FAMOUS DAVES OF AMERICA INC
Form 10-K
March 13, 2015
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 28, 2014

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 200

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 x

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 x

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 x No ¨

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

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

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

Large Accelerated Filer ¨	Accelerated Filer x	Non-Accelerated Filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The aggregate market value of common stock held by non-affiliates of the registrant was approximately $ 153.0 million as of June 27, 2014 (the last business day of the registrant s most recently completed second quarter), assuming solely for the purpose of this calculation that all directors, officers, and more than 10% shareholders of the registrant are affiliates. The determination of affiliate status for this purpose is not necessarily conclusive for any other purpose. As of March 6, 2014, 7,057,866 shares of the registrant s Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the definitive Proxy Statement for our 2014 Annual Meeting of Shareholders which is to be filed within 120 days after the end of the fiscal year ended December 28, 2014, are incorporated by reference into Part III of this Form 10-K, to the extent described in Part III.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I

ITEM 1. BUSINESS

Summary of Business Results and Plans

Famous Dave s of America, Inc. (Famous Dave s , the Company or we) was incorporated as a Minnesota corporation in March 1994 and opened its first restaurant in Minneapolis, Minnesota in June 1995. As of December 28, 2014, there were 189 Famous Dave s restaurants operating in 34 states, the Commonwealth of Puerto Rico and Canada, including 50 Company-owned restaurants and 139 franchise-operated restaurants. An additional 56 franchise restaurants were committed to be developed through signed area development agreements at December 28, 2014.

Fiscal 2014 was a year of transition for Famous Dave s. At the end of the first quarter of fiscal 2014, the Company made the decision to eliminate a strategy of relying on offering heavy discounts to drive sales that was in place for 2013 and early 2014. As result of this decision, the Company faced sales headwinds throughout 2014 and will continue to face them into the second quarter of 2015. We are confident that this was the right long-term decision for the brand. Throughout fiscal 2014, the Company laid the foundation to return to positive same store sales growth and to improved restaurant-level and Company-level operating margins, progress that was masked by strategic investments in the business, one-time cost adjustments associated with prior years, costs associated with changes to the corporate headquarters and costs associated with rationalizing our restaurant portfolio.

In fiscal 2014, total revenue was $149.4 million, a decrease from $155.4 million in fiscal 2013. This decrease predominantly reflected a comparable sales decline as a result of the decision to discontinue the discounting strategy highlighted above. Franchise royalty revenue and fees were flat while licensing and other revenue declined year over year. The Company realized a comparable sales decrease for Company-owned restaurants of 4.9% compared to a comparable sales increase of 0.2% for fiscal 2013. The franchise-operated restaurants saw a decline in their comparable sales of 2.5%, compared to 2013 s comparable sales decline of 2.9%. During 2014, the Company closed four Company-owned restaurants and did not open a new Company-owned restaurant. Additionally, in 2014, there were five new franchise-operated restaurants that opened, five lower volume franchise-operated restaurants that closed as well as one additional franchise-operated restaurant that closed in anticipation of being relocated in the future.

Fiscal 2014 earnings per diluted share were $0.40, that included the negative impact of $3.8 million, or $0.38 per diluted share, of one-time non-cash impairment and closure costs associated with the three Richmond area restaurants, as well as impairment charges for three additional restaurants, all of which charges were recorded during the fourth quarter. In the first half of fiscal 2014, there were additional charges of $1.1 million, or $0.11 per diluted share recorded for the sale, impairment, lease termination, and closure costs of the décor warehouse, as well as costs incurred for the closure of the Salisbury, Maryland restaurant. This compared to earnings per diluted share of $0.62 in fiscal 2013, that included the impact of $1.2 million, or $0.11 per diluted share, impact of non-cash impairment charges for the impairment of the Salisbury, Maryland restaurant, lease restructuring fees associated with a restaurant in Virginia, and residual closing costs for a restaurant relocated in 2013. Fiscal 2013 s results were favorably impacted by an approximate $1.4 million, or $0.13 per diluted share, of bonus recapture in the fourth quarter.

Fiscal 2014 earnings per diluted share decreased year over year due to several factors. The majority of the decline was the result of the impairment charges detailed above. The decline in restaurant sales is believed to be largely attributable to the Company s decision to stop its heavy discount strategy in the first quarter of 2014, which had an adverse impact on operating margins. There was an increase in operating expenses as result of specific one-time charges related to investments in our restaurants. These increases in operating expenses were partially offset by favorable food and beverage costs and lower general and administrative expenses year-over-year as a result of executive and employee departures in fiscal 2014.

Although the Company is still early in the turnaround, the priorities for 2015 are clear. The Company is focusing its efforts on returning to positive comparable restaurant sales, while improving profitability at both the restaurant and Company level, refranchising Company restaurants and maintaining flexibility to make capital allocation decisions.

Table of Contents

In fiscal 2014, the Company ceased relying on offering regular and heavy discounts as broad strategy to drive guest traffic; this is believed to be largely responsible for explaining the year over year comparable sales decline of 4.9%. The elimination of this strategy will continue to put pressure on top-line revenue through the middle of 2015. The Company has developed a pipeline of new menu items tied to an eighteen-month marketing calendar along with other brand and marketing initiatives that we believe will drive guest traffic for our dine-in and To Go occasions. Additionally, the Company will continue to focus driving catering sales and has recently added both senior corporate and field based staff to lead this initiative.

The Company aims to reduce the number of Company-owned restaurants to be approximately 10% to 15% of the total number of restaurants system wide over the next three to five years. To achieve this target, the Company will aim to sell some of its existing restaurants to existing and new franchisees that have the ability to not only acquire these restaurants but develop additional restaurants. Concurrently with this initiative, the Company may look to monetize its owned real estate.

The Company is working towards the goals of improving restaurant level cash flow margins and reducing general and administrative expenses so that its performance is more comparable to other similar casual-dining restaurant changes. The Company aims to achieve this by continuing to focus on cost optimization at the restaurant and at the general headquarters levels as well as to drive growth in top-line revenue to leverage its fixed costs.

Financial Information about Segments

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

Narrative Description of Business

Famous Dave s restaurants, a majority of which offer full table service, feature hickory-smoked and off-the-grill entrée favorites. We seek to differentiate ourselves by providing high-quality food in distinctive and comfortable environments with signature décor and signage. As of December 28, 2014, 43 of our Company-owned restaurants were full-service and 7 were counter-service. Generally, our prototypical design includes the following elements: a designated bar, a signature exterior smokestack, a separate entrance for our To Go business and a patio (where available). This design enables us to capitalize on a consistent trade-dress and readily identifiable look and feel for our future locations. We have designs that can be adapted to fit various location sizes and desired service styles such as full-service or counter-service.

In 2014, our franchise openings were a mixture of conversions of existing full-service casual dining chains to our concept as well as new construction. One of these was a full-service franchise-operated restaurant in Bayamon, Puerto Rico. In 2014, the Company did not open a Company-owned restaurant; however it did undertake a significant remodel in Bolingbrook, Illinois. In fiscal 2013, the Company completed construction on two restaurants in Maryland; both were ground-up construction of full-service restaurants. In 2012, two counter-service restaurants, utilizing our new 3,000 square foot prototype were built: one Company-owned and one franchise-operated. Additionally, in 2012, a full-service Company-owned restaurant was converted from another restaurant concept in Gainesville, Virginia. All other locations that opened in fiscal 2013 were franchise-owned full-service restaurants.

We offer conversion packages that provide our franchisees with the flexibility to convert existing restaurants and other footprints into a Famous Dave s restaurant. Due to the flexibility and scalability of our concept, we believe that there are a variety of development opportunities available now and in the future. Additionally in 2015, we are working with three restaurant design firms to develop the next evolution in our full-service format and to develop plans for three additional service-style models including counter-service, line-service and hybrid flex-service models. Our one new Company-owned restaurant that is expected to open in fiscal 2015 will be a relocation of an existing restaurant in North Riverside, Illinois and will reflect one interpretation of our new full-service design prototypes.

Table of Contents

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 generous signature sandwiches and salads. Also, enticing side items, such as corn bread, potato salad, coleslaw, Shack Fries™ and Wilbur Beans™, accompany the broad entrée selection. Homemade desserts, including Famous Dave s Bread Pudding, Hot Fudge Kahlua Brownies, and Banana Pudding, are a specialty. To complement our entrée and appetizer items and to suit different customer tastes, we offer six regional barbeque sauces: Rich & Sassy®, Texas Pit™, Georgia Mustard™, Devil s Spit®, Sweet and Zesty™ and Wilbur s Revenge™. These sauces, in addition to a variety of seasonings, rubs, marinades, and other items are also distributed in retail grocery stores throughout the country under licensing agreements. In 2014, we expanded our menu to include the use of smoked meats to be used as an ingredient in other menu items, such as flat breads and tacos.

We believe that high quality food, a menu that is over 80% scratch cooking and the fact that we smoke our meats daily at each of our restaurants are principal points of differentiation between us and other casual dining competitors and are a significant contributing factor to repeat business. We also feel that our focus on barbecue being a noun, a verb and a culture allows for product innovation without diluting our brand. As a noun, barbeque refers to the art of the smoke and sauce. As a verb, barbeque refers to the act of grilling. As a culture, barbeque refers to the competitive spirit. As a result, we see few geographic impediments to scaling our concept and brand.

Distinctive Environment Décor and Music During 2014, the Company re-evaluated the existing restaurants décor and music. As part of this evaluation, the Company began removing a significant portion of its decor in an effort to lighten up and modernize the restaurants. Additionally, the Company tested and implemented new music programs that updated the music selection in our restaurants to appeal to a broader spectrum of guests.

Our original décor theme was a nostalgic roadhouse shack (Original Shack), as defined by the abundant use of rustic antiques and items of Americana. This format was used for both full-service and counter-service restaurant formats. In late 1997, we introduced the Lodge format which featured décor reminiscent of a comfortable Northwoods hunting lodge with a full-service dining room and small bar. In addition, we developed a larger Blues Club format that featured authentic Chicago Blues Club décor and live music seven nights a week. We have evolved our format to that of a full-service concept with several prototypical designs that incorporate the best attributes of the past restaurants while providing a consistent brand image

Broad-Based Appeal We believe that our concept has broad appeal because it attracts customers of all ages, the menu offers a variety of items, and our distinctive sauces allow our guests to customize their experience, appealing to many tastes. We believe that our distinctive barbecue concept, combined with our high-quality food, makes Famous Dave s appeal to families, children, teenagers and adults of all ages and socio-economic and demographic backgrounds.

Operating Strategy

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

Operational Excellence During fiscal 2014, 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 an uncompromising attention to the details of our recipes, preparation and cooking procedures, handling procedures, rotation, sanitation, cleanliness and safety. Operational excellence also means an unyielding commitment to provide our guests with superior service during every visit. In our restaurants, we strive to emphasize value and speed of service by employing a streamlined operating system based on a focused menu and simplified food preparation techniques.

Our menu focuses on a number of popular smoked, barbequed, grilled meats, entrée items and delicious side dishes which are prepared using easy-to-operate kitchen equipment and processes that use proprietary seasonings, sauces and mixes. This streamlined food preparation system helps manage the cost of operation by requiring fewer staff; lower training costs, and eliminates the need for highly compensated chefs. Additionally, barbeque has the ability to be batch cooked and held, which enables our award winning food to get to our guests quickly, whether in the restaurant, at their homes, or at a catering event. In order to enhance our appeal, expand our audience, increase frequency, and feature our cravable products, we have assembled a research and development product pipeline designed to generate new, delicious and exciting menu items that allow us to regularly update our menu.

Table of Contents

During 2014, we offered our guests several new products as well as featured several signature menu items. Early in 2014, and in support of the Lenten season, we featured several fish entrée s such as catfish, salmon, and cod. We also offered an Easter holiday meal program with our own Signature Smoked Hams. In the spring, we launched Build Your Own BBQ or BYOB where our guests could build their own BBQ taco or lettuce cup with our smoked pork, brisket, or chicken along with other accompaniments. During the holiday season, we featured, system-wide, a Signature Smoked Ham and Signature Smoked Turkey product available for off-premise occasions.

Human Resources and Training/Development A key ingredient to our success lies with our ability to hire, train, engage and retain Employees at all levels of our organization. We place a great deal of importance on creating an exceptional working environment for all of our employees. Through our Human Resource, Talent Management and Training/Development resources, tools and programs, we continually enhance and support superior performance within our restaurants and General Headquarters. Our foundational guiding principle is doing the right thing for the organization and our guests while ensuring we have the right people in the right roles with the right resources and tools.

We are a performance-based organization, committed to recognizing and rewarding performance at all levels of the organization. Our performance management process includes performance calibration at the organizational level as a means of providing measureable, comparative employee evaluations relative to peer contribution, taking into account specific core competencies and goals. It is designed to provide a complete picture of performance that is consistent across the organization. We offer a total rewards program that is benchmarked closely against the industry and includes health and welfare coverage, 401(k) and non-qualified deferred compensation with a company match, base pay and incentive pay programs developed to sustain our market competitive position. Our restaurant management turnover for fiscal 2014 was approximately 16% and our restaurant hourly turnover was approximately 57%. Our Human Resource and Training organization focuses on the selection and retention of talent through programs in overall workforce planning, performance management, development, safety and risk reduction, and continued enhancements in our organizational structures for all positions in the business.

In the Training and Development arena, we offer a variety of ongoing on-the-job and classroom training programs for the operations teams (hourly Employees, Restaurant Managers, and Multi-Unit Managers) in an effort to create defined career paths. Our Management Trainee program provides new restaurant managers a foundational based training for restaurant operations, including ServSafe Food and Alcohol Certification; and several learning sessions focused on the basic behaviors and skills of a Famous Dave s Manager. We also offer a Famous Dave s Leadership Series program which provides a library of workshop offerings for our managers focused on building and strengthening core skills in the areas of communication, teamwork, coaching, change management and performance management. In addition, we have incorporated e-learning training tasks, skills and processes on-demand. E-learning provides many benefits including: saving costs on printed materials, saving training time with greater knowledge retention, providing a testing platform for training results, and increasing the productivity of tenured staff by keeping skills sharp.

Restaurant Operations

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

All Managers must complete an eight-week training program, during which they are instructed in areas such as food quality and preparation, customer service, hospitality, and employee relations. We have prepared operations manuals relating to food and beverage quality and service standards. New Employees participate in training under the close supervision of our Management. Each General Manager reports to an Operations Supervisor, who manages from six to seven restaurants, depending on the region. Our Operations Supervisors have all served as General Managers, either for Famous Dave s or for other restaurants, and are responsible for ensuring that operational standards are consistently applied in our restaurants, communicating Company focus and priorities, and supporting the development of restaurant management teams. In addition to the training that the General Managers are required to complete as noted above, our Operations Supervisors receive additional training through Operations Supervisors Workshops that focus specifically on managing multiple locations, planning, time management, staff and management development skills.

We have a Sr. Director of Operations who is responsible for overseeing all Company-owned restaurants. This individual works closely with the Operations Supervisors to support day-to-day restaurant operations. In addition, the Sr. Director of Operations assists in the professional development of our multi-unit supervisors and general managers. The Sr. Director of Operations 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 Sr. Director reports to the Executive Director of Operations.

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

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

Catering accounted for approximately 10.0% of our net sales for fiscal 2014, as compared to 9.4% in 2013. We see catering as an opportunity for new consumers to sample our product who would not otherwise have had the opportunity to visit our restaurants, and each restaurant has a dedicated vehicle to support our catering initiatives. During 2014, we implemented a catering call center for phone-in and web catering orders which provided our catering sales managers with more time to grow this area of the business.

To Go accounted for approximately 26.8% of net restaurant sales for fiscal 2014 as compared to 26.0% in 2013. 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. 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. During 2014, we implemented a call center for phone-in orders that helped to reduce wait times during peak weekend hours.

Customer 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 $24.99, resulting in a per person dine-in and To Go average of $16.49 during fiscal 2014. During fiscal 2014, lunch checks averaged $15.48 and dinner checks averaged $18.91. 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.

Table of Contents

Marketing, Promotion and Sales

We believe that by specializing in unique and distinctive smoked and grilled meats, our menu specialty helps set the brand apart from the rest of the crowded field in casual dining. To further develop the advertising and promotional materials and programs designed to create brand awareness and increase the reach of the brand, we have a system-wide marketing fund. All Company-owned restaurants, and those franchise-operated restaurants with agreements signed after December 17, 2003 are generally required to contribute 1% of net sales to this fund. In fiscal 2014, predominately due to the carryover of funds from fiscal 2013, the Company made the decision to decrease the 2014 Marketing Ad Fund contribution system-wide to 0.75% of net sales. In 2015, the Marketing Ad Fund contribution system-wide will revert back to the contractual rate of 1% of net sales.

The marketing team, working with outside consultants and other resources, is responsible for the advertising, promotion, creative development, and branding for Famous Dave s. Franchise-operated restaurants place the advertising and marketing in their local markets based on contractual requirements, while the Famous Dave s marketing team plans and executes the advertising and marketing for Company-owned restaurants. Famous Dave s uses traditional marketing efforts that include television, internet, radio, digital marketing, public relations and outdoor billboards. During 2014, we had 1.9 million Famous Nation members and approximately 408,000 fans on Facebook.

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 a more competitive distinction, and to continue to strengthen the perception of value in the consumer s mind. In fiscal 2014 the Company discontinued the broad use of discounts to drive guest traffic as it had the previous couple of years. To help drive top-line sales, the Company is implementing a rolling 18 month marketing calendar with specific regular promotions. We featured four limited time offerings in 2014 that introduced our customers to new flavor profiles, innovative products and provided value and margin opportunity. Additionally, a number of new initiatives were planned around enhancing the menu, the guest experience, events marketing and social media.

Famous Dave s is somewhat unique in casual dining having four different occasions to interact with the consumer: Dine-In, To Go, Catering, and Retail. In 2014, we shifted our emphasis to achieving growth by going deeper in connecting with guests on their terms. Each of these dining occasions offer unique and often compelling sources of growth, and each occasion is growing at a different rate. Through this differentiation, we should be able to create a more immediate relevancy and sales opportunities by solving the guest s daily dinner dilemma and address these differences in our marketing, including menu, promotional outreach, pricing, and new product news.

Location Strategy

We believe that the barbeque segment of the casual dining niche of the restaurant industry continues to offer strong growth opportunities, and we see few impediments to our growth on a geographical basis. Our geographical concentration as of December 28, 2014 was 41% Midwest, 11% Middle Atlantic, 8% South, 30% West, 8% Northeast, 1% in Canada and 1% in Puerto Rico. We were located in 34 states, the Commonwealth of Puerto Rico and Canada as of December 28, 2014.

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

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

Table of Contents

As part of our development strategy, we have engaged a design firm to redesign and reimage the traditional full-service prototype and develop plans for three additional service style models including counter-service, line-service and hybrid flex-service models. The three additional service-style models will allow us to access new markets or strategically locate restaurants in existing markets where a full-service restaurant is unlikely to be financially viable. The surrounding trade area will determine which service style is appropriate. Site selection will focus on newly developed green-field retail developments or existing retail projects being re-developed. Conversion opportunities will be considered on a case by case basis. We intend to finance development through the use of cash on hand, cash flow generated from operations, and through availability on our revolving line of credit.

Company-Owned Restaurant Development We expect to open one new Company-owned restaurant in 2015, which is the relocation of the North Riverside, Illinois restaurant. It will serve as a prototype for the growth of our full-service restaurants system-wide. We expect to continue to build in our existing markets in high profile, heavy traffic retail locations. Our plan is to focus on sustainable, controlled growth, primarily in markets where multiple restaurants can be opened, thereby expanding consumer awareness, and creating opportunities for operating, distribution, and marketing efficiencies.

Franchise-Operated Restaurant Development We expect to continue to grow the franchise program. Our goal is to continue to improve the economics of our current restaurant prototypes, while providing more cost-effective development options for our franchisees. As of December 28, 2014, we had signed franchise area development agreements with aggregate commitments for 56 additional units that are expected to open over approximately the next five years. However, there can be no assurance that these franchisees will fulfill their commitments or fulfill them within the anticipated timeframe. Our franchise system is a significant part of our brand s success. As such, another one of our goals is to be a valued franchisor; to enhance communication and recognition of best practices throughout the system and to continue to expand our franchisee network here and outside of the United States.

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

Purchasing

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

Approximately 85% of our food and non-alcoholic beverage purchases are on contract, with the majority being proteins. Pork represents approximately 32% of our total purchases, while beef, which includes hamburger and brisket, is approximately 13%, chicken is approximately 12%, and seafood is approximately 2%. Our purchasing department contracts, as well as our food and beverage costs and trends associated with each, are discussed under Management s Discussion and Analysis of Financial Condition and Results of Operations.

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

Table of Contents

Information Technology

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

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

- Average guest check broken down by location, by server, by day part, and by revenue center;
- Daily reports of revenue and labor (both current and forecasted);
- Weekly reports of selected controllable restaurant expenses;
- Monthly reporting of detailed revenue and expenses; and
- Ideal vs. actual usage variance reporting for critical restaurant-level materials

Trademarks

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

Franchise Program

We are currently authorized to offer and sell franchises in 44 of 50 states, the Commonwealth of Puerto Rico, and have a Canadian franchise disclosure document available. Our growth and success depends in part upon our ability to attract, contract with and retain qualified franchisees. It also depends upon the ability of those franchisees to successfully operate their restaurants with our standards of quality and promote and develop Famous Dave s brand awareness.

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

At December 28, 2014, we had 39 ownership groups operating 139 Famous Dave s franchise restaurants. Signed area development agreements, representing commitments to open an additional 56 franchise restaurants, were in place as of December 28, 2014. There can be no assurance that these franchisees will fulfill their commitments or fulfill them within the anticipated timeframe.

Table of Contents

As of December 28, 2014, we had franchise-operated restaurants in the following locations:

United States	Number of Franchise-Operated Restaurants
Arizona	6
Arkansas	2
California	20
Colorado	6
Delaware	2
Florida	2
Idaho	2
Illinois	3
Indiana	4
Iowa	3
Kansas	3
Kentucky	1
Maine	1
Maryland	1
Michigan	9
Minnesota	6
Missouri	4
Montana	4
Nebraska	3
Nevada	6
New Jersey	1
New York	2
North Dakota	3
Oregon	2
Ohio	3
Pennsylvania	4
South Dakota	2
Tennessee	5
Texas	4
Utah	3
Washington	7
Wisconsin	11
Wyoming	1
United States Total	136
The Commonwealth of Puerto Rico	2
Canada	1
United States, the Commonwealth of Puerto Rico, and Canada Total	139

Table of Contents

Our Franchise Operations Department is made up of the Executive Director of Operations, who guides the effort of a Sr. Director of Franchise Operations, supported by four Franchise Consultants. The Sr. Director of Franchise Operations has the responsibility for supporting our franchisees throughout the country and plays a critical role for us as well as for our franchise community. The Sr. Director of Franchise Operations manages the relationship between the franchisee and the franchisor and provides an understanding of the roles, responsibilities, differences, and accountabilities of that relationship. They are an active participant towards enhancing performance, as they partner in strategic and operational planning sessions with our franchise partners and review the individual strategies and tactics for obtaining superior performance for the franchisee. They ensure compliance with obligations under our area development and franchise agreements. Franchisees are encouraged to utilize all available assistance from the Sr. Director of Franchise Operations and the Franchise Consultants and the General Headquarters but are not required to do so.

The Company has a comprehensive operations scorecard and training tool that helps us measure our operational effectiveness of our Company-owned and franchise-operated restaurants. This scorecard is used to evaluate, monitor and improve operations in areas such as guest satisfaction, health and safety standards, community involvement, and local store marketing effectiveness, among other operating metrics. Also, we generally provide support as it relates to all aspects of franchise operations including, but not limited to, store openings and operating performance. Finally, the Company solicits feedback from our franchise system by conducting a Franchise Satisfaction Survey every year. The results of this survey are used to better support the needs of the franchise system while maintaining a one-system mindset.

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 sell that development agreement. Substantially all of these services, which include, but are not limited to, conducting market and trade area analysis, a meeting with Famous Dave s Executive Team, and performing a potential franchise background investigation, are completed prior to our execution of the area development agreement and receipt of the corresponding area development fee. As a result, we recognize this fee in full upon receipt. Currently, our initial, non-refundable, franchise fee for domestic growth is $45,000 per restaurant, of which approximately $5,000 is recognized immediately when a franchise agreement is signed, reflecting expenses incurred related to the sale. The remaining non-refundable fee is included in deferred franchise fees and is recognized as revenue when we have performed substantially all of our obligations, which generally occurs upon the franchise entering into a lease agreement for the restaurant(s). Finally, franchisees are also required to pay us a monthly royalty equal to a percentage of their net sales, which has historically varied from 4% to 5%. In general, new franchises pay us a monthly royalty of 5% of their net sales.

The franchisee s investment depends primarily upon restaurant size. This investment includes the area development fee, initial franchise fee, real estate and leasehold improvements, fixtures and equipment, POS systems, business licenses, deposits, initial food inventory, small wares, décor and training fees as well as working capital. In 2014, franchisees were required to contribute 0.75% of net sales to a marketing fund dedicated to building system-wide brand awareness. In 2015, franchisees will be required to contribute 1% of net sales to the marketing fund. Additionally, franchisees have historically spent 1.5% to 2.0% of their net sales annually on local marketing activities. Currently franchisees are required to spend approximately 1.5% of their net sales annually on local marketing activities.

Seasonality

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

Government Regulation

Our Company is subject to extensive state and local government regulation by various governmental agencies, including state and local licensing, zoning, land use, construction and environmental regulations and various regulations relating to the sale of food and alcoholic beverages, sanitation, disposal of refuse and waste products, public health, safety and fire standards. Our restaurants are subject to periodic inspections by governmental agencies to

Table of Contents

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, workers compensation insurance rates, health care insurance costs, property and casualty insurance, and unemployment and other taxes. We are also subject to dram-shop statutes, which generally provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person.

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

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

Team Members

As of December 28, 2014, we employed approximately 2,438 team members of which approximately 256 were salaried full-time employees. None of our team members are covered by a collective bargaining agreement. We consider our relationships with our team members to be good.

ITEM 1A. RISK FACTORS

Famous Dave s makes written and oral statements from time to time, including statements contained in this Annual Report on Form 10-K regarding its business and prospects, such as projections of future performance, statements of management s plans and objectives, forecasts of market trends and other matters that are forward-looking statements within the meaning of Sections 27A of the Securities Exchange Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Statements containing the words or phrases will likely result, anticipates, are expected to, will continue, is anticipated, estimates, projects, believes, expects, intends, target, goal, plans, objective, should or 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.

The state of the economy and the volatility of the financial markets may adversely impact our business and results of operations and cash flows and may impact our ability to comply with our credit facility s financial covenants.

The restaurant industry is still affected by macro-economic factors, including changes in national, regional, and local economic conditions, employment levels and consumer spending patterns. The recent economic recession, and the slow economic recovery, has kept consumer confidence low, and consequently, has affected the frequency of consumers dining out occasions, which has been harmful to our results of operations and cash flows, and has negatively impacted our financial position which has resulted in asset impairment charges being recorded and if it continues in the future, may result in further impairment of the Company s assets. Depending on the duration and severity of the continued economic downturn and the pace of recovery, it may adversely affect our ability to comply with financial covenants under our credit facility on a continuing basis. These financial covenants include, without limitation, maximum target capital expenditures and stock buy-backs, cash flow ratios, adjusted leverage ratios, and in certain circumstances, a maximum aged royalty receivable. There can be no assurances that government responses to the disruptions in the financial markets and overall economy will restore consumer confidence, stabilize the markets or increase liquidity and the availability of credit. As of December 28, 2014, we were in compliance with all of our covenants during fiscal 2014.

In the event we fail to comply with these or other financial covenants in the future and are unable to obtain similar amendments or waivers, our lender will have the right to demand repayment of all principal amounts outstanding under the credit facility and term loan, which were approximately $5.0 million and $4.0 million, respectively, at December 28, 2014, and to terminate the existing credit facility and term loan. 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 personal property, which serves as collateral for the credit facility. Replacement financing may be unavailable to us on similar terms or at all, especially if current credit market conditions persist. Termination of our existing credit facility 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.

Our plan is to open one new Company-owned restaurant, which is the relocation of the North Riverside, IL restaurant, in 2015. There is no guarantee that any of the Company-owned or franchise-operated restaurants will open when planned, or at all, due to many factors that may affect the development and construction of our restaurants, including landlord delays, weather interference, unforeseen engineering problems, environmental problems, construction or zoning problems, local government regulations, modifications in design to the size and scope of the project, and other unanticipated increases in costs, any of which could give rise to delays and cost overruns. There can be no assurance that we will successfully implement our growth plan for our Company-owned and franchise-operated restaurants. In addition, we also face all of the risks, expenses and difficulties frequently encountered in the development of an expanding business.

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

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

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

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

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

Our growth and success depends in part upon increasing the number of our franchised restaurants, through execution of area development and franchise agreements with new and existing franchisees in new and existing markets. We are also pursuing a strategic re-franchising initiative to transition some of our Company-owned restaurants into franchised locations. Our ability to successfully franchise additional restaurants and re-franchise existing Company-owned restaurants will depend on various factors, including our ability to attract, contract with and retain quality franchisees, the availability of suitable sites, the negotiation of acceptable leases or purchase terms for new locations, the negotiation of acceptable terms for the re-franchising of existing Company-owned restaurants, permitting and regulatory compliance, the ability to meet construction schedules, the financial and other capabilities of our franchisees, our ability to manage this anticipated expansion, and general economic and business conditions. Many of the foregoing factors are beyond the control of the Company or our franchisees.

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

We may not be successful in expanding our international footprint.

Our current franchise program includes two restaurants in the Commonwealth of Puerto Rico and one restaurant in Manitoba, Canada, and we believe there is a significant opportunity to expand our concept in international markets. Because we are at the early stage of pursuing international growth, we may not be completely aware of the development efforts involved and barriers to entry into 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 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 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.

Table of Contents

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

The restaurant industry is subject to extensive federal, state, and local government regulation by various government agencies, including state and local licensing, zoning, land use, construction and environmental regulations and various regulations relating to the preparation and sale of food and alcoholic beverages, sanitation, disposal of refuse and waste products, public health, safety and fire standards, adjustments to tip credits, increases to minimum wage requirements, workers compensation and citizenship requirements. Due to the fact that we offer and sell franchises, we are also subject to federal regulation and certain state laws which govern the offer and sale of franchises. Many state franchise laws impose substantive requirements on franchise agreements, including limitations on non-competition provisions and termination or non-renewal of a franchise. We may also be subject in certain states to dram-shop statutes, which provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. In addition, our operating results would be adversely affected in the event we fail to maintain our food and liquor licenses.

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

During 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 were signed into law in the United States. Our restaurants will be covered by these national requirements when they go into effect, which may be as early as 2014. This legislation mandates menu labeling of certain nutritional aspects of restaurant menu items such as caloric, sugar, sodium, and fat content. There is a risk that consumers dining preferences may be impacted by such menu labeling. If we elect to alter our recipes in response to such a change in dining preferences, doing so could increase our costs and/or change the flavor profile of our menu offerings which could have an adverse impact on our results of operations.

Healthcare reform legislation could have a negative impact on our business.

Certain of the provisions of recent health care legislation that have increased our healthcare costs include the removal of annual plan limits and the mandate that health plans provide 100% coverage on expanded preventative care. In addition, our healthcare costs could increase significantly as the new legislation and accompanying regulations require us to automatically enroll employees in health coverage, potentially cover more variable hour employees than we do currently or pay penalty amounts in the event that employees do not elect our offered coverage. Additionally, minimum employee health care coverage mandated by state or federal legislation could have an adverse effect on our results of operations and financial condition. While much of the cost of the recent healthcare legislation enacted will occur in or after 2014 due to provisions of the legislation being phased in over time, changes to our healthcare cost structure could have an impact on our business and operating costs.

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

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

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

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

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

While 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. While we take it very seriously and expend significant resources to ensure that our information technology operates securely and effectively, any security breaches could result in disruptions to operations or unauthorized disclosure of confidential information. If our guests consumer data or our team members personal data are compromised, our operations could be adversely affected, our reputation could be harmed, and we could be subjected to litigation or the imposition of penalties and other remedial costs.

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.

On December 29, 2014, we announced the closure of three underperforming Company-owned restaurants located in and around Richmond, Virginia and that we anticipated impairing the assets of up to four additional restaurants that underperformed during fiscal 2014. Based on our impairment analysis, we recognized expenses during the fiscal 2014 fourth quarter of $3.8 million as a result of impairment charges for three restaurants. 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.

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

Our authorized capital consists of 100,000,000 shares of capital stock. Our Board of Directors, without any action by the shareholders, may designate and issue shares in such classes or series (including classes or series of preferred stock) as it deems appropriate and establish the rights, preferences and privileges of such shares, including dividends, liquidation and voting rights. As of March 6, 2015, we had 7,057,866 shares of common stock outstanding.

The rights of holders of preferred stock and other classes of common stock that may be issued could be superior to the rights granted to the current holders of our common stock. Our Board s ability to designate and issue such undesignated shares could impede or deter an unsolicited tender offer or takeover proposal. Further, the issuance of additional shares having preferential rights could adversely affect the voting power and other rights of holders of common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

In fiscal 2014, the Company did not open any new Company owned locations, and closed four locations. In fiscal 2013 the Company opened two free-standing, full-service restaurants, one in a 5,000 square foot building constructed by the landlord and the second in a 5,600 square foot prototype building constructed by the Company. In addition to the Company locations, franchisees opened eight full-service restaurants during fiscal 2013 including five conversions, two ground-up free-standing buildings, and one end-cap. In fiscal 2012, the Company opened a 6,000 square foot full-service restaurant and a 3,600 square foot counter-service restaurant, both of which were conversions of other restaurant concepts. In 2012, several franchisees successfully converted restaurants from existing casual dining concepts. Due to the flexibility and scalability of our concept, there are a variety of development opportunities available now and in the future. In 2015, we expect to open one Company-owned restaurant, which is a relocation of the North Riverside, Illinois restaurant.

Table of Contents

Our leased restaurant facilities are occupied under agreements with remaining terms ranging from 9 months to 33 years, including renewal options. Such leases generally provide for fixed rental payments plus operating expenses associated with the properties. Several leases also require the payment of percentage rent based on net sales.

Our Minnesota executive offices are currently located in approximately 28,600 square feet in Minnetonka, Minnesota. Our executive office lease expires November 2018, with two five-year renewal options. The minimum annual rent commitment remaining over the lease term, including renewal options, is approximately $4.1 million. Our Illinois executive offices are currently located in approximately 8,400 square feet in Lombard, Illinois. This executive office lease expires October 2022. The minimum annual rent commitment remaining over the lease term is approximately $715,000.

Table of Contents

We believe that our properties will be suitable for our needs and adequate for operations for the foreseeable future. The following table sets forth certain information about our existing Company-owned restaurant locations, as of December 28, 2014, sorted by opening date:

	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	Stillwater, MN	5,200	130	Leased[1]	July 1997
6	Apple Valley, MN[3]	3,800	90	Leased[1]	July 1997
7	Forest Lake, MN[3]	4,500	100	Leased	October 1997
8	Minnetonka, MN	5,500	140	Owned[2]	December 1997
9	Plymouth, MN[3]	2,100	49	Owned[2]	December 1997
10	West Des Moines, IA	5,700	150	Leased	April 1998
11	Des Moines, IA	5,800	150	Leased	April 1998
12	Cedar Falls, IA	5,400	130	Leased	September 1998
13	Bloomington, MN	5,400	140	Leased	October 1998
14	Woodbury, MN	5,900	180	Owned[2]	October 1998
15	Lincoln, NE	6,200	185	Owned[2]	December 1999
16	Columbia, MD	7,200	270	Leased	January 2000
17	Annapolis, MD	6,800	219	Leased	January 2000
18	Frederick, MD	5,600	180	Leased	January 2000
19	Woodbridge, VA	6,000	219	Leased	January 2000
20	Addison, IL	5,000	135	Owned[2]	March 2000
21	North Riverside, IL	4,700	150	Leased	August 2000
22	Sterling, VA	5,800	200	Leased	December 2000
23	Oakton, VA	4,400	184	Leased	May 2001
24	Laurel, MD	5,200	165	Leased	August 2001
25	Orland Park, IL	5,400	158	Leased	June 2002
26	Chantilly, VA	6,400	205	Leased	January 2006
27	Florence, KY	5,900	217	Leased	January 2006
28	Waldorf, MD	6,600	200	Leased	June 2006
29	Coon Rapids, MN	6,300	160	Owned[2]	December 2006
30	Fredericksburg, VA	6,500	219	Leased	September 2007
31	Owings Mills, MD	6,700	219	Leased	November 2007
32	Bolingbrook, IL	6,600	219	Leased	November 2007
33	Oswego, IL	6,600	219	Leased	December 2007
34	Alexandria, VA	6,600	219	Leased	February 2008
35	Algonquin, IL	6,000	219	Leased	September 2008
36	Greenwood, IN	5,700	184	Leased	October 2008
37	Brick, NJ	5,200	181	Leased	March 2010
38	May s Landing, NJ	6,400	237	Leased	March 2010
39	Smithtown, NY	6,400	237	Leased	March 2010
40	Westbury, NY	6,400	276	Leased	March 2010
41	New Brunswick, NJ	7,200	255	Leased	March 2010
42	Mountainside, NJ	8,800	253	Leased	March 2010
43	Metuchen, NJ	6,200	176	Leased	March 2010
44	Bel Air, MD	6,360	199	Leased	August 2010
45	Falls Church, VA	5,430	169	Leased	August 2011
46	Eden Prairie, MN[3]	2,980	65	Leased	December 2011
47	Gainesville, VA	6,000	215	Leased	June 2012
48	Evergreen Park, IL[3]	3,600	90	Leased	November 2012
49	Germantown, MD	5,000	160	Leased	September 2013
50	Timonium, MD	5,600	187	Leased	November 2013

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

Table of Contents

ITEM 3. LEGAL PROCEEDINGS

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

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

	2014		2013	
Period	High	Low	High	Low
1st Quarter	$ 31.99	$ 15.01	$ 11.09	$ 8.89
2nd Quarter	$ 34.70	$ 23.00	$ 15.76	$ 10.23
3rd Quarter	$ 29.67	$ 23.26	$ 16.95	$ 14.75
4th Quarter	$ 29.98	$ 23.88	$ 20.99	$ 15.50

Holders

As of March 6, 2015, we had approximately 333 shareholders of record and approximately 3,390 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, reduce our debt levels, and repurchase our common stock. The payment of cash dividends in the future, if any, will be at the discretion of the Board of Directors and will depend upon such factors as earnings levels, capital requirements, loan agreement restrictions, our financial condition and other factors deemed relevant by our Board of Directors.

Stock Performance Graph

Below is a line-graph presentation that compares the cumulative, five-year return to the Company s shareholders (based on appreciation of the market price of the Company s common stock) on an indexed basis with (i) a broad equity market index and (ii) an appropriate published industry or line-of-business index, or Peer Group Index constructed by the Company. The following presentation compares the Company s common stock price for the period from January 3, 2010 through December 28, 2014, to the S&P 500 Stock Index and to the S&P Small Cap Restaurant Index.

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

21

Table of Contents

The presentation assumes that the value of an investment in each of the Company s common stock, the S&P 500 Index and S&P Small Cap Restaurants was $100 on January 3, 2010, and that any dividends paid were reinvested in the same security.

* $100 invested on 1/3/10 in stock or index, including reinvestment of dividends. Fiscal year ending 12/28/14 with previous specific fiscal year ends at January 2, 2011; January 1, 2012. December 30, 2012 and December 29, 2013.

Purchases of Equity Securities by the Issuer

On May 1, 2012, our Board of Directors approved a stock repurchase program that authorized the repurchase of up to 1.0 million shares of our common stock in both the open market or through privately negotiated transactions. Since the program was adopted in May 2012, we have repurchased 804,101 shares under this program for approximately $12.9 million at an average market price per share of $16.05, excluding commissions. During fiscal 2014, we repurchased 101,466 shares under this program for approximately $2.6 million at an average market price per share of $25.72, excluding commissions.

Table of Contents

The following table includes information about the stock repurchase program approved on May 1, 2012 for the fiscal year ended December 28, 2014:

Period	Total Number of Shares Purchased	Average Price Paid per Share[1]	Total Number of Shares Purchased as Part of Publically Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs
Month #1 (December 30, 2013 January 26, 2014)	43,098[2]	19.37	43,098[2]	254,267[3]
Month #2 (January 27, 2014 February 23, 2014)	1,965[2]	17.71	1,965[2]	252,302[3]
Month #3 (February 24, 2014 March 30, 2014)				252,302[3]
Month #4 (March 31, 2014 April 27, 2014)				252,302[3]
Month #5 (April 28, 2014 May 25, 2012)				252,302[3]
Month #6 (May 26, 2014 June 29, 2014)				252,302[3]
Month #7 (June 30, 2013 July 27, 2014)	50,000[2]	31.66	50,000[2]	202,302[3]
Month #8 (July 28, 2014 August 24, 2014)				202,302[3]
Month #9 (August 25, 2014 September 28, 2014)				202,302[3]
Month #10 (September 29, 2014 October 26, 2014)				202,302[3]
Month #11 (October 27, 2014 November 23, 2014)	4,903[2]	24.43	4,903[2]	197,399[3]
Month #12 (November 24, 2014 December 28, 2014)	1,500[2]	24.97	1,500[2]	195,899[3]

(1) Excluding commissions.

(2) Shares purchased under the 1.0 million share publically announced repurchase plan adopted May 1, 2012.

(3) Reflects the maximum number of shares that may be purchased in the future under the publicly announced share repurchase plan adopted May 1, 2012.

ITEM 6. SELECTED FINANCIAL DATA

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

The selected financial data as of and for the fiscal years ended December 28, 2014 (fiscal 2014), December 29, 2013 (fiscal 2013), December 30, 2012 (fiscal 2012), January 1, 2012 (fiscal 2011), and January 2, 2011 (fiscal 2010) have been derived from our consolidated financial statements as audited by Grant Thornton LLP, independent registered public accounting firm.

Table of Contents

FINANCIAL HIGHLIGHTS

FISCAL YEAR *($ s in 000 s, except per share data and average weekly sales)*	**2014**	**2013**	**2012**	**2011**	**2010**[1]
STATEMENTS OF OPERATIONS DATA					
Revenue	$ 149,355	$ 155,432	$ 154,988	$ 154,811	$ 148,268
Asset impairment and estimated lease termination and other closing costs[2]	($ 4,517)	($ 1,181)	($ 370)	($ 513)	($ 74)
Income from operations	$ 4,892	$ 7,747	$ 6,213	$ 9,396	$ 11,983
Income tax expense	($ 1,099)	($ 2,010)	($ 805)	($ 2,764)	($ 3,796)
Net income	$ 2,897	$ 4,767	$ 4,360	$ 5,562	$ 7,218
Basic net income per common share	$ 0.40	$ 0.65	$ 0.58	$ 0.70	$ 0.84[3]
Diluted net income per common share	$ 0.40	$ 0.62	$ 0.57	$ 0.68	$ 0.82[3]
BALANCE SHEET DATA (at year end)					
Cash and cash equivalents	$ 2,133	$ 1,293	$ 2,074	$ 1,148	$ 2,654
Total assets	$ 66,677	$ 75,337	$ 76,253	$ 73,839	$ 76,129
Long-term debt less current maturities	$ 11,493	$ 18,924	$ 22,105	$ 20,451	$ 23,497
Total shareholders equity	$ 31,802	$ 32,791	$ 33,767	$ 34,094	$ 32,904
OTHER DATA					
Restaurant Sales:					
Company-owned	$ 131,015	$ 136,930	$ 135,730	$ 136,896	$ 131,154
Franchise-operated	$ 369,871	$ 363,438	$ 361,109	$ 355,338	$ 340,454
Number of restaurants open at year end:					
Company-owned restaurants	50	54	53	54	52
Franchise-operated restaurants	139	140	135	133	130
Total restaurants	189	194	188	187	182
Comparable Sales:					
Company-owned comparable store Sales (decrease) increase [4]	(4.9)%	0.2%	(1.8)%	1.5%	0.7%
Franchise-operated comparable store Sales (decrease) increase [4]	(2.5)%	(2.9)%	(2.0)%	0.0%	(0.8)%
Average weekly sales:					
Company-owned restaurants	$ 47,249	$ 49,514	$ 49,172	$ 50,216	$ 49,187
Franchise-operated restaurants	$ 51,059	$ 52,136	$ 52,714	$ 53,096	$ 52,631

(1) All presented fiscal years consisted of 52 weeks. Fiscal 2015 will consist of 53 weeks.

(2) Fiscal 2014 reflects non-cash impairment charges for six Company-owned restaurants, two lease restructurings charges at additional Company-owned restaurants and the décor warehouse, the write-off of décor due to a change in operating strategy and closing costs associated with Company owned restaurants. Fiscal 2013 reflects non-cash impairment charges for one Company-owned restaurant, a lease restructuring at another Company-owned restaurant, and residual closing costs for a restaurant relocated in 2013. Fiscal 2012 primarily reflects closing costs for three Company-owned restaurants as well as a lease reserve for one of the closed restaurants. Fiscal 2011 primarily reflects impairment charges for three Company-owned restaurants. One is still operating and two have closed.

(3) Reflects gain on acquisition of New York and New Jersey restaurants in March of 2010, of $0.15 per diluted share.

(4) Our comparable store sales includes Company-owned and franchise-operated restaurants that are open year round and have been open more than 24 months.

Table of Contents

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

Certain statements contained in this Annual Report on Form 10-K include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All such forward-looking statements are based on information currently available to us as of the date of this Annual Report, and we assume no obligation to update any forward-looking statements except as otherwise required by applicable law. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors may include, among others, those factors listed in Item 1A of and elsewhere in this Annual Report and our other filings with the Securities and Exchange Commission. The following discussion should be read in conjunction with Selected Financial Data above (Item 6 of this Annual Report) and our financial statements and related footnotes appearing elsewhere in this Annual Report.

OVERVIEW

Famous Dave s of America, Inc. was incorporated as a Minnesota corporation in March 1994 and opened its first restaurant in Minneapolis in June 1995. As of December 28, 2014, there were 189 Famous Dave s restaurants operating in 34 states, the Commonwealth of Puerto Rico, and 1 Canadian province, including 50 Company-owned restaurants and 139 franchise-operated restaurants. An additional 56 franchise restaurants were committed to be developed through signed area development agreements as of December 28, 2014.

Fiscal Year

Our fiscal year ends on the Sunday nearest December 31st of each year. Our fiscal year is generally 52 weeks; however it periodically consists of 53 weeks. The fiscal years ended December 28, 2014 (fiscal 2014), December 29, 2013 (fiscal 2013), and December 30, 2012 (fiscal 2012) all consisted of 52 weeks. Fiscal 2015, which ends on January 3, 2016, will consist of 53 weeks.

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

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

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

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

Table of Contents

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

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

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

Liquor licenses The Company owns transferable liquor licenses in jurisdictions with a limited number of authorized liquor licenses. These licenses were capitalized as indefinite-lived intangible assets and are included in intangible assets, net in our consolidated Balance Sheets (see note 4 to our consolidated financial statements) at December 28, 2014 and December 29, 2013. We annually review the liquor licenses for impairment and in fiscal 2014 and 2013 no impairment charges were required to be recorded. Additionally, the costs of obtaining non-transferable liquor licenses that are directly issued by local government agencies for nominal fees are expensed as incurred. Annual liquor license renewal fees are expensed over the renewal term.

Accounts receivable, net We provide an allowance for uncollectible accounts on accounts receivable based on historical losses and existing economic conditions, when relevant. We provide for a general bad debt reserve for franchise receivables due to increases in days sales outstanding and deterioration in general economic market conditions. This general reserve is based on the aging of receivables meeting specified criteria and is adjusted each quarter based on past due receivable balances. Additionally, we have periodically established a specific reserve on certain receivables as necessary. Any changes to the reserve are recorded in general and administrative expenses. The allowance for uncollectible accounts was approximately $214,000 and $72,000, at December 28, 2014 and December 29, 2013, respectively. In 2014, the increase in the allowance for doubtful accounts was primarily due to the aging of receivables associated with a couple of franchisees. Accounts receivable balances written off have not exceeded allowances provided. We believe all accounts receivable in excess of the allowance are fully collectible. If accounts receivable in excess of provided allowances are determined uncollectible, they are charged to expense in the period that determination is made. Outstanding past due accounts receivable are subject to a monthly interest charge on unpaid balances which is recorded as interest income in our consolidated statements of operations. In assessing recoverability of these receivables, we make judgments regarding the financial condition of the franchisees based primarily on past and current payment trends, as well as other variables, including annual financial information, which the franchisees are required to submit to us.

Stock-based compensation We recognize compensation expense for share-based awards granted to team members based on their fair values at the time of grant over the requisite service period. Additionally, our board members receive share-based awards for their board service. Our pre-tax compensation expense for stock options and other incentive awards is included in general and administrative expenses in our consolidated statements of operations (see Note 9 to our financial statements).

Income Taxes We provide for income taxes based on our estimate of federal and state income tax liabilities. These estimates include, among other items, effective rates for state and local income taxes, allowable tax credits for items such as taxes paid on reported tip income, estimates related to depreciation and amortization expense allowable for tax purposes, and the tax deductibility of certain other items. Our estimates are based on the information available to us at the time that we prepare the income tax provision. We generally file our annual income tax returns several months after our fiscal year-end. Income tax returns are subject to audit by federal, state, and local governments, generally years after the tax returns are filed. These returns could be subject to material adjustments or differing interpretations of the tax laws. Accounting for uncertain tax positions requires significant judgment including estimating the amount, timing, and likelihood of ultimate settlement. Although the Company believes that its estimates are reasonable, actual results could differ from these estimates. Additionally, uncertain positions may be re-measured as warranted by changes in facts or law. During 2012, we realized the benefit from the cumulative impact of tax credits for employee reported tips for 2012 as well as four previous tax years that were amended, or in the case of fiscal 2011, initially filed. This resulted from a more precise calculation methodology for this tax credit, and will continue to benefit us in the future.

Results of Operations

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

We have a licensing agreement for our retail products, with renewal options of five years, subject to the licensee s attainment of identified minimum product sales levels. Based on achievement of the required minimum product sales, the agreement will be in force until April 2015 at which time these levels will be re-evaluated.

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

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

Table of Contents

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

The following table presents items in our consolidated statements of operations as a percentage of total revenue or net restaurant sales, as indicated, for the following fiscal years:(5)

	2014	2013	2012
Food and beverage costs(1)	29.5%	30.3%	31.3%
Labor and benefits(1)	32.5%	32.4%	32.6%
Operating expenses(1)(3)	27.5%	25.6%	26.9%
Restaurant level cash flow margin(1)(4)	10.5%	11.7%	9.2%
Depreciation & amortization (restaurant level)(1)	4.1%	4.0%	4.0%
Asset impairment and estimated lease termination and other closing costs(1)	3.4%	0.9%	0.3%
Pre-opening expenses and net loss on disposal of property(1)	0.3%	0.5%	0.4%
Costs and expenses (restaurant level)(1)	97.3%	93.7%	95.5%
Restaurant level margin(1)(3)	2.7%	6.3%	4.5%
Depreciation & amortization (corporate level)(2)	0.5%	0.5%	0.4%
General and administrative(2)	10.8%	12.2%	