

FAMOUS DAVES OF AMERICA INC

Form 10-Q

August 14, 2017

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended July 2, 2017

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 0 21625

---

FAMOUS DAVE'S of AMERICA, INC.

(Exact name of registrant as specified in its charter)

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

12701 Whitewater Drive, Suite 200

Minnetonka, MN 55343

(Address of principal executive offices) (Zip code)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  
No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth 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 (Do not check if a smaller reporting company) Smaller Reporting Company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of August 11, 2017, 6,957,628 shares of the registrant’s Common Stock were outstanding.

Table of Contents

FAMOUS DAVE'S OF AMERICA, INC.

TABLE OF CONTENTS

	Page
<u>PART I</u>	
<u>FINANCIAL INFORMATION</u>	
<u>Item 1</u>	
<u>Consolidated Financial Statements (unaudited)</u>	
<u>Consolidated Balance Sheets As of July 2, 2017 and January 1, 2017</u>	3
<u>Consolidated Statements of Operations For the Three and Six Months Ended July 2, 2017 and July 3, 2016</u>	4
<u>Consolidated Statements of Cash Flows For the Six Months Ended July 2, 2017 and July 3, 2016</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
<u>Item 2</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16
<u>Item 3</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	25
<u>Item 4</u>	
<u>Controls and Procedures</u>	25
<u>PART II</u>	
<u>OTHER INFORMATION</u>	
<u>Item 1</u>	
<u>Legal Proceedings</u>	25
<u>Item 1A</u>	
<u>Risk Factors</u>	25
<u>Item 5</u>	
<u>Other Information</u>	26
<u>Item 6</u>	
<u>Exhibits</u>	26
<u>SIGNATURES</u>	27
<u>CERTIFICATIONS</u>	

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

FAMOUS DAVE'S OF AMERICA, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

JULY 2, 2017 AND JANUARY 1, 2017

(in thousands, except per share data)

	July 2, 2017 (Unaudited)	January 1, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 5,400	\$ 4,450
Restricted cash	1,640	1,714
Accounts receivable, net	5,562	5,257
Inventories	1,482	1,499
Prepaid expenses and other current assets	5,554	3,531
Assets held for sale	—	1
Total current assets	19,638	16,452
Property, equipment and leasehold improvements, net	20,766	25,912
Other assets:		
Intangible assets, net	2,547	2,565
Deferred tax asset	4,338	4,633
Other assets	1,023	1,383
	\$ 48,312	\$ 50,945
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt and financing lease obligations	\$ 1,272	\$ 1,371
Accounts payable	5,930	5,311
Accrued compensation and benefits	1,852	1,321
Other current liabilities	3,495	3,140
Total current liabilities	12,549	11,143
Long-term liabilities:		
Long-term debt, less current portion	8,392	8,849
Financing lease obligations, less current portion	1,378	2,280
Other liabilities	8,456	8,705
Total liabilities	30,775	30,977

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

Shareholders' equity:

Common stock, \$.01 par value, 100,000 shares authorized, 6,958 shares issued and outstanding at July 2, 2017 and January 1, 2017, respectively

Retained earnings

Total shareholders' equity

66	66
17,471	19,902
17,537	19,968
\$ 48,312	\$ 50,945

See accompanying notes to consolidated financial statements.

- 3 -

---

Table of Contents

## CONSOLIDATED STATEMENTS OF OPERATIONS

JULY 2, 2017 AND JULY 3, 2016

(in thousands, except per share data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
Revenue:				
Restaurant sales, net	\$ 20,965	\$ 23,022	\$ 38,942	\$ 42,014
Franchise royalty revenue	4,004	4,380	7,786	8,490
Franchise fee revenue	35	—	35	135
Licensing and other revenue	297	336	514	584
Total revenue	25,301	27,738	47,277	51,223
Costs and expenses:				
Food and beverage costs	6,249	7,089	11,687	13,112
Labor and benefits costs	7,121	7,401	13,630	14,254
Operating expenses	5,881	6,353	11,415	12,063
Depreciation and amortization	733	956	1,488	1,936
General and administrative expenses	3,545	4,530	8,138	8,250
Asset impairment and estimated lease termination and other closing costs	3,473	1,056	4,606	1,064
Net loss (gain) on disposal of property	17	19	18	(185)
Total costs and expenses	27,019	27,404	50,982	50,494
(Loss) income from operations	(1,718)	334	(3,705)	729
Other expense:				
Interest expense	(170)	(225)	(357)	(403)
Interest income	—	1	—	2
Other income, net	—	1	—	1
Total other expense	(170)	(223)	(357)	(400)
(Loss) income before income taxes	(1,888)	111	(4,062)	329
Income tax benefit (expense)	627	2	1,555	(67)
Net (loss) income from continuing operations	(1,261)	113	(2,507)	262
Net income from discontinued operations, net of tax	—	27	—	708
Net (loss) income	\$ (1,261)	\$ 140	\$ (2,507)	\$ 970
(Loss) income per common share:				
Basic net (loss) income per share - continuing operations	\$ (0.18)	\$ 0.02	\$ (0.36)	\$ 0.04
Basic net income per share - discontinued operations	—	0.00	—	0.10

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

Basic net (loss) income per share	\$ (0.18)	\$ 0.02	\$ (0.36)	\$ 0.14
Diluted net (loss) income per share - continuing operations	\$ (0.18)	\$ 0.02	\$ (0.36)	\$ 0.04
Diluted net income per share - discontinued operations	—	0.00	—	0.10
Diluted net (loss) income per share	\$ (0.18)	\$ 0.02	\$ (0.36)	\$ 0.14
Weighted average shares outstanding - basic	6,955	6,949	6,955	6,949
Weighted average shares outstanding - diluted	6,955	6,958	6,955	6,958

See accompanying notes to consolidated financial statements.

- 4 -

---

Table of Contents

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

JULY 2, 2017 AND JULY 3, 2016

(in thousands)

(Unaudited)

	Six Months Ended	
	July 2, 2017	July 3, 2016
Cash flows from operating activities:		
Net (loss) income from continuing operations	\$ (2,507)	\$ 262
Adjustments to reconcile net (loss) income to cash flows provided by (used for) operations:		
Depreciation and amortization	1,488	1,936
Asset impairment and estimated lease termination and other closing costs	4,606	1,064
Net loss (gain) on disposal of property	18	(185)
Amortization of deferred financing costs	16	27
Deferred income taxes	240	—
Deferred rent	273	360
Stock-based compensation	131	83
Changes in operating assets and liabilities:		
Restricted cash	74	(1,782)
Accounts receivable, net	60	(517)
Inventories	17	71
Prepaid expenses and other current assets	(2,173)	7
Deposits	—	(277)
Accounts payable	248	260
Accrued compensation and benefits	508	(145)
Other current liabilities	(831)	(133)
Other liabilities	(14)	(33)
Cash flows provided by continuing operating activities	2,154	998
Cash flows used for discontinued operating activities	—	(783)
Cash flows provided by operating activities	2,154	215
Cash flows from investing activities:		
Proceeds from the sale of assets	—	1,053
Purchases of property, equipment and leasehold improvements	(276)	(442)
Cash flows (used for) provided by continuing investing activities	(276)	611
Cash flows provided by discontinued investing activities	—	1,150
Cash flows (used for) provided by for investing activities	(276)	1,761
Cash flows from financing activities:		
Proceeds from line of credit	—	1,855
Payments for debt issuance costs	(15)	(23)



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

Payments on long-term debt and financing lease obligations	(913)	(2,800)
Cash flows used for financing activities	(928)	(968)
Increase in cash and cash equivalents	950	1,008
Cash and cash equivalents, beginning of period	4,450	5,300
Cash and cash equivalents, end of period	\$ 5,400	\$ 6,308

See accompanying notes to consolidated financial statements.

- 5 -

---

Table of Contents

FAMOUS DAVE’S OF AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

Basis of Presentation

Famous Dave’s of America, Inc. (“Famous Dave’s” or the “Company”) was incorporated in Minnesota on March 14, 1994. The Company develops, own, operates and franchises restaurants under the name "Famous Dave’s." As of July 2, 2017, there were 167 Famous Dave’s restaurants operating in 32 states, the Commonwealth of Puerto Rico, Canada, and United Arab Emirates, including 32 Company-owned restaurants and 135 franchise-operated restaurants. An additional 61 franchise-operated restaurants were committed to be developed through signed area development agreements as of July 2, 2017.

These consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and Securities and Exchange Commission (“SEC”) Rules and Regulations. These unaudited consolidated financial statements represent the consolidated financial statements of the Company and its subsidiaries as of July 2, 2017 and January 1, 2017 and for the the three and six months ended July 2, 2017 and July 3, 2016. The information furnished in these consolidated financial statements includes normal recurring adjustments and reflects all adjustments, which are, in the opinion of management, necessary for a fair presentation. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10 K for the fiscal year ended January 1, 2017 as filed with the SEC on March 21, 2017.

Due to the seasonality of the Company’s business, revenue and operating results for the three and six months ended July 2, 2017 are not necessarily indicative of the results to be expected for the full fiscal year or any other interim period.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period’s presentation. These reclassifications did not have an impact on the reported net income (loss) for any of the periods presented.

Income Taxes

The Company maintains a federal deferred tax asset (“DTA”) in the amount of \$4.3 million. The Company evaluates the DTA on a quarterly basis to determine whether current facts and circumstances indicate that the DTA may not be fully realizable. As of July 2, 2017, the Company concluded that the DTA is fully realizable and that a valuation allowance was not considered necessary; however, the Company will continue to evaluate the asset on a quarterly basis until the DTA has been fully utilized.

The following table presents the Company’s effective tax rates for the periods presented:

Three Months		Six Months Ended	
Ended		July 2,	July 3,
July 2,	July 3,	July 2,	July 3,

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

	2017	2016	2017	2016
Effective tax rate	33.2 %	(1.8) %	38.3 %	20.4 %

The net increase in the effective tax rate for the three and six months ended July 2, 2017 was primarily a result of the year over year change in pretax income and the impact it had on employment related credits, as a percentage of pretax income. The Company provides for income taxes based on its 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. The Company's estimates are based on the information available at the time that the Company prepares the income tax provision. The Company generally files its annual income tax returns several months after its 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.

- 6 -

---

Table of Contents

FAMOUS DAVE’S OF AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Recently Adopted Accounting Pronouncements

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

Recently Issued Accounting Pronouncements

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. It will replace most existing revenue recognition guidance under U.S. GAAP when it becomes effective. It permits the use of either a retrospective or cumulative effect transition method and early adoption is permitted. The Company plans to adopt this standard as of the effective date. The Company is completing its contract review and the evaluation of the full impact these standards will have on its consolidated financial statements and related disclosures; however, the Company believes the new guidance will impact the timing and recognition of franchise fees and advertising fees charged to franchisees, area development fees and revenues related to gift cards.

In February 2016, the FASB issued ASU 2016 02, Leases (Topic 842), which supersedes the existing guidance for lease accounting, Leases (Topic 840). ASU 2016 02 requires lessees to recognize a lease liability and a right-of-use asset for all leases. Lessor accounting remains largely unchanged. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted for all entities. ASU 2016 02 requires a modified retrospective approach for all leases existing at, or entered into after the date of initial adoption, with an option to elect to use certain transition relief. The Company expects to adopt this new standard as of the effective date and is currently evaluating the impact of this new standard on its consolidated financial statements, but expects that it will have a material impact because of the Company’s significant leasing activity.

In May 2017, the FASB issued ASU 2017-05, Compensation – Stock Compensation (Topic 718), to provide clarity and reduce both diversity in practice and cost and complexity when applying the guidance in Topic 718 to a change to the terms or conditions of a share-based payment award. The updated standard clarifies when an entity should account for the effects of a modification. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. The Company does not believe that adoption of the new standard will have a material impact on its consolidated financial statements.

(2) Net Income Per Share

Basic net income per share ("EPS") is computed by dividing net income by the weighted-average number of common shares outstanding for the reporting period. Diluted EPS equals net 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.

- 7 -

---

Table of Contents

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is a reconciliation of basic and diluted net income per share:

	Three Months Ended		Six Months Ended	
	July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
(in thousands, except per share data)				
Net (loss) income per share – basic:				
Net (loss) income from continuing operations, net of taxes	\$ (1,261)	\$ 113	\$ (2,507)	\$ 262
Net income from discontinued operations, net of taxes	—	27	—	708
Net (loss) income	(1,261)	140	(2,507)	970
Weighted average shares outstanding	6,955	6,949	6,955	6,949
Net (loss) income from continuing operations per share – basic	\$ (0.18)	\$ 0.02	\$ (0.36)	\$ 0.04
Net income from discontinued operations per share – basic	—	0.00	—	0.10
Net (loss) income per share – basic	\$ (0.18)	\$ 0.02	\$ (0.36)	\$ 0.14
Net (loss) income per share – diluted:				
Net (loss) income from continuing operations, net of taxes	\$ (1,261)	\$ 113	\$ (2,507)	\$ 262
Net income from discontinued operations, net of taxes	—	27	—	708
Net (loss) income	(1,261)	140	(2,507)	970
Weighted average shares outstanding	6,955	6,949	6,955	6,949
Dilutive impact of stock equivalents outstanding	—	9	—	9
Adjusted weighted average shares outstanding	6,955	6,958	6,955	6,958
Net (loss) income from continuing operations per share – diluted	\$ (0.18)	\$ 0.02	\$ (0.36)	\$ 0.04
Net income from discontinued operations per share – diluted	—	0.00	—	0.10
Net (loss) income per share – diluted	\$ (0.18)	\$ 0.02	\$ (0.36)	\$ 0.14

There were approximately 629,000 and 659,000 options outstanding for the three and six months ended July 2, 2017 and July 3, 2016, respectively, that were not included in the computation of diluted EPS because their impact was anti-dilutive.

## (3) Restricted Cash and Marketing Fund

The Company has a system-wide Public Relations and 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 throughout the system. The assets held by this fund are considered to be restricted. Accordingly, the Company reflects the cash related to this fund within restricted cash and reflects the liability within accounts payable on the Company's consolidated balance sheets as of July 2, 2017 and January 1, 2017. The Company had approximately 1.1 million and \$946,000 in this fund as of July 2, 2017 and January 1, 2017, respectively.

In conjunction with the Company's current and former credit agreements, the Company has deposited amounts for undrawn letters of credit in cash collateral accounts with Venture Bank and Wells Fargo. The Company had approximately \$557,000 and \$768,000 in restricted cash as of July 2, 2017 and January 1, 2017, respectively, related

to these undrawn letters of credit.

- 8 -

---

Table of Contents

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## (4) Allowance for Doubtful Accounts

The Company provides for an allowance for uncollectible accounts receivable based on historical losses and existing economic conditions, when relevant. The Company provides 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, the Company has periodically established a specific reserve on certain other receivables as necessary. Any changes to the reserve are recorded within general and administrative expenses on the consolidated statements of operations. The allowance for uncollectible accounts was approximately \$266,000 and \$270,000 at July 2, 2017 and January 1, 2017, respectively. Accounts receivable are written off when they become uncollectible, and payments subsequently received on such receivables are credited to allowance for doubtful accounts. Accounts receivable balances written off have not exceeded allowances provided. The Company believes all accounts receivable in excess of the allowance are fully collectible. If accounts receivable in excess of provided allowances are determined uncollectible, they are charged to expense in the period that determination is made. Outstanding past due accounts receivable are subject to a monthly interest charge on unpaid balances, which is recorded as interest income in the consolidated statements of operations. In assessing recoverability of these receivables, the Company makes judgments regarding the financial condition of the franchisees based primarily on past and current payment trends, as well as other variables, including annual financial information, which the franchisees are required to submit to the Company, as well as other variables.

## (5) Intangible Assets, net

The Company has intangible assets that consist of liquor licenses and lease interest assets. The liquor licenses 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. Amortization of the lease interest assets is expected to be approximately \$36,000 per year, for the remaining useful life.

A reconciliation of the Company's intangible assets as of July 2, 2017 and January 1, 2017, respectively, are presented in the table below:

(in thousands)	Remaining estimated useful life (years)	Original Cost	Impairment	Accumulated Amortization	Net Book Value	Less Current Portion(1)	Non- Current Portion
Balance at July 2, 2017							
Lease interest assets	22.6	\$ 1,091	\$ —	\$ (268)	\$ 823	\$ (36)	\$ 787
Liquor licenses		1,760	—	—	1,760	—	1,760
Total		\$ 2,851	\$ —	\$ (268)	\$ 2,583	\$ (36)	\$ 2,547

Remaining  
estimated

Less

Non-



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

(in thousands)	useful life (years)	Original Cost	Impairment	Accumulated Amortization	Net Book Value	Current Portion(1)	Current Portion
Balance at January 1, 2017							
Lease interest assets	23.1	\$ 1,417	\$ (326)	(2) \$ (249)	\$ 842	\$ (37)	\$ 805
Liquor licenses		1,810	(50)	(3) —	1,760	—	1,760
Total		\$ 3,227	\$ (376)	\$ (249)	\$ 2,602	\$ (37)	\$ 2,565

(1) The current portion is included in prepaid expenses and other current assets on the consolidated balance sheets.

(2) Recorded in connection with the restaurant optimization.

(3) Based upon a quantitative analysis of this intangible asset, the Company determined that the fair value of one liquor license was less than its carrying value.

Table of Contents

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## (6) Long-Term Debt and Financing Lease Obligations

## Long-term debt

Long-term debt consisted approximately of the following at:

(in thousands)	July 2, 2017	January 1, 2017
First Note - Venture Bank - monthly installments of principal and interest until December 2, 2026	3,641	3,700
Second Note - Venture Bank - monthly payments of principal and interest until December 2, 2023	5,909	6,300
Less: deferred financing fees	(239)	(234)
Less: current maturities	(919)	(917)
Long-term debt net of current maturities	\$ 8,392	\$ 8,849

The weighted-average interest rate of debt outstanding as of July 2, 2017 and January 1, 2017 was 4.20% and 4.00%, respectively.

The Company is subject to various financial and non-financial covenants on its long-term debt, including a debt-service coverage ratio. As of July 2, 2017, the Company was in compliance with all of its covenants.

## Financing Lease Obligation

Financing lease obligations consisted of the following at:

(in thousands)	July 2, 2017	January 1, 2017
Financing lease – Spirit Financial – monthly installments of \$40 – effective interest rate of 8.81%, due in March 2019.	\$ 1,749	\$ 2,757
Less: deferred financing fees	(18)	(23)
Less: current maturities	(353)	(454)
Long-term financing lease net of current maturities	\$ 1,378	\$ 2,280

## (7) Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following at:

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

(in thousands)	July 2, 2017	January 1, 2017
Prepaid income taxes	\$ 3,661	\$ 2,168
Prepaid insurance and other expenses	1,842	1,306
Other current assets	51	57
	\$ 5,554	\$ 3,531

(8) Other Current Liabilities

Other current liabilities consisted of the following at:

(in thousands)	July 2, 2017	January 1, 2017
Gift cards payable	\$ 1,266	\$ 1,448
Other liabilities	825	810
Lease reserves, current	800	330
Sales tax payable	368	454
Accrued real estate tax	235	79
Deferred franchise fees	—	16
Accrued property and equipment purchases	1	3
	\$ 3,495	\$ 3,140

Table of Contents

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## (9) Other Liabilities

Other liabilities consisted of the following at:

(in thousands)	July 2, 2017	January 1, 2017
Deferred rent	\$ 7,176	\$ 7,802
Other liabilities	152	358
Asset retirement obligations	119	119
Accrual for uncertain tax position	126	139
Long term lease reserve	764	145
Long term deferred compensation	119	142
	\$ 8,456	\$ 8,705

## (10) Stock-based Compensation

Effective May 5, 2015, the Company adopted the 2015 Equity Plan (the "2015 Plan"), pursuant to which the Company 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. The Company also maintains an Amended and Restated 2005 Stock Incentive Plan (the "2005 Plan"). Together, the 2015 Plan and 2005 Plan are referred to herein as the "Plans." Under the 2015 Plan, an aggregate of 78,864 shares of the Company's common stock remained unreserved and available for issuance at July 2, 2017. 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.

The Company recognized stock-based compensation expense in its consolidated statements of operations for the three and six months ended July 2, 2017 and July 3, 2016, respectively, as follows:

	Three Months Ended		Six Months Ended	
(in thousands)	July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
Stock options(1)	\$ 16	\$ 121	\$ 116	\$ 53
Restricted stock	8	15	15	30
	\$ 24	\$ 136	\$ 131	\$ 83

---

(1)

The three months ended July 2, 2017 includes the recapture of previously recorded stock-based compensation due to one of the Company's former directors declining to stand for reelection to the Board. The six months ended July 3, 2016 includes the recapture of previously recorded stock-based compensation due to the departure of the Company's former Chief Financial Officer.

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

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

Options granted to certain non-employees in exchange for future services either vest in monthly installments over a period of approximately two years or are granted monthly and vest immediately, and expire five years from the grant date. Expense equal to the current fair value is recognized over the vesting period, with the value being marked to market in each accounting period for any unvested portions of the awards.

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

Table of Contents

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(number of options in thousands)	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years
Options outstanding at January 1, 2017	686	\$ 9.15	5.7
Granted	55	4.29	
Exercised	—	—	
Forfeited or expired	(112)	12.34	
Options outstanding at July 2, 2017	629	\$ 8.16	5.2

	Six Months Ended		Fiscal
	July 2, 2017		2016
Weighted-average fair value of options granted during the period	\$ 2.55		\$ 1.97
Expected life (in years)	5.0		5.2
Expected stock volatility	60.47	%	39.98 %
Risk-free interest rate	2.2	%	1.2 %

## (11) Asset Impairment and Estimated Lease Termination and Other Closing Costs

In accordance with FASB Accounting Standards Codification 360 for Property, Plant, and Equipment, the Company evaluates restaurant sites and long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of restaurant sites to be held and used is measured by a comparison of the carrying amount of the restaurant site to the undiscounted future net cash flows expected to be generated on a restaurant-by-restaurant basis. If a restaurant is determined to be impaired, the loss is measured by the amount by which the carrying amount of the restaurant's assets exceeds its fair value. Fair value is estimated based on the best information available including estimated future cash flows, expected growth rates in comparable restaurant sales, remaining lease terms, discount rate, anticipated sale prices and other factors. If these assumptions change in the future, the Company may be required to take additional impairment charges for the related assets. Considerable management judgment is necessary to estimate future cash flows. Accordingly, actual results could vary significantly from such estimates.

The Company maintains lease reserves on locations for which the Company is the primary obligor of a lease agreement but expects to incur losses after the Company ceases to use the location. During the three and six months ended July 2, 2017, the Company recorded lease reserves and corresponding lease termination charges on Company-owned closed restaurants and franchisee-operated locations, for which the Company was the primary obligor of the lease agreement.

Restaurant Optimization - During fiscal 2016, the Company recorded asset impairment charges associated with certain restaurants which were slow to respond to several initiatives to turnaround operating performance. As a result, the Company determined that the estimated fair value of the assets was less than the carrying amount and recognized impairment charges to reduce the related assets to their estimated fair value. As the Company continues to evaluate its restaurant portfolio, the Company anticipates addressing the ongoing operation of the locations impaired by way of lease restructuring, lease assignment or subsequent closure at the end of their natural lease term. During the six months ended July 2, 2017, the Company closed five restaurants as part of the Restaurant Optimization plan and, subsequent to July 2, 2017, the Company closed three additional restaurants as part of this plan. See Note 17 “Subsequent Events.”

On May 2, 2017, the Company announced that it planned to accelerate refranchising or closure of its remaining Company-owned restaurants, which triggered an evaluation of each of the restaurants that the Company plans to close significantly before the end of their previously estimated useful lives. As a result of this evaluation, the Company concluded that the carrying amounts of certain of its restaurants slated for closure were not recoverable. The following is a summary of impairment costs for the three and six months ended July 2, 2017 and July 3, 2016. These costs are included in asset impairment and estimated lease termination and other closing costs in the consolidated statements of operations.

Table of Contents

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands)	Three Months Ended		Six Months Ended	
	July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
Restaurant Optimization				
Asset impairments, net	\$ 3,098	\$ 868	\$ 3,042	\$ 868
Lease termination charges <sup>(1)</sup>	353	—	1,535	—
Restaurant closure expenses	22	17	29	25
Software	—	171	—	171
Asset impairment, estimated lease termination and other closing costs	\$ 3,473	\$ 1,056	\$ 4,606	\$ 1,064

(1) Primarily related to Chicago-area refranchised restaurants, restaurants closed during the applicable time period and former Chicago field office. See Note 14 - Variable Interest Entities.

## (12) 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 analysis 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 the Company's 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. The Company believes that the carrying amount of long-term debt approximates fair value due to the minimal difference between market interest rates and the fixed interest rate on a portion of the Company's long-term debt, as well as that there has been no significant change in the credit risk or credit markets since origination.



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

The following table summarizes the assets held for sale and property and equipment, net, measured at fair value in the Company's consolidated balance sheets as of July 2, 2017 and January 1, 2017:

(in thousands)	Level 1	Level 2	Level 3	Total
Balance at July 2, 2017				
Assets				
Property and Equipment, net	\$ —	\$ —	\$ 3,387	\$ 3,387
Balance at January 1, 2017				
Assets				
Assets Held for Sale	\$ —	\$ 1	\$ —	\$ 1
Property and Equipment, net	\$ —	\$ —	\$ 1,742	\$ 1,742

Assets held for sale at January 1, 2017 were recorded at fair value and were valued based upon negotiated sale price (Level 2). Property and equipment, net recorded at fair value was valued based upon a broker's estimate of value or estimated discounted future cash flows (Level 3). These assets were adjusted to net realizable value based upon the decision to dispose of the property.

Table of Contents

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## (13) Discontinued Operations

On December 14, 2015, the Company entered into an Asset Purchase Agreement and related Real Estate Purchase Agreement (the "Purchase Agreements") with Windy City Restaurant Holdings LLC and its affiliate (together, the "Purchaser"), pursuant to which the Company agreed to sell the assets comprising its seven Chicago, Illinois area Company-owned restaurants located in Addison, Algonquin, Bolingbrook, Evergreen Park, North Riverside, Orland Park and Oswego (collectively, "Purchased Restaurants") to the Purchaser.

Pursuant to the terms of this agreement, the Company received a total purchase price of \$1.15 million during the six months ended July 3, 2016, plus approximately \$315,000 for the purchase of inventory on hand on the closing date. The Purchaser also assumed specified liabilities of the Company, including the Company's existing leases for the Purchased Restaurants located in Bolingbrook, North Riverside and Orland Park, Illinois.

As a result of this asset sale, the Company recognized a pretax \$1.1 million gain during the six months ended July 3, 2016, primarily due to the write-off of the remaining \$1.3 million deferred rent liability associated with the leases assumed by the Purchaser, discussed above.

There were no assets or liabilities of the Purchased Restaurants remaining as of July 2, 2017 or January 1, 2017.

The operating results of the Purchased Restaurants for the three and six months ended July 3, 2016 are summarized below. These results include costs directly attributable to the components of the businesses which were divested. There were no adjustments required to be made for the three and six months ended July 2, 2017.

(in thousands)	Three Months Ended July 2, 2017		July 3, 2016		Six Months Ended July 2, 2017		July 3, 2016	
Revenue	\$	—	\$	—	\$	—	\$	2,365
Interest expense		—		—		—		32
Income tax expense		—		55		—		385
Income from discontinued operations		—		15		—		1,042
Income from discontinued operations, net of income taxes		—		27		—		708

## (14) 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. The Company has an installment agreement with one of its franchisees as the result of refranchising its Lincoln, Nebraska restaurant. This franchisee is a VIE; however, the owners of the franchise operations are the primary beneficiaries of

the entities, not the Company. Therefore, the franchise operations are not required to be consolidated in the Company's consolidated financial statements.

On August 11, 2015, the Company consummated the sale of its Greenwood, Indiana and Florence, Kentucky restaurants. In conjunction with that agreement, the Company entered into lease assignment agreements with the respective purchasers and landlords, releasing the Company of its obligations except in the event of default by the purchasers. As of July 2, 2017, the amount of the future lease payments for which the Company would be liable in the event of a default are approximately \$229,000. An accrual related to any future obligation was not considered necessary as of July 2, 2017 as the Company has determined the fair value of this guarantee was zero as there was no indication that the purchasers would not be able to pay the required lease payments. While this franchise meets the definition of a VIE, the owners of the franchise operations are the primary beneficiaries of the entities, not the Company. Therefore, the franchise operations are not required to be consolidated in the Company's consolidated financial statements.

On March 1, 2016, the Company consummated the sale of its Chicago, Illinois-area restaurants. In conjunction with that agreement, the Company entered into lease assignment agreements with the respective purchasers and three of the landlords, releasing the Company of its obligations except in the event of default by the purchasers. As of July 2, 2017, the amount of the future lease payments for which the company would be liable in the event of a default is approximately \$1.7 million. As of July 2, 2017, the Company had accrued \$1.0 million 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.

Table of Contents

FAMOUS DAVE'S OF AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(15) Litigation

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

The Company filed a complaint on July 14, 2015, against a group of former franchisees in California seeking injunctive relief and damages for: (1) Federal Trademark Infringement; (2) Federal Trademark Dilution; (3) Federal Unfair Competition; (4) Federal Trade Dress Dilution; (5) Trademark Infringement under California Business and Professions Code § 14200; (6) Trademark Dilution under California Business and Professions Code §14200; (7) Common Law Trademark Infringement; (8) Unfair Competition under California Business and Professions Code § 17200; (9) False Advertising; (10) Breach of Contract; (11) Breach of Implied Covenant of Good Faith and Fair Dealing; and (12) Intentional Interference with Contract. The claims stem from the former franchisees' breaches of their franchise agreements, including the failure to pay franchise fees and their continued operation of five restaurants utilizing Famous Dave's intellectual property without authorization. After two defendants in the case, Kurt Schneider and M Mart 1, filed a demurrer to the Complaint, Famous Dave's filed an Amended Complaint on October 9, 2015, reasserting the same claims. The case is captioned Famous Dave's of America, Inc., v. SR El Centro FD, Inc., et al., Case No. BC589329, and is currently pending before the Honorable Elihu M. Berle in the Superior Court of Los Angeles. By court order, dated June 6, 2016, Famous Dave's successfully obtained a preliminary injunction, enjoining the former franchisee defendants from using Famous Dave's intellectual property, including its trademarks and restaurant system. The preliminary injunction is currently the subject of a pending interlocutory appeal which Famous Dave's intends to oppose vigorously. The appeal has been fully briefed and an oral argument hearing took place on August 10, 2017. As of August 14, 2017, the Company has not been informed of the outcome of the oral argument hearing.

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

(16) Supplemental Cash Flow Information

	Six Months Ended	
	July 2,	July 3,
(in thousands)	2017	2016
Cash paid for interest	\$ 336	\$ 400

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

Cash paid (refunds received) for income taxes, net	(288)	136
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	(2)	31

(17) Subsequent Events

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

Subsequent to the balance sheet date, the Company closed three restaurants in accordance with its restaurant refranchising and optimization plan.

Table of Contents

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

## Item 2. 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. The following table summarizes the changes in the number of Company-owned and franchise operated restaurants for the six months ended July 2, 2017:

	Six Months Ended July 2, 2017	
Company-owned restaurants:		
Beginning of period	37	
New	—	
Refranchised	—	
Closed	(5)	
End of period	32	
% of system	19	%
Franchise-operated restaurants:		
Beginning of period	139	
New	1	
Refranchised	—	
Closed	(5)	
End of period	135	
% of system	81	%
System end of period total	167	

On May 23, 2017, a franchisee opened a restaurant in Abu Dhabi, United Arab Emirates.

## Restaurant Refranchising and Optimization Initiative

On May 2, 2017, we announced our plans to focus solely on our franchisees and, as a result, intend to accelerate the refranchising or closure of our 32 Company-owned restaurants over the next 12 to 24 months. We believe that this will permit us to shift our resources and energy to the growth and viability of our franchise system, which is paramount to our success. As of July 2, 2017, we had closed five underperforming locations and, subsequent to July 2, 2017, we closed three additional underperforming locations. We intend to approach the divestment process on a market-by-market basis and will look to a few of our highly-capable existing franchisees as well as well-qualified new franchisees to not only acquire our Company-owned restaurants, but to develop additional restaurants. As of July 2, 2017, an additional 61 franchise-operated restaurants were committed to be developed through signed area development agreements.

This strategy will allow us to redesign and redirect our support center resources and capabilities to focus on food and beverage innovation, marketing, franchise operations, training and the development and evolution of our Famous Dave's concept. We have also begun to take steps to optimize our general and administrative expense structure to be commensurate with that of a dedicated franchisor. While this has resulted in the recognition or acceleration of certain

general and administrative expenses currently, such as severance and other contract termination charges, we believe that these actions will position us to be a more stable and profitable enterprise in the future.

#### Fiscal Year

Our fiscal year ends on the Sunday closest to December 31st. Our fiscal year is generally 52 weeks; however, it periodically consists of 53 weeks. The fiscal years ending December 31, 2017 (fiscal 2017) and January 1, 2017 (fiscal 2016) are both 52 week fiscal years.

- 16 -

---

## Table of Contents

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

#### Revenue

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

Licensing revenue includes royalties from a retail line of business, including sauces, rubs, marinades and seasonings. Other revenue includes opening assistance and training we provide to our franchise partners.

Beginning in fiscal 2018, we will be required to adopt ASC 606 – Revenue from Contracts with Customers, which will have an impact on our previously recognized and future franchise-related revenue. A more detailed discussion of our implementation plan can be found in Note 1 – Basis of Presentation to the accompanying unaudited consolidated financial statements.

#### Costs and Expenses

Restaurant costs and expenses include food and beverage costs; labor and benefits costs; operating expenses, which include occupancy costs, repair and maintenance costs, supplies, advertising and promotion; and restaurant depreciation and amortization. Certain of these costs and expenses are variable and will increase or decrease with sales volume. The primary fixed costs are 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 to support future growth. 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 for approximately six weeks prior to a restaurant opening. We also provide franchise services for which the revenue is included in other revenue and the expenses are included in general and administrative expenses.



Results of Operations –Three and Six months ended July 2, 2017 compared to the Three and Six months ended July 3, 2016.

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the accompanying unaudited consolidated financial statements and notes, and the audited consolidated financial statements and notes included in our Annual Report on Form 10 K for the fiscal year ended January 1, 2017.

- 17 -

---

Table of Contents

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

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

	Three Months Ended				Six Months Ended			
	July 2, 2017		July 3, 2016		July 2, 2017		July 3, 2016	
Food and beverage costs(1)	29.8	%	30.8	%	30.0	%	31.2	%
Labor and benefits costs(1)	34.0	%	32.1	%	35.0	%	33.9	%
Operating expenses(1)	28.1	%	27.6	%	29.3	%	28.7	%
Restaurant level operating margin(1)(3)	8.2	%	9.5	%	5.7	%	6.2	%
Depreciation and amortization expenses (2)	2.9	%	3.4	%	3.1	%	3.8	%
General and administrative(2)	14.0	%	16.3	%	17.2	%	16.1	%
(Loss) income from continuing operations(2)	(6.8)	%	1.2	%	(7.8)	%	1.4	%

(1) As a percentage of restaurant sales, net

(2) As a percentage of total revenue

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

Same Store Net Sales (or Comparable Net Sales)

It is our policy to include in our same store net sales base, restaurants that are open year round and have been open at least 24 months. Same store net sales for Company-owned restaurants for the three and six months ended July 2, 2017 decreased 2.2% and 2.5% from the comparable periods in 2016, respectively. Same store net sales for Company-owned restaurants for the three and six months ended July 3, 2016 decreased 6.4% and 7.0% from the comparable periods in 2015, respectively.

As of July 2, 2017, there were 32 restaurants in the same store sales base and at the end of the second quarter of fiscal 2016 there were 37 restaurants included in this base. Same store net sales for franchise-operated restaurants for the second quarter of fiscal 2017 decreased 3.2% from the comparable period in 2016. Same store net sales for franchise-operated restaurants for the six months ended July 3, 2016 decreased 4.1% from the comparable period in 2016. For the three and six months ended July 3, 2016, same store net sales for franchise-operated restaurants decreased 4.3% and 5.6%, respectively.

## Total Revenue

Our components of and changes in revenue consisted of the following for the three and six months ended July 2, 2017 and July 3, 2016:

	Three Months Ended			
	July 2, 2017	July 3, 2016		
			\$ Change	% Change
Revenue:				
Restaurant sales, net	\$ 20,965	\$ 23,022	\$ (2,057)	(8.9) %

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

Franchise-related revenue	4,039	4,380	(341)	(7.8)	%
Licensing and other revenue	297	336	(39)	(11.6)	%
Total revenue	\$ 25,301	\$ 27,738	\$ (2,437)	(8.8)	%

	Six Months Ended				
	July 2,	July 3,			
	2017	2016	\$ Change	%	Change
Revenue:					
Restaurant sales, net	\$ 38,942	\$ 42,014	\$ (3,072)	(7.3)	%
Franchise royalty revenue	7,821	8,625	(804)	(9.3)	%
Licensing and other revenue	514	584	(70)	(12.0)	%
Total revenue	\$ 47,277	\$ 51,223	\$ (3,946)	(7.7)	%

- 18 -

---

Table of Contents

FAMOUS DAVE'S OF AMERICA, INC. AND SUBSIDIARIES

Restaurant Sales, net

The decline in year-over-year restaurant sales, net for the three and six months ended July 2, 2017 and July 3, 2016 was primarily a result of the closure of five Company-owned restaurants as well as a 2.2% and 2.5% comparable sales decrease for the three and six months ended July 2, 2017, respectively, as compared to the three and six months ended July 3, 2016, respectively.

On a weighted basis, Dine-In sales decreased by 3.0%, while Catering and To-Go sales increased by 0.7% and 0.1%, respectively, for the three months ended July 2, 2017. For the six months ended July 2, 2017, Dine-In sales decreased by 3.1%, while Catering and To-Go sales increased by 0.3% and 0.3%, respectively.

As a percentage of Dine-In sales, our adult beverage sales at our Company-owned restaurants was approximately 11.6% and 11.3% for the three months ended July 2, 2017 and July 3, 2016, respectively, an increase of 2.9%. For the six months ended July 2, 2017 and July 3, 2016, adult beverage sales represented approximately 11.7% and 11.5% of Dine-In sales, respectively, an increase of 2.1%.

We have been making significant investments in programs aimed at increasing To-Go, Catering and Adult Beverage sales at Famous Dave's restaurants, and will be assisting participating franchisees with implementation over the remainder of the year. For example, during the first half of fiscal 2017, we designed and implemented a signature beverage program aimed at increasing liquor sales at our Company-owned stores, which have higher margins than beer and wine. We plan on assisting participating franchisees with implementation during the third and fourth quarters of 2017. We have also expanded the online ordering program certain franchise-operated restaurants, and will continue to assist participating franchisees with implementation throughout the remainder of 2017 and early 2018. We are currently developing and rolling out delivery programs with various third-party services, which we believe, along with online ordering, will augment our To Go sales in the future. As we transition our operations to that of a dedicated franchisor, we believe that these innovations will make our current Company-owned restaurants more attractive to potential franchisees, as well as provide additional avenues for our franchisees to grow their respective businesses.

Franchise-Related Revenue

The declines in franchise-related revenue for the three and six months ended July 2, 2017 and July 3, 2016 was primarily related to franchise comparable sales decreases of 3.2% and 4.1%, respectively, and the net closure of seven franchise-operated stores since July 3, 2016.

We believe that the initiatives explained above aimed at increasing To Go, Catering and Adult Beverage sales will help to mitigate comparable sales declines at our franchise-operated restaurants as these programs are rolled out to our franchisees. As we transition our operating model to that of a dedicated franchisor, we expect to focus our efforts on innovations that will drive sales increases and improve profitability for our franchisees.

Licensing and Other Revenue

For the second quarter of fiscal 2017, licensing royalty revenue was approximately \$308,000 compared to approximately \$300,000 for the comparable period of fiscal 2016. Other revenue for the second quarter of fiscal 2017 was a loss of approximately \$11,000 compared to income of approximately \$36,000 for the second quarter of fiscal 2016. For the six months ended July 2, 2017, licensing royalty revenue was approximately \$525,000, compared with approximately \$514,000 for the six months ended July 3, 2016. Other revenue was a loss of \$12,000 for the six months ended July 2, 2017, compared with income of \$70,000 for the six months ended July 3, 2016.



Table of Contents

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

## Average Weekly Net Sales and Operating Weeks

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

	Three Months Ended		Six Months Ended	
	July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
Average Weekly Net Sales (AWS):				
Franchise-Operated(1)	\$ 51,007	\$ 52,157	\$ 48,357	\$ 49,998
Company-Owned	48,354	47,862	43,434	43,674
Full-Service	49,921	49,098	44,701	44,738
Counter-Service	39,467	39,949	35,964	36,864
Operating Weeks:				
Franchise-Operated	1,765	1,832	3,566	3,614
Company-Owned	434	481	897	962

(1) AWS for franchise-operated restaurants are not our revenues and are not included in our consolidated financial statements. We believe that disclosure of comparable restaurant net sales for franchise-operated restaurants provides useful information to investors because historical performance and trends of Famous Dave's franchisees relate directly to trends in franchise royalty revenues that 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 the three and six months ended July 2, 2017 and July 3, 2016:

	Three Months Ended			
	July 2, 2017	July 3, 2016	\$ Change	% Change
Food and beverage costs	\$ 6,249	\$ 7,089	\$ (840)	(11.8) %
	Six Months Ended			
	July 2, 2017	July 3, 2016	\$ Change	% Change
Food and beverage costs	\$ 11,687	\$ 13,112	\$ (1,425)	(10.9) %

Food and beverage costs for the three months ended July 2, 2017 and July 3, 2016 represented approximately 29.8% and 30.8% of net restaurant sales, respectively. Food and beverage costs for the six months ended July 2, 2017 and July 3, 2016 were approximately 30.0% and 31.2% of net restaurant sales, respectively. This year-over-year decrease, as a percentage of net restaurant sales, primarily resulted from commodity cost deflation as well as internal initiatives

aimed at reducing food waste.

- 20 -

---

Table of Contents

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

## Labor and Benefits Costs

Our labor and benefits costs consisted of the following for the three and six months ended July 2, 2017 and July 3, 2016:

	Three Months Ended			
	July 2,	July 3,	\$	%
	2017	2016	Change	Change
Labor and benefits costs	\$ 7,121	\$ 7,401	\$ (280)	(3.8) %

	Six Months Ended			
	July 2,	July 3,	\$	%
	2017	2016	Change	Change
Labor and benefits costs	\$ 13,630	\$ 14,254	\$ (624)	(4.4) %

Labor and benefits costs for the three months ended July 2, 2017 and July 3, 2016 were approximately 34.0% and 32.1% of net restaurant sales, respectively. Labor and benefits costs for the six months ended July 2, 2017 and July 3, 2016 were approximately 35.0% and 33.9% of net restaurant sales, respectively. Labor and benefit costs increased year-over-year, as a percentage of net restaurant sales, due to sales deleverage on fixed management and back-of-house labor, wage rate inflation and benefit costs.

## Operating Expenses

Our operating expenses consisted of the following for the three and six months ended July 2, 2017 and July 3, 2016:

	Three Months Ended			
	July 2,	July 3,	\$	%
	2017	2016	Change	Change
Operating expenses	\$ 5,881	\$ 6,353	\$ (472)	(7.4) %

	Six Months Ended			
	July 2,	July 3,	\$	%
	2017	2016	Change	Change
Operating expenses	\$ 11,415	\$ 12,063	\$ (648)	(5.4) %

Operating expenses for the three months ended July 2, 2017 and July 3, 2016 were approximately 28.1% and 27.6% of net restaurant sales, respectively. Operating expense for the six months ended July 2, 2017 and July 3, 2016 were approximately 29.3% and 28.7% of net restaurant sales, respectively. Operating expenses, as a percentage of net sales, were unfavorable to the prior year due to sales deleverage on fixed operating and occupancy costs.

## Depreciation and Amortization



Depreciation and amortization expense for the three months ended July 2, 2017 and July 3, 2016 was approximately \$733,000 and \$1.0 million, respectively, representing approximately 2.9% and 3.4% of total revenues, respectively. Depreciation and amortization expense for the six months ended July 2, 2017 and July 3, 2016 was approximately \$1.5 million and \$1.9 million, respectively, representing approximately 3.1% and 3.8% of total revenues, respectively.

The decrease in each period is primarily a result of write-downs recorded in the second half of fiscal 2016 related to our Restaurant Optimization plan. As a result of further write-downs recorded during the three months ended July 2, 2017, we will be required to shorten the useful life of certain of our fixed assets, which could result in increased depreciation and amortization expenses for the remainder of fiscal 2017 and fiscal 2018. See “Asset Impairment and Estimated Lease Termination and Other Closing Costs” below.

- 21 -

---

Table of Contents

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

## General and Administrative Expenses

Our general and administrative expenses consisted of the following for the three and six months ended July 2, 2017 and July 3, 2016:

	Three Months Ended		\$	%	
	July 2, 2017	July 3, 2016			
General and administrative expenses	\$ 3,545	\$ 4,530	\$ (985)	(21.7)	%
	Six Months Ended		\$	%	
	July 2, 2017	July 3, 2016			
General and administrative expenses	\$ 8,138	\$ 8,250	\$ (112)	(1.4)	%

General and administrative expenses for the three months ended July 2, 2017 and July 3, 2016 represented approximately 14.0% and 16.3% of total revenues, respectively. General and administrative expenses for the six months ended July 2, 2017 and July 3, 2016 represented approximately 17.2% and 16.1% of total revenues, respectively. The decrease in general and administrative expenses was primarily related to the continued optimization of our general and administrative expense structure to be commensurate of that of a dedicated franchisor, reduced costs incurred for franchise-related matters 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 closings costs we incurred for the periods presented:

(dollars in thousands)	Three Months Ended		Six Months Ended	
	July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
Restaurant Optimization				
Asset impairments, net	\$ 3,098	\$ 868	\$ 3,042	\$ 868
Lease termination charges <sup>(1)</sup>	353	—	1,535	—
Restaurant closure expenses	22	17	29	25
Software	—	171	—	171
Asset impairment, estimated lease termination and other closing costs	\$ 3,473	\$ 1,056	\$ 4,606	\$ 1,064

<sup>(1)</sup> Primarily related to Chicago-area refranchised restaurants, restaurants closed during the applicable time period and former Chicago field office. See Note 14 "Variable Interest Entities" to the accompanying notes to the consolidated financial statements.

During the three and six months ended July 2, 2017, we incurred costs related to our restaurant refranchising and optimization initiative described above. As a result of preliminary negotiations with potential acquirers of

Company-owned restaurants, we identified seven additional restaurants that we believe that it is more likely than not that we will close significantly before the end of each restaurant's previously estimated useful life. We recorded impairment charges related to these seven restaurants of approximately \$3.4 million during the three months ended July 2, 2017. This was partially offset by recapture of deferred rent credits recognized as a result of the closure of three restaurants during the second quarter of fiscal 2017 consistent with this plan. As we execute on our refranchising strategy, we expect to incur additional impairment charges.

Lease termination charges of approximately \$353,000 and \$1.5 million during the three and six months ended July 2, 2017, respectively, primarily related to one Company-owned and three franchise-operated restaurants.

- 22 -

---

Table of Contents

FAMOUS DAVE'S OF AMERICA, INC. AND SUBSIDIARIES

Other Expense, Net

Other expense, net for the three and six months ended July 2, 2017 consisted solely of interest expense of approximately \$170,000 and \$357,000, respectively, representing 0.7% and 0.8% of total revenue, respectively. For the three and six months ended July 3, 2016, interest expense of approximately \$225,000 and \$403,000, respectively, represented 0.8% of total revenues for both periods. The decrease in interest expense was primarily related to a lower outstanding average debt balance for the six months ended July 2, 2017 as compared to the six months ended July 3, 2016, partially offset by a higher effective interest rate on combined debt and financing lease obligations of 6.0% for the six months ended July 2, 2017 as opposed to 5.4% for the six months ended July 3, 2016.

During the three and six months ended July 3, 2016, we recognized approximately \$2,000 and \$3,000, respectively, in interest and other income, net, which did not recur during the three and six months ended July 2, 2017.

Income Tax Benefit (Expense)

Income tax benefit (expense) for the three and six months ended July 2, 2017 was a benefit of approximately \$627,000 and \$1.6 million, respectively, representing an effective tax rate of 33.2% and 38.3%, respectively. For the three and six months ended July 3, 2016, income tax benefit (expense) was a benefit of approximately \$2,000 and expense of approximately \$67,000, respectively, representing an effective tax rate of (1.8%) and 20.4%, respectively. The net increase in the effective tax rate for each period was primarily a result of the change in pretax income and the change in employment related credits, as a percentage of pretax income.

Basic and Diluted Net (Loss) Income per Common Share

Net loss for the three and six months ended July 2, 2017 was approximately \$1.3 million and \$2.5 million, respectively, which represented loss per share of \$0.18 and \$0.36, respectively. The basic and diluted weighted-average number of common shares outstanding for both periods was approximately 6,955,000.

Net income for the three and six months ended July 3, 2016 was approximately \$140,000 and \$970,000, respectively, which represented earnings per share of \$0.02 and \$0.14 per share respectively. Income from discontinued operations was approximately \$27,000 and \$708,000, or \$0.00 and \$0.10 per share, for the three and six months ended July 3, 2016, respectively. For the three and six months ended July 3, 2016, there were approximately 6,949,000 basic weighted-average number of common shares outstanding and 6,958,000 diluted weighted-average number of common shares outstanding.

Financial Condition, Liquidity and Capital Resources

Our balance of unrestricted cash and cash equivalents was approximately \$5.4 million and \$4.5 million as of July 2, 2017 and January 1, 2017, respectively. We expect to utilize cash on hand and cash received from the refranchising of restaurants to pay certain costs that arise from our restaurant refranchising and optimization initiative, including professional fees and restaurant closure costs.

Our current ratio, which measures our immediate short-term liquidity, was 1.56 as of July 2, 2017, compared with 1.48 as of January 1, 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 increases in our cash and cash equivalents, accounts receivable, net and prepaid expenses and other current assets, partially offset by increases in accounts payable, accrued compensation and benefits and other current liabilities. The increase in prepaid expenses and other current assets is

primarily due to a \$1.5 million increase in prepaid income taxes, which we can use to offset future income taxes due. We expect to be refunded a portion of these prepaid income taxes through the carry back of net operating losses and tax credits.

Net cash provided by operating activities for the six months ended July 2, 2017 was approximately \$2.2 million, which reflects a net loss of approximately \$2.5 million, increased by non-cash charges of approximately \$6.8 million primarily related to depreciation and amortization, asset impairment, estimated lease termination, and other closing costs. Changes in operating assets and liabilities for the six months ended July 2, 2017 primarily included net cash outflows related to prepaid expenses and other current assets of \$2.2 million and a decrease in other current liabilities of approximately \$831,000. These cash outflows were partially offset by increases in accrued compensation and benefits of approximately \$508,000 and accounts payable of approximately \$248,000.

- 23 -

---

## Table of Contents

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

Net cash provided by continuing operating activities for the six months ended July 3, 2016 was approximately \$1.0 million which reflects net income of approximately \$262,000. Included in net income is non-cash depreciation and amortization of approximately \$1.9 million and non-cash impairment charges of \$1.1 million. This was offset by a \$1.8 million increase in restricted cash. During the six months ended July 3, 2016, we experienced a net operating cash outflow associated with discontinued operating activities of approximately \$783,000.

Net cash used for investing activities was approximately \$276,000 for the six months ended July 2, 2017, related to the purchase of property, equipment and leasehold improvements. Net cash provided by investing activities was approximately \$611,000 for the six months ended July 3, 2016, reflecting \$1.1 million in proceeds from the sale of assets, offset by \$442,000 in capital expenditures. We received cash provided by discontinued investing activities of approximately \$1.2 million during the six months ended July 3, 2016.

Net cash used for financing activities was approximately \$928,000 for the six months ended July 2, 2017, which related to principal payments on long-term debt and financing lease obligations of approximately \$913,000 and payments of debt issuance costs of approximately \$15,000. Net cash used for financing activities for the six months ended July 3, 2016 was approximately \$968,000 and primarily related to payments on long-term debt and financing lease obligations of approximately \$2.8 million and payments of financing costs of approximately \$23,000, partially offset by \$1.9 million in proceeds from draws on our previous line of credit.

We are subject to various financial and non-financial covenants on our long-term debt, including a debt-service coverage ratio. As of July 2, 2017, we were in compliance with all of our covenants.

### Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that either have, or are reasonably likely to have, a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

### Critical Accounting Policies

Our significant accounting policies are described in Note 1 "Nature of Business and Significant Accounting Policies" to the consolidated financial statements included in our Annual Report on Form 10 K for the year ended January 1, 2017. There have been no changes to our critical accounting policies during the six months ended July 2, 2017.

### Forward-Looking Information

Famous Dave's makes written and oral statements from time to time, including statements contained in this Quarterly Report on Form 10 Q regarding its business and prospects, such as projections of future performance, statements of management's plans and objectives, forecasts of market trends and other matters that are forward-looking statements within the meaning of Sections 27A of the Securities Act of 1933 and Section 21E of the Securities 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", "objective", "should" or similar expressions identify forward-looking statements which may appear in documents, reports, filings with the SEC, 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, including those contained in this report, 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 that are difficult to predict, including but not limited to those identified herein under Part II, Item 1A. "Risk Factors" and under Part I, Item 1A. "Risk Factors" of our Annual Report on Form 10 K for the fiscal year ended January 1, 2017. 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 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. 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.

Table of Contents

FAMOUS DAVE'S OF AMERICA, INC. AND SUBSIDIARIES

Additional Information on Famous Dave's

We are currently subject to the informational requirements of the Securities Exchange Act of 1934, as amended. As a result, we are required to file periodic reports and other information with the SEC, such as annual, quarterly and current reports, proxy and information statements. You are advised to read this Quarterly Report on Form 10-Q in conjunction with the other reports, proxy statements and other documents we file from time to time with the SEC. If you would like more information regarding Famous Dave's, you may read and copy the reports, proxy and information statements and other documents we file with the SEC, at prescribed rates, at the SEC's public reference room at 100 F Street, N.E., Washington, DC 20549. You may obtain information regarding the operation of the SEC's public reference rooms by calling the SEC at 1-800-SEC-0330. Our SEC filings are also available to the public free of charge at the SEC's website. The address of this website is <http://www.sec.gov>. Our most current SEC filings, such as our annual, quarterly and current reports, proxy statements and press releases are available to the public free of charge on our website.

The address of our website is <http://www.famousdaves.com>. Our website is not intended to be, and is not, a part of this Quarterly Report on Form 10-Q. We will provide electronic or paper copies of our SEC filings (excluding exhibits) to any Famous Dave's shareholder free of charge upon receipt of a written request for any such filing. All requests for our SEC filings should be sent to the attention of Investor Relations at Famous Dave's of America, Inc., 12701 Whitewater Drive, Suite 200, Minnetonka, MN 55343.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable to smaller reporting companies.

Item 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

There has been no change in our internal control over financial reporting during the quarterly period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The information contained in Note 15 "Litigation" of the notes to the accompanying consolidated financial statements included in this Quarterly Report on Form 10-Q is incorporated by reference into this Item 1. Except as set forth therein, as of the end of the period covered by this Quarterly Report on Form 10-Q, we are not a party to any material pending legal proceedings.

Item 1A. RISK FACTORS



The most significant risk factors applicable to the Company are described in Part I, Item 1A. “Risk Factors” of our Annual Report on Form 10 K for the year ended January 1, 2017, filed with the SEC on March 21, 2017, as updated by this Part II, Item 1A “Risk Factors” and our subsequent filings with the Securities and Exchange Commission. There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10 K, except as set forth below.

- 25 -

---

Table of Contents

FAMOUS DAVE'S OF AMERICA, INC. AND SUBSIDIARIES

There are risks associated with accelerating our refranchising strategy.

We recently announced that we are accelerating our re-franchising initiative to transition our Company-owned restaurants into franchised locations. Our ability to successfully re-franchise existing Company-owned restaurants will depend on various factors, including our ability to attract, contract with and retain quality franchisees, the negotiation of acceptable terms for the re-franchising of existing Company-owned restaurants, the financial and other capabilities of our franchisees, our ability to manage this transition, 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 the control of the Company or our franchisees and there can be no assurance that we will be able to successfully carry out our refranchising strategy on terms acceptable to our management and board of directors, or at all.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

The exhibits listed on the Exhibit Index (following the signatures section of this report) are included, or incorporated by reference, in this Quarterly Report on Form 10 Q.

Table of Contents

FAMOUS DAVE’S OF AMERICA, INC. AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements 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: August 14, 2017 By: /s/ Michael Lister  
Michael Lister  
Chief Executive Officer/Chief Operating Officer  
(Principal Executive Officer)

Dated: August 14, 2017 /s/ Dexter Newman  
Dexter Newman  
Chief Financial Officer and Secretary  
(Principal Financial Officer)

Table of Contents

FAMOUS DAVE'S OF AMERICA, INC. AND SUBSIDIARIES

EXHIBIT INDEX

Exhibit Number	Description
31.1	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1	<u>Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
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