Agreements") with Choice for a total initial principal amount of $10.0 million as well as a revolving line of credit (the "Line of Credit") for up to $1.0 million.

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The first loan (the "Real Estate Loan") was for a principal amount of $3.7 million and has a maturity date of December 2, 2026. The Real Estate Loan is paid in monthly installments of principal and interest, with a balloon payment at maturity. Interest is payable at a rate of 4.25% for the first five years and LIBOR plus 3.75% thereafter until maturity. The loan may be prepaid, subject to prepayment premiums as outlined in the Loan Agreements.

The second loan (the "Term Loan") was for a principal amount of $6.3 million and had a maturity date of December 2, 2023. The Term Loan was paid in monthly installments of principal and interest with a balloon payment at maturity. Interest was payable at a rate of LIBOR plus 3.25%. The Term Loan was able to be prepaid at any time without penalty. The Company repaid the Term Loan in full during the year ended December 30, 2018.

The Line of Credit has a maturity date of December 2, 2019 provides for interest to be paid monthly on outstanding balances with the principal amount due at maturity. Interest is payable at a rate of LIBOR plus 3.25% and the Line of Credit may be prepaid at any time without penalty. There was no balance on the Line of Credit as of December 30, 2018 and December 31, 2017.

As of December 30, 2018 and December 31, 2017, the weighted average interest rate on our long-term debt was 4.41% and 4.27%, respectively. The notes pursuant to the Loan Agreements are secured by substantially all of our assets and we are subject to various financial and non-financial covenants. As of December 30, 2018, we were in compliance with all of our covenants. In the event of a default, Choice has the right to terminate its obligations under the Loan Agreements and to accelerate the payment on any unpaid principal amounts then outstanding.

Long-term debt consisted of approximately the following as of the periods presented:

(in thousands)	December 30, 2018	December 31, 2017
Real Estate Loan	$ 2,705	$ 3,581
Term Loan	—	5,515
Less: deferred financing costs	(131)	(224)
Less: current portion of long-term debt	(163)	(940)
Long-term debt, less current portion	$ 2,411	$ 7,932

Future minimum principal payments on long-term debt, as of December 30, 2018, were as follows:

(in thousands)	
Fiscal Year	
2019	$ 163
2020	170
2021	178
2022	185
2023	194
Thereafter	1,815
Total	$ 2,705

Financing Lease Obligation

On March 31, 1999, we completed a sale leaseback transaction for three properties which provides us with the option to repurchase the properties at the end of the lease term. Because of our continuing involvement in the properties, the transaction is being accounted for as a financing arrangement. In March 2017, we amended the lease agreement to remove one of the properties from the arrangement. As of December 30, 2018, the weighted-average interest rate of our financing lease obligations was approximately 8.09%.

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Financing lease obligation consisted of approximately the following as of the periods presented:

(in thousands)	December 30, 2018	December 31, 2017
Financing lease obligation	$ 1,209	$ 1,576
Less: deferred financing costs	(3)	(13)
Less: current portion of financing lease obligation	(1,206)	(367)
Financing lease obligation, less current portion	$ —	$ 1,196

Future minimum principal payments on financing lease obligations, as of December 30, 2018, were as follows:

(in thousands)	
Fiscal Year	
2019	$ 1,232
Less: amounts representing interest	(23)
Total financing lease payable	$ 1,209

(8) COMMITMENTS AND CONTINGENCIES

Operating Leases

We lease most of our Company-owned restaurants and office facilities under non-cancelable operating leases with remaining minimum terms ranging from one month to 13 years. Our lease agreements generally contain base rent escalations that are either fixed pursuant to the lease agreement or based on the consumer price index. We are also required to pay contingent rentals on certain of our leases in amounts between 5% and 8% of gross sales above a minimum threshold.

The following table sets forth certain information related to our rental activities as of the periods presented:

	Year Ended	
(in thousands)	December 30, 2018	December 31, 2017
Rent expense	$ 1,152	$ 2,950
Cash rental payments	1,926	3,024
Sublease income	(263)	(264)

Future minimum lease payments under non-cancelable operating leases, as of December 30, 2018, are as follows:

(in thousands)
Fiscal Year

2019	$	2,089
2020		2,007
2021		2,033
2022		1,750
2023		1,151
Thereafter		2,875
Total operating lease obligations		11,905
Sublease income		(972)
Total	$	10,933

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Litigation

In the normal course of business, we are 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. We currently believe that the resolution of any of these pending matters will not have a material adverse effect on our financial position or liquidity, but an adverse decision in more than one of the matters could be material to our consolidated results of operations.

We 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 Schneiter 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. 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 was the subject of an interlocutory appeal. The appeal was fully briefed and oral argument took place on August 10, 2017. On October 23, 2017, the California Court of Appeal rendered its decision in the appeal in Famous Dave's favor, affirming and upholding in full the trial court's preliminary injunction order.

On July 28, 2015, this group of former 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 were seeking compensatory damages in amount not less than $20 million, punitive damages, costs and attorneys' fees. On October 5, 2018, we executed a settlement agreement with all parties in these cases. Pursuant to the settlement agreement, all claims in the litigation shall be dismissed with prejudice. We agreed to pay $75,000 towards plaintiff's legal fees upon the completion of the de-imaging of all but one of the prior franchisee's Famous Dave's restaurants at issue in the case. The assets and franchise rights of the remaining restaurant will be transferred to a separate existing franchisee.

(9) STOCK-BASED COMPENSATION

Effective May 5, 2015, we adopted the 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 options pursuant to the 2005 plan after May 12, 2015, the tenth anniversary of the date the 2005 Plan was approved by the Company's shareholders. Nonetheless, the 2005 Plan will remain in effect until all outstanding incentives granted thereunder have either been satisfied or terminated. As of December 30, 2018, there were 311,033 shares available for grant pursuant to the 2015 Plan.

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Stock options granted to employees and directors generally vest over two to five years, in monthly or annual installments, as outlined in each agreement. Options generally expire ten years from the date of grant. Compensation expense equal to the grant date fair value of the options is recognized in general and administrative expense over the applicable service period.

Stock options granted to certain non-employees either vest immediately or monthly over a period of two years. Options generally expire ten years from the date of grant. Compensation expense is recognized in general and administrative expense over the applicable service period, and is marked-to-market each period.

Beginning in fiscal 2019, we will be required to adopt ASU 2018-07, which will change the way we account for stock options granted to non-employees. See Note 1 – Nature of Business and Significant Accounting Policies.

The incentive compensation of our Chief Executive Officer is tied to increases in our share price and calls for the issuance of freely tradable shares of our common stock upon the achievement of certain milestones.

We utilize the Black-Scholes option pricing model when determining the compensation cost associated with stock options issued using the following significant assumptions:

- Stock price – Published trading market values of our common stock as of the date of grant.
- Exercise price – The stated exercise price of the stock option.
- Expected life – The simplified method as outlined in ASC 718.
- Expected dividend – The rate of dividends that we expect to pay over the term of the stock option.
- Volatility – Actual volatility over the most recent historical period equivalent to the expected life of the option.
- Risk-free interest rate – The daily United States Treasury yield curve rate.

The Company recognized stock-based compensation expense in its consolidated statements of operations for the twelve months ended December 30, 2018 and December 31, 2017, respectively, as follows:

	Year Ended	
(in thousands)	December 30, 2018	December 31, 2017
Stock options	$ 208	$ 218
Shares of common stock	70	85
Restricted stock	—	10
	$ 278	$ 313

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The following is a roll-forward of our stock option activity for the periods presented:

	Number of Options (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Aggregate Intrinsic Value (in thousands)
Options outstanding at January 1, 2017	686	$ 9.15	5.7	$ 1
Granted	165	4.20		—
Exercised	(3)	5.42		5
Canceled, forfeited or expired	(309)	11.04		—
Options outstanding at December 31, 2017	539	$ 6.60	6.6	$ 598
Granted	90	7.67		—
Exercised	(102)	5.28		273
Canceled, forfeited or expired	(143)	5.74		231
Options outstanding at December 30, 2018	384	$ 7.43	6.7	$ 29
Options exercisable at December 30, 2018	215	$ 8.49	5.1	$ 13

The following table discloses the weighted-average values of significant assumptions that we made in valuing option grants for the periods presented:

	Year Ended December 30, 2018	December 31, 2017
Weighted-average fair value of options granted during the period	$ 3.73	$ 1.78
Expected life (in years)	6.2	5.3
Expected dividend	$ —	$ —
Expected stock volatility	45.94 %	43.47 %
Risk-free interest rate	2.9 %	2.0 %

As of December 30, 2018, the total compensation cost related to unvested stock option awards was approximately $434,000, which is expected to be recognized over a period of approximately 2.87 years.

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(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. The following table outlines certain information about our 401(k) plan:

	Year Ended	
(dollars in thousands)	December 30, 2018	December 31, 2017
Employer contribution rate, percent of employee contributions	25.0 %	25.0 %
Employee contribution rate, maximum percentage of employee earnings subject to employer matching	4.0 %	4.0 %
Employee contributions	$ 469	$ 529
Employer match	$ 76	$ 87
Discretionary contributions	$ —	$ —

Non-Qualified Deferred Compensation Plan

We maintain a non-qualified deferred compensation plan, effective as of February 25, 2005 (the "DCP") for eligible participants, as defined in the DCP. The DCP allows participating employees to defer a portion of their compensation (salary, bonus and commissions). The assets of the DCP are maintained in an unsecured account that has no trust fund. In the event of bankruptcy, participants entitled to future payments under the DCP would have no greater rights than that of an unsecured general creditor and the DCP confers no legal rights for interest or claim on any of our assets. The benefits provided by the DCP are not, nor are they required to be, insured.

The following table outlines certain information about the DCP:

	Year Ended	
(dollars in thousands)	December 30, 2018	December 31, 2017
Employer contribution rate, percent of employee contributions	25.0 %	25.0 %
Employee contribution rate, maximum percentage of employee earnings subject to employer matching	4.0 %	4.0 %
Declared interest rate	6.0 %	6.0 %
Employee contributions	$ 36	$ 41
Employer match and interest	$ 17	$ 7
Distributions	$ 30	$ 43

(11) RESTAURANT ACQUISITIONS

On August 6, 2018, the Company completed the acquisition of a Famous Dave's restaurant in Janesville, Wisconsin. The seller of the restaurant was Team R N' B Wisconsin, LLC. The contract purchase price of the restaurant was approximately $37,000, exclusive of closing costs plus the assumption of the gift card liability.

On October 8, 2018, the Company completed the acquisition of a Famous Dave's restaurant in Greenwood, Indiana. The seller of the restaurant was Greenwood Ribs, LLC. The contract purchase price of the restaurant was approximately $191,000, exclusive of closing costs plus the assumption of the gift card liability.

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The acquisition was accounted for using the purchase method of accounting in accordance with ASC 805 “Business Combinations” and, accordingly, the consolidated statements of operations include the results of these operations from the date of acquisition. The assets acquired and the liabilities assumed were recorded at estimated fair values based on information available. We expect goodwill of $61,000 to be deductible for tax purposes.

The following table presents the allocation of assets acquired and liabilities assumed during the twelve months ended December 30, 2018:

(in thousands)	
Cash and cash equivalents	$ 4
Inventory	66
Property, plant and equipment	91
Goodwill (gain on bargain purchase), net	42
Reacquired franchise rights, net	25
Total assets acquired	228
Gift card liability assumed	(25)
Total purchase price	$ 203

We recognized $1.0 million of revenue and a loss of approximately $64,000 on these acquisitions from the respective acquisition dates through December 30, 2018.

(12) DISCONTINUED OPERATIONS

On November 1, 2017, we entered into agreements to sell eight restaurants in Maryland and Virginia (the “Mid-Atlantic Restaurants”) to Commonwealth Blue Ribbon Restaurants LLC and Capital Blue Ribbon Restaurants LLC (the “Mid-Atlantic Purchasers”). Pursuant to the first agreement (“Seven Restaurants Agreement”), the contract purchase price was $2,350,000 and included a repairs and maintenance credit of $750,000, which must be exhausted within one year. Also pursuant to the Seven Restaurants Agreement, we and the Mid-Atlantic Purchasers entered into a line of credit agreement in the amount of $750,000 (the “LOC Agreement”) on which the Mid-Atlantic Purchasers can draw funds to pay for necessary repairs and maintenance work. The LOC Agreement has a four year term with interest payable at a rate of 4.25% per annum.

Pursuant to the second agreement (the “Frederick Agreement”) to effect the sale of our Frederick, Maryland (“Frederick”) restaurant to Capital Blue Ribbon Restaurants, LLC, the contract purchase price for Frederick shall be an amount equal to (i) 50% of the rent, fees, charges, taxes and other amounts payable to the landlord or another third party pursuant to the lease agreement, plus (ii) 50% of that portion of Frederick’s EBITDA (as defined in the Frederick APA) attributable to Frederick that exceeds $25,000 in any 12-month period and $37,500 in any 18-month period; however, the Company has guaranteed the 12-month and 18-month EBITDA performance of Frederick. We expect to recognize a liability and corresponding expense related to this guarantee based on the amount that we would owe to the Mid-Atlantic Purchasers in the event that the restaurant was closed. As of December 30, 2018, we had reserved

$33,000 related to this guarantee.

The Mid-Atlantic Purchasers also purchased the inventory and petty cash on hand of the Mid-Atlantic Restaurants as of the closing date. The transaction resulted in our complete exit from the Mid-Atlantic market.

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The following table provides certain information from our consolidated statements of operations related to the Mid-Atlantic Restaurants:

	Year Ended	
(in thousands)	December 30, 2018	December 31, 2017
Restaurant sales, net	$ —	$ 18,831
Cost of sales	—	(16,998)
General and administrative expenses	—	(149)
Depreciation and amortization	—	(611)
Operating income	—	1,073
Loss on disposal attributable to discontinued operations	—	(3,419)
Loss attributable to discontinued operations, before tax	—	(2,346)
Loss attributable to discontinued operations, tax effect	—	889
Loss attributable to discontinued operations, net of tax	$ —	$ (1,457)

There were no assets or liabilities recorded in our consolidated balance sheets as of December 30, 2018 or December 31, 2017.

(13) INCOME TAXES

For financial reporting purposes, income (loss) before income taxes consists of the following components for the periods presented:

	Year Ended	
(in thousands)	December 30, 2018	December 31, 2017
United States	$ 5,370	$ (7,807)
Foreign	221	283
Total	$ 5,591	$ (7,524)

The following table summarizes the income tax (expense) benefit for the periods presented:

	Year Ended	
(in thousands)	December 30, 2018	December 31, 2017
Current:		
Federal	$ 4	$ (418)
State	(17)	—
Foreign	(77)	(69)
	(90)	(487)
Deferred:		
Federal	(532)	1,228

State	(107)	117
	(639)	1,345
Total income tax (expense) benefit	$ (729)	$ 858

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

	Year Ended	
(in thousands)	December 30, 2018	December 31, 2017
Continuing operations	$ (729)	$ 858
Discontinued operations	—	889
Total income tax (expense) benefit	$ (729)	$ 1,747

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.

The following is a reconciliation of the beginning and ending amounts of gross unrecognized tax benefit for the periods presented:

(in thousands)	
Balance at January 1, 2017	115
Increases attributable to tax positions taken during prior periods	—
Audit settlements	(89)
Decreases due to lapses of statutes of limitations	(13)
Balance at December 31, 2017	13
Decreases due to lapses of statutes of limitations	(5)
Balance at December 30, 2018	$ 8

We recognized interest and penalties of approximately ($22,000) during the year ended December 31, 2017. Substantially all of our unrecognized tax benefits, if recognized, would impact our effective tax rate. As of December 30, 2018 and December 31, 2017, we had recorded a liability of approximately $2,000 related to accrued interest and penalties.

We file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The preparation of these income tax returns requires us 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 we do. As a result, we may be required to adjust tax liabilities affecting our effective tax rate. Tax years 2014 and forward remain subject to federal examination.
Tax years 2013 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. The expiration of statutes of limitations would decrease our unrecognized tax benefits by approximately $8,000.

We have significant net deferred tax assets ("DTA"), which results from the net temporary timing differences between amounts recorded within our consolidated financial statements in accordance with GAAP and such amounts measured in accordance with the laws of various taxing jurisdictions and as reported in our tax returns. A DTA generally represents future tax benefits to be received when temporary differences previously reported in our consolidated financial statements become deductible for income tax purposes, when net operating loss carry forwards are applied against future taxable income, or when tax credit carry forwards are utilized on our tax returns. As of December 30, 2018, the majority of our DTA resulted from net operating loss and tax credit carryforwards, which will not be realized unless we generate taxable income in the future. We evaluate our net deferred tax asset on a quarterly basis to determine whether current facts and circumstances indicate that the DTA may not be fully realizable and we provide for valuation allowances on those portions of the DTA that we don’t expect to realize.

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Significant judgment is required in determining the realizability of our DTA. The assessment of whether valuation allowances are required considers, among other matters, the nature, frequency and severity of any current and cumulative losses, forecasts of future profitability, the duration of statutory carry forward periods, our experience with loss carry forwards not expiring unused and tax planning alternatives. In analyzing the need for valuation allowances, we first considered our history of cumulative operating results for income tax purposes over the past three years in each of the tax jurisdictions in which we operate, our financial performance in recent quarters, statutory carry forward periods and tax planning alternatives. Finally, we considered both our near and long-term financial outlook. After considering all available evidence both positive and negative, we concluded that recognition of valuation allowances for substantially all of our DTA was not required. We recognized a valuation allowance relating to certain state net operating losses for which we believe that is it more likely than not that the benefit will not be realized. In recognition of this risk, we have provided a valuation allowance of $3.5 million on the deferred tax asset related to these state net operating loss carryforwards.

The following is a summary of the components of our net deferred tax assets as of the periods presented:

(in thousands)	December 30, 2018	December 31, 2017
Deferred tax asset:		
Deferred rent	$ 411	$ 567
Federal net operating loss carry-forwards	1,812	2,486
State net operating loss carry-forwards	4,130	3,573
Intangible property basis difference	131	138
Financing lease obligation	299	393
Tax credit carryover	2,164	1,761
Accrued expenses	205	74
Stock-based compensation	103	141
Deferred revenue	666	257
Lease reserve	107	449
Accrued and deferred compensation	36	38
Contribution carryover	46	36
Inventories	5	5
Total deferred tax asset	$ 10,115	$ 9,918
Deferred tax liability:		
Property and equipment basis difference	$ (568)	$ (1,060)
Inventories	(83)	(60)
Prepaid expenses	(236)	(139)
Intangible property basis difference	—	—
Total deferred tax liability	$ (887)	$ (1,259)
Net deferred tax assets	9,228	8,659
Valuation allowance	(3,481)	(2,836)
Deferred tax asset, net	$ 5,747	$ 5,823

During the year ended December 30, 2018, the net change in our DTA valuation allowance was approximately $645,000.

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FAMOUS DAVE'S OF AMERICA, INC. AND SUBSIDIARIES
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As of December 30, 2018, we had cumulative state net operating loss carry-forwards for tax reporting purposes of approximately $62.8 million and federal net operating loss carry-forwards for tax reporting purposes of $8.6 million which, if not used, will begin to expire in fiscal 2019 and 2038, respectively.

The following is a reconciliation from our statutory tax rate to our effective tax rate for the periods presented:

	Year Ended December 30, 2018		December 31, 2017	
Federal statutory tax rate	21.0	%	34.0	%
State taxes, net of valuation allowance and federal benefit	2.2		2.4	
Federal rate change and impact on state benefit	—		(24.1)	
Foreign taxes	1.4		(0.9)	
Tax effect of permanent differences	(3.5)		(2.0)	
Tax effect of general business credits	—		3.7	
Tax effect of foreign tax credit	(3.2)		0.9	
Uncertain tax positions	—		1.7	
Stock-based compensation	—		(4.4)	
Other	(4.9)		0.2	
Effective tax rate	13.0	%	11.5	%

The substantial reduction in our future federal statutory tax rate was primarily a result of the Tax Cuts and Jobs Act, effective for tax years beginning after December 31, 2017, which reduced our statutory tax rate from 34.0% to 21.0%.

(14) ASSET IMPAIRMENT, ESTIMATED LEASE TERMINATION AND OTHER CLOSING COSTS

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

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

Below reflects the change in our reserve for lease termination costs for the periods presented:

	Balance at Beginning of	Additions Charged to Costs and	Deductions Credits to Costs and Expenses and Other	Balance at End of

(in thousands)	Period	Expenses	Accounts	Period
Year Ended December 30, 2018				
Reserve for lease termination costs and asset retirement obligations	$ 1,799	511	(1,879)	$ 431
Year Ended December 31, 2017				
Reserve for lease termination costs and asset retirement obligations	$ 594	3,150	(1,945)	$ 1,799

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

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FAMOUS DAVE'S OF AMERICA, INC. AND SUBSIDIARIES
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(15) 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.

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 December 30, 2018 and December 31, 2017:

(in thousands)	Level 1	Level 2	Level 3	Total
Balance at December 31, 2017				
Assets				
Property and Equipment, net	$ —	$ —	$ 828	$ 828

Property and Equipment, net, is recorded at fair value 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.

(16) 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 VIE, the primary beneficiary is required to consolidate the entity. We have an installment agreement with one of our franchisees as the result of refranchising our Lincoln, Nebraska restaurant. This franchisee is a VIE; however, the owners of the franchise operations are the primary beneficiaries of the entities; therefore, the franchise operations are not required to be consolidated in our consolidated financial statements.

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FAMOUS DAVE’S OF AMERICA, INC. AND SUBSIDIARIES
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On March 1, 2016, we consummated the sale of our Chicago, Illinois-area restaurants. In conjunction with that agreement, we entered into lease assignment agreements with the respective purchasers and three of the landlords, releasing us of our obligations except in the event of default by the purchasers. As of December 30, 2018, the amount of the future lease payments for which we are liable is approximately $718,000. As of December 30, 2018, we had accrued approximately $233,000 related to the future obligations of these restaurants. 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. During the year ended December 30, 2018, the Company reached settlement agreements with all of the landlords in question.

On November 1, 2017, we sold our Frederick, Maryland restaurant. Pursuant to the terms of the Frederick Agreement, we remained the primary obligor of the lease. As of December 30, 2018, the amount of future lease payments for which we would be liable in the event of a default are approximately $575,000. An accrual related to the future lease obligation was not considered necessary as of December 30, 2018. See Note 12 “Discontinued Operations.”

On July 18, 2018, we and Clark Championship Products LLC (“Clark”), an entity owned by Travis Clark, became members of Mercury BBQ LLC (“Mercury”) for the purposes of building out and operating the inaugural Clark Crew BBQ restaurant in Oklahoma City, Oklahoma (the “Restaurant”). Clark will own 80% of the units outstanding of Mercury and we will own 20% of the units outstanding of Mercury. Mercury shall be governed by three managers, two of which will be appointed by us and one of which will be appointed by Clark. Also on July 18, 2018, we entered into a secured promissory note in the amount of $1.4 million (the “Loan”) with Mercury, the proceeds of which are required to be used for the build out of the Restaurant. The Loan bears interest at a rate of 10% per annum and requires payments of 100% of the excess monthly cash flows until the Loan and all interest accrued thereon is repaid. The Loan requires a balloon payment of unpaid principal and accrued interest on July 15, 2023 and may be prepaid at any time. Also on July 18, 2018, we and Clark entered into an intellectual property license agreement (the “License Agreement”) pursuant to which Clark granted to us an exclusive license to use and sublicense the patents, trademarks, trade names, service marks, logos and designs related to Clark Crew BBQ restaurants and products. The term of the License Agreement is indefinite and may only be terminated by mutual written consent, unless we breach the License Agreement.

Because we have provided more than half of the subordinated financial support of Mercury and control Mercury via its representation on the board of managers, we have concluded that Mercury is a VIE, of which we are the primary beneficiary and must consolidate Mercury. There has been no material revenues, expenses, assets, or liabilities related to Mercury during the year ended December 30, 2018.

(17) RELATED PARTY TRANSACTIONS

Anand D. Gala is a franchisee and currently serves as one of our directors. 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.

Charles Davidson is a franchisee of the Company and is the beneficial owner of approximately 18.6% of the Company’s common stock as of the date that these financial statements were available to be issued, by virtue of his ownership interest in Wexford Capital. The Company completed a rights offering during the year ended December 30, 2018, in which Wexford Capital purchased 352,845 shares of the Company's common stock.

The following table outlines amounts received from related parties during the years ended December 30, 2018 and December 31, 2017:

	Year Ended	
(in thousands)	December 30, 2018	December 31, 2017
Revenues and NAF contributions - Anand Gala	$ 1,538	$ 1,935
Revenues and NAF contributions - Charles Davidson	308	54

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FAMOUS DAVE’S OF AMERICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table outlines accounts receivable, net from related parties as of December 30, 2018 and December 31, 2017:

(in thousands)	December 30, 2018	December 31, 2017
Accounts receivable, net - Anand Gala	$ 271	$ 301
Accounts receivable, net - Charles Davidson	44	32

(18) SUBSEQUENT EVENTS

We evaluated for the occurrence of subsequent events through the issuance date of our 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 29, 2019, Famous Dave’s Ribs. Inc. (“Ribs”), our wholly owned subsidiary, entered into an asset purchase agreement (the “APA”), by and between Legendary BBQ, Inc., Cornerstar BBQ, Inc., Razorback BBQ, Inc., Larkridge BBQ, Inc., Mesa Mall BBQ, Inc., and Quebec Square BBQ, Inc. to purchase the assets and operations of five Famous Dave’s restaurants located in Colorado (the “Purchased Restaurants”). Pursuant to the APA, the contract purchase price for the Purchased Restaurants is approximately $4,100,000, exclusive of closing costs, plus an amount equal to the book value of the restaurant inventory, plus the assumption the gift card liability associated with the Purchased Restaurants. We completed the acquisition of four of the five restaurants on March 4, 2019 (the “First Four”). As of the date that these financial statements were available to be issued, the initial accounting for the First Four was incomplete and as such, it was impractical to include in these consolidated financial statements the pro forma impact of the acquisition.

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FAMOUS DAVE'S OF AMERICA, INC. AND SUBSIDIARIES

Financial Statement Schedule

SCHEDULE II. VALUATION AND QUALIFYING ACCOUNTS

(in thousands)	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions Credits to Costs and Expenses and Other Accounts	Balance at End of Period
Year ended December 31, 2017:				
Allowance for doubtful accounts	$ 271	$ 1,599	$ (1,278)	$ 592
Reserve for lease termination costs and asset retirement obligation	594	3,150	(1,945)	1,799
Reserve for corporate severance	—	796	(441)	355
Year ended December 30, 2018:				
Allowance for doubtful accounts	$ 592	$ —	$ (400)	$ 192
Reserve for lease termination costs and asset retirement obligation	1,799	511	(1,879)	431
Reserve for corporate severance	355	98	(453)	—

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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 DAVE'S OF AMERICA, INC. ("Registrant")	
Dated: March 4, 2019	By:	/s/ Jeffery J. Crivello Jeffery J. Crivello Chief Executive Officer (Principal Executive Officer)
	By:	/s/ Paul M. Malazita Paul M. Malazita Chief Financial Officer and Secretary (Principal Financial Officer and Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 4, 2019 by the following persons on behalf of the registrant, in the capacities indicated.

Signature	Title

/s/ Jeffery J. Crivello Jeffery J. Crivello	Chief Executive Officer and Director
/s/ David L. Kanen David L. Kanen	Non-Executive Chairman of the Board of Directors
/s/ Anand D. Gala Anand D. Gala	Director
/s/ Peter O. Haeg Peter O. Haeg	Director
/s/ Joseph M. Jacobs Joseph M. Jacobs	Director
/s/ Richard A. Shapiro Richard A. Shapiro	Director
/s/ Richard S. Welch Richard S. Welch	Director
/s/ Bryan L. Wolff Bryan L. Wolff	Director

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EXHIBITS

Exhibit No.	Description
3.1	Restated Articles of Incorporation, dated December 18, 2017, incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S 1 filed on December 29, 2017.
3.2	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	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 †
10.3	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 †
10.4	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 †
10.5	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 †
10.6	Amendment No. 1 to 2015 Equity Incentive Plan, incorporated by reference to Exhibit 10.1 to Form 8 K filed July 31, 2015 †
10.7	Amendment No. 2 to 2015 Equity Incentive Plan, incorporated by reference to Exhibit 10.1 to Form 10 Q filed November 6, 2015 †
10.8	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
10.9	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
10.10	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 †
10.11	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 †
10.12	Stock Option 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 †

10.13	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 †
10.14	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 †
10.15	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 †

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Exhibit No.	Description
10.16	Employment Agreement dated October 11, 2016 between Famous Dave's of America and Doug Renegar, incorporated by reference to Exhibit 10.2 to form 10 Q filed November 16, 2016 †
10.17	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
10.18	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
10.19	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
10.20	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
10.21	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
10.22	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
10.23	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
10.24	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
10.25	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
10.26	

	Stock Purchase Agreement dated November 10, 2017 between Famous Dave's of America, Inc. and PW Partners, LLC, incorporated by reference to Exhibit 10.1 to Form 8 K filed November 13, 2017
10.27	Registration Rights Agreement dated November 10, 2017 between Famous Dave's of America, Inc. and PW Partners, LLC, incorporated by reference to Exhibit 10.2 to Form 8 K filed November 13, 2017
10.28	Employment Agreement dated November 14, 2017 between Famous Dave's of America, Inc. and Jeffery Crivello, incorporated by reference to Exhibit 10.3 to Form 8 K filed November 13, 2017 †

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Exhibit No.		Description
10.29		Asset Purchase Agreement dated November 1, 2017 among Famous Dave's Ribs of Maryland, Inc., Famous Dave's Ribs, Inc., Commonwealth Blue Ribbon Restaurants, LLC and Capital Blue Ribbon Restaurants, LLC, incorporated by reference to Exhibit 10.53 to the Registration Statement on Form S 1 filed on December 29, 2017
10.30		Asset Purchase Agreement (and supplemental letter agreement) dated November 1, 2017 between Famous Dave's Ribs of Maryland, Inc. and Capital Blue Ribbon Restaurants, LLC, incorporated by reference to Exhibit 10.54 to the Registration Statement on Form S 1 filed on December 29, 2017
10.31		Amendment dated January 29, 2018 to Employment Agreement dated November 14, 2017 between Famous Dave's of America, Inc. and Jeffery Crivello, incorporated by reference to Exhibit 10.2 to Form 8 K filed January 29, 2018 †
10.32		Employment Agreement dated April 13, 2016 between Famous Dave's of America, Inc. and Geovannie Concepcion, incorporated by reference to Exhibit 10.3 to Form 8 K filed January 29, 2018 †
10.33		Amendment dated January 29, 2018 to Employment Agreement dated April 13, 2016 between Famous Dave's of America, Inc. and Geovannie Concepcion, incorporated by reference to Exhibit 10.4 to Form 8 K filed January 29, 2018 †
10.34		Standby Purchase Agreement, between Famous Dave's of America, Inc. and PW Partners, LLC, dated January 29, 2018, incorporated by reference to Exhibit 10.1 to Form 8-K filed January 29, 2018
10.35		Employment Agreement dated February 12, 2018 between Famous Dave's of America, Inc. and Paul M. Malazita incorporated by reference to Exhibit 10.35 to the Form 10-K filed March 5, 2018 †
10.36		Famous Dave's of America, Inc. Amended and Restated 2015 Equity Incentive Plan dated March 29, 2018, incorporated by reference to Exhibit A to the Definitive Proxy Statement on Schedule 14A, filed on April 4, 2018
10.37		Secured Promissory Note, dated July 18, 2018 between Mercury BBQ LLC and Famous Dave's of America, Inc., incorporated by reference to Exhibit 10.1 to Form 10-Q filed on August 13, 2018.
10.38		Intellectual Property License Agreement, dated July 18, 2018 among Travis Clark, Clark Championship Products LLC and Famous Dave's of America, Inc., incorporated by reference to Exhibit 10.2 to Form 10-Q filed on August 13, 2018.
10.39	*	Amendment dated November 12, 2018 to Employment Agreement dated February 12, 2018 between Famous Dave's of America, Inc. and Paul M. Malazita. †
10.40		Asset Purchase Agreement, dated January 29, 2019, by and among Famous Dave's Ribs, Inc., Legendary BBQ, Inc., Cornerstar BBQ, Inc., Razorback BBQ, Inc., Larkridge BBQ, Inc., Mesa Mall BBQ, Inc., and Quebec Square BBQ, Inc., incorporated by reference to Exhibit 10.1 to Form 8-K filed February 4, 2019.
10.41	*	Form of Restricted Stock Agreement Granted under the Amended and Restated 2015 Equity Incentive Plan †

10.42	*	Second Amendment, dated February 28, 2019, to employment agreement between Famous Dave's of America, Inc. and Jeffery Crivello †
10.43	*	Second Amendment, dated February 28, 2019, to employment agreement between Famous Dave's of America, Inc. and Geovannie Concepcion †

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Exhibit No.		Description
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