FAMOUS DAVES OF AMERICA INC
Form 10-K
March 21, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended January 1, 2017

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

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

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

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

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

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

Large Accelerated Filer	Accelerated Filer	Non-Accelerated Filer (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

The aggregate market value of common stock held by non-affiliates of the registrant was approximately $23.9 million as of July 1, 2016, (the last business day of the registrant s most recently completed second quarter), assuming solely for the purpose of this calculation that all directors, officers, and more than 10% shareholders of the registrant are affiliates. The determination of affiliate status for this purpose is not necessarily conclusive for any other purpose. As of March 7, 2017, 6,957,628 shares of the registrant s Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

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

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PART I

ITEM 1. BUSINESS
Summary of Business Results and Plans

Famous Dave s of America, Inc. (Famous Dave s , the Company, we, us or our) was incorporated as a Minnesota corporation in March 1 opened its first restaurant in Minneapolis, Minnesota in June 1995. As of January 1, 2017, there were 176 Famous Dave s restaurants operating in 32 states, the Commonwealth of Puerto Rico, Canada, and the United Arab Emirates, including 37 Company-owned restaurants and 139 franchise-operated restaurants. An additional 62 franchise restaurants were committed to be developed through signed area development agreements at January 1, 2017.

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

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

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

It is important to note, sales for franchise-operated restaurants are not revenues of the Company and are not included in the Company s consolidated financial statements. The Company s management believes that disclosure of sales for franchise-operated restaurants provides useful information to investors because historical performance and trends of Famous Dave s franchisees relate directly to trends in franchise royalty revenues that the Company receives from such franchisees and have an impact on the perceived success and value of the Famous Dave s brand. It also provides a comparison against which management and investors may evaluate the extent to which Company-owned restaurant operations are realizing their revenue potential.

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

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

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

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

Financial Information about Segments

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

Narrative Description of Business

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

In 2016, four franchise openings were a mixture of conversions of existing full-service casual dining restaurants to our concept as well as new construction, including two restaurants opened in the United Arab Emirates. In fiscal 2016 and 2015, we did not open any Company-owned restaurants. In fiscal 2014, the Company completed a significant remodel of two Chicago-area restaurants.

We offer conversion packages that provide our franchisees with the flexibility to convert existing restaurants as well as existing retail footprints into a Famous Dave s restaurant. Due to the flexibility and scalability of our concept, we believe that there are a variety of development opportunities available now and in the future.

We pride ourselves on the following:

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

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

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

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

Operating Strategy

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

Operational Excellence During fiscal 2016, we continued to focus on operational excellence and integrity, and on creating a consistently enjoyable guest experience, both in terms of food and hospitality, across our system. We define operational excellence as also meaning an unyielding commitment to superior service for our Guests during every visit. In our restaurants, we strive to emphasize value and speed of service by employing a streamlined operating system based on a focused menu and simplified food preparation techniques while remaining true to authentic barbeque. Operational excellence is also an uncompromising attention to the details of our recipes, preparation and cooking procedures, handling procedures, rotation, sanitation, cleanliness and safety.

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

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

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

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

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In the Training and Development arena, we offer a variety of ongoing on-the-job and classroom training programs for the operations teams (hourly employees, Restaurant Managers, and Multi-Unit Managers) in an effort to create defined career paths. Our Management Trainee program provides new restaurant managers a foundational based training for restaurant operations, including ServSafe Food and Alcohol Certification, and several learning sessions focused on the basic behaviors and skills of a Famous Dave s Manager. We also offer a Famous Dave s Leadership Series program which provides a library of workshop offerings focused on building and strengthening core skills in the areas of communication, teamwork, coaching, change management and performance management. In addition, we have incorporated e-learning training tasks, skills and processes on-demand.

Restaurant Operations

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

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

We have a Vice President of Company Operations who is responsible for overseeing all Company-owned restaurants. This individual works closely with the Area Directors to support day-to-day restaurant operations. In addition, the Vice President of Company Operations assists in the professional development of our multi-unit supervisors and general managers and is also instrumental in driving our vision of operational integrity and contributing to the improvement of results achieved at our restaurants, including building sales, developing personnel and growing profits. The Vice President of Company Operations reports to the Chief Executive Officer/Chief Operating Officer.

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

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

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

To Go accounted for approximately 30.0% of net restaurant sales for fiscal 2016, as compared to 28.2% in fiscal 2015 and 26.5% in Fiscal 2014. Our restaurants have been designed specifically to accommodate a significant level of To Go sales, including a separate To Go entrance with prominent and distinct signage, and for added convenience, we separately staff the To Go counter. To further enhance To Go sales, we offer our Guest the ability to order online to improve convenience. We believe our focus on To Go enables Famous Dave s to capture a greater portion of the take-out market by allowing consumers to trade within our brand, when dining in is not always an option. We pursue efforts to increase awareness of To Go in all Company-owned and franchise-operated restaurants by featuring signage and merchandising both inside and outside the restaurants.

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

Value Proposition and Guest Frequency We offer high quality food and a distinctive atmosphere at competitive prices to encourage frequent patronage. Lunch and dinner entrees range from $6.99 to $26.99, resulting in a per person dine-in and To Go average of $15.38 during fiscal 2016. During fiscal 2016, per person average tickets for lunch averaged $13.29 and per person average ticket for dinner averaged $17.48. We intend to use value priced offerings, new product introductions, and the convenience of connecting with guests on their own terms, to drive new and infrequent guests into our restaurants for additional meal occasions.

Marketing, Promotion and Sales

We believe that by specializing in unique and distinctive smoked meats, poultry & fish, our menu specialty helps set the brand apart from the rest of the crowded field in casual dining. To further develop the advertising and promotional materials and programs designed to create brand awareness and increase the reach of the brand, we have a system-wide marketing fund. All Company-owned restaurants, and those franchise-operated restaurants with agreements signed after December 17, 2003 are generally required to contribute 1.0% of net sales to this fund. In fiscal 2016, the Marketing Ad Fund contribution was 1.0% of net sales and will continue to be so in fiscal 2017.

The marketing team, working with outside consultants and other resources, is responsible for the advertising, promotion, creative development, and branding for Famous Dave s. Franchise-operated restaurants place the advertising and marketing programs in their local markets based on contractual requirements, while the Famous Dave s marketing team plans and executes the advertising and marketing for Company-owned restaurants. Famous Dave s uses industry standard marketing efforts that include broadcast media, digital, online & social media platforms, public relations and out-of-home vehicles. During 2016, we had approximately 1.7 million Famous Nation members.

The strategic focus for marketing and promotion is to ensure that Famous Dave s is recognized as the category defining brand in BBQ, to create and sustain attractive differentiation in consumer s mind, and to continue to strengthen the brand s positioning and consistency. To help drive top-line sales, we are implementing a guest research driven innovation process to create its rolling 18-month marketing calendar with specific strategic goals. Additionally, a number of new initiatives were planned around enhancing the menu, the guest experience, events marketing and social media.

In 2016, we highlighted value and affordability in our menu along with promoting additional value offerings through LTO s and day of the week offerings such as Wednesday Slowdown Lowdown or a Sunday fried chicken offering as well as featuring a lunch menu. Famous Dave s also continued to promote its To Go and Catering offering. This has allowed us to connect with Guests on their terms and offer unique and often compelling sources of growth, and each occasion is growing at a different rate. Leveraging this occasions matrix, we are uniquely poised to offer more immediate relevancy and sales opportunities by solving the guest s daily dinner dilemma and address these differences in our marketing, including menu, promotional outreach, pricing, and new product news.

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Location Strategy

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

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

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

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

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

Franchise-Operated Restaurant Development   We expect to continue to grow the franchise program. Our goal is to continue to improve the economics of our current restaurant prototypes, while providing more cost-effective development options for our franchisees. As of January 1, 2017, we had signed franchise area development agreements with aggregate commitments for 61 additional units that are expected to open over approximately the next five years, including an additional two units in the United Arab Emirates. However, there can be no assurance that these franchisees will fulfill their commitments or fulfill them within the anticipated timeframe. Our franchise system is a significant part of our brand s success. As such, another one of our goals is to be a valued franchisor; to enhance communication and recognition of best practices throughout the system and to continue to expand our franchisee network here and outside of the United States.

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

Purchasing

To provide the freshest ingredients and in order to maximize operational efficiencies for our food products, we strive to obtain consistent quality items at competitive prices from reliable sources, including identifying secondary suppliers for many of our key products. Additionally, our secondary suppliers help us assure supply chain integrity and

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better logistics. Finally, to reduce freight costs, we continually aim to optimize our distribution networks, where the products are shipped directly to the restaurants through our foodservice distributors. Each restaurant s management team determines the daily quantities of food items needed and orders such quantities to be delivered to their restaurant.

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

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

Information Technology

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

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

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

Trademarks

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

Franchise Program

We are currently authorized to offer and sell franchises in 48 of 50 states, the Commonwealth of Puerto Rico, the United Arab Emirates, and have a Canadian franchise disclosure document available. Our growth and success depends in part upon our ability to attract, contract with and retain qualified franchisees. It also depends upon the ability of those franchisees to successfully operate their restaurants with our standards of quality and promote and develop Famous Dave s brand awareness.

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

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

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

United States	Number of Franchise-Operated Restaurants
Arizona	6
California	19
Colorado	6
Delaware	2
Florida	3
Idaho	2
Illinois	10
Indiana	4
Iowa	3
Kansas	2
Kentucky	2
Maine	1
Maryland	1
Michigan	7
Minnesota	4
Missouri	2
Montana	4
Nebraska	4
Nevada	6
New Jersey	1
New York	2
North Dakota	3
Oregon	2
Ohio	2
Pennsylvania	4
South Dakota	2
Tennessee	5
Texas	3
Utah	3
Washington	7
Wisconsin	10
United States Total	132
The Commonwealth of Puerto Rico	4
Canada	1
United Arab Emirates	2
Total franchise-operated restaurants	139

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

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

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

The franchisee s investment depends primarily upon restaurant size. This investment includes the area development fee, initial franchise fee, real estate and leasehold improvements, fixtures and equipment, POS systems, business licenses, deposits, initial food inventory, small wares, décor and training fees as well as working capital. In 2016, franchisees were required to contribute 1.0% of net sales to a marketing fund dedicated to building system-wide brand awareness. In 2017, franchisees will be required to contribute 1.0% of net sales to the marketing fund. Additionally, franchisees have historically spent 1.5% to 2.0% of their net sales annually on local marketing activities. Currently, franchisees are required to spend approximately 1.5% of their net sales annually on local marketing activities.

Seasonality

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

Government Regulation

Our Company is subject to extensive state and local government regulation by various governmental agencies, including state and local licensing, zoning, land use, construction and environmental regulations and various regulations relating to the sale of food and alcoholic beverages, sanitation, disposal of refuse and waste products, public health, safety and fire standards. Our restaurants are subject to periodic inspections by governmental agencies to ensure conformity with such regulations. Any difficulty or failure to obtain required licensing or other regulatory

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approvals could delay or prevent the opening of a new restaurant, and the suspension of, or inability to renew a license, could interrupt operations at an existing restaurant, any of which would adversely affect our operations. Restaurant operating costs are also affected by other government actions that are beyond our control, including increases in minimum hourly wage requirements, worker s compensation insurance rates, health care insurance costs, property and casualty insurance, and unemployment and other taxes. We are also subject to dram-shop statutes, which generally provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person.

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

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

Team Members

As of January 1, 2017, we employed approximately 1,645 team members of which approximately 173 were salaried full-time employees. None of our team members are covered by a collective bargaining agreement. We consider our relationships with our team members to be good.

ITEM 1A. RISK FACTORS

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

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

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

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

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

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

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

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

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

In the event we fail to comply with these or other financial covenants in the future and are unable to obtain similar amendments or waivers, our lender will have the right to demand repayment of all principal amounts outstanding under the Loan 1, Loan 2, or Loan 3. At January 1, 2017, principal amounts outstanding on Loan 1 was $3.7 million, principal amounts outstanding on Loan 2 was $6.3 million and there were no principal amounts outstanding for Loan 3. If we were unable to repay outstanding amounts, either using current cash reserves, a replacement facility or another source of capital, our lender would have the right to foreclose on our real estate and personal property, which serves as collateral for the loans. Replacement financing may be unavailable to us on similar terms or at all. Termination of our existing loans without adequate replacement, either through a similar facility or other sources of capital, would have a material and adverse impact on our ability to continue our business operations.

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

Our Company s future revenue and operating income will depend upon various factors, including continued and additional market acceptance of the Famous Dave s brand, the quality of our restaurant operations, our ability to grow

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our brand, our ability to successfully expand into new and existing markets, our ability to successfully execute our franchise program, our ability to raise additional financing as needed, discretionary consumer spending, the overall success of the venues where Famous Dave s restaurants are or will be located, economic conditions affecting disposable consumer income, general economic conditions and the continued popularity of the Famous Dave s concept. An adverse change in any or all of these conditions would have a negative effect on our operations and the market value of our common stock.

In fiscal 2017, the Company does not anticipate opening a new Company-owned restaurant. There is no guarantee that any of the Company-owned or franchise-operated restaurants will open when planned, or at all, due to many factors that may affect the development and construction of our restaurants, including landlord delays, weather interference, unforeseen engineering problems, environmental problems, construction or zoning problems, local government regulations, modifications in design to the size and scope of the project, and other unanticipated increases in costs, any of which could give rise to delays and cost overruns. There can be no assurance that we will successfully implement our growth plan for our Company-owned and franchise-operated restaurants. In addition, we also face all of the risks, expenses and difficulties frequently encountered in the development of an expanding business.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our authorized capital consists of 100,000,000 shares of capital stock. Our Board of Directors, without any action by the shareholders, may designate and issue shares in such classes or series (including classes or series of preferred stock) as it deems appropriate and establish the rights, preferences and privileges of such shares, including dividends, liquidation and voting rights. As of March 7, 2017, we had 6,957,628 shares of common stock outstanding.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The development cost of our restaurants varies depending primarily on the size and style of the restaurant, whether the property is purchased or leased, and whether it is a conversion of an existing building or a newly constructed restaurant. We have engaged a design firm to redesign and 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 2016, we did not open any new Company-owned locations and refranchised seven Company-owned restaurants in the Chicago-area (located in Addison, Algonquin, Bolingbrook, Evergreen Park, North Riverside, Orland Park, and Oswego, Illinois). In fiscal 2015, we did not open any new Company-owned locations, closed one location and refranchised five additional company-owned restaurants. In fiscal 2014, we did not open any new Company owned locations and closed four locations. Due to the flexibility and scalability of our concept, there are a variety of development opportunities available now and in the future. In fiscal 2017, we do not expect to open a Company-owned restaurant.

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

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

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We believe that our properties will be suitable for our needs and adequate for operations for the foreseeable future. The following table sets forth certain information about our existing Company-owned restaurant locations, as of January 1, 2017, sorted by opening date:

	Location	Square Footage	Interior Seats	Owned or Leased	Date Opened/Acquired
1	Roseville, MN [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	Bloomington, MN	5,400	140	Leased	October 1998
13	Woodbury, MN	5,900	180	Owned[2]	October 1998
14	Columbia, MD	7,200	270	Leased	January 2000
15	Annapolis, MD	6,800	219	Leased	January 2000
16	Frederick, MD	5,600	180	Leased	January 2000
17	Woodbridge, VA	6,000	219	Leased	January 2000
18	Sterling, VA	5,800	200	Leased	December 2000
19	Oakton, VA	4,400	184	Leased	May 2001
20	Laurel, MD	5,200	165	Leased	August 2001
21	Chantilly, VA	6,400	205	Leased	January 2006
22	Waldorf, MD	6,600	200	Leased	June 2006
23	Coon Rapids, MN	6,300	160	Owned[2]	December 2006
24	Fredericksburg, VA	6,500	219	Leased	September 2007
25	Owings Mills, MD	6,700	219	Leased	November 2007
26	Alexandria, VA	6,600	219	Leased	February 2008
27	Brick, NJ	5,200	181	Leased	March 2010
28	Mays Landing, NJ	6,400	237	Leased	March 2010
29	Westbury, NY	6,400	276	Leased	March 2010
30	New Brunswick, NJ	7,200	255	Leased	March 2010
31	Mountainside, NJ	8,800	253	Leased	March 2010
32	Metuchen, NJ	6,200	176	Leased	March 2010
33	Bel Air, MD	6,360	199	Leased	August 2010
34	Falls Church, VA	5,430	169	Leased	August 2011
35	Gainesville, VA	6,000	215	Leased	June 2012
36	Germantown, MD	5,000	160	Leased	September 2013
37	Timonium, MD	5,600	187	Leased	November 2013

All seat count and square footage amounts are approximate.

(1) Restaurant is collateral in a financing lease.

(2) Restaurant land and building are owned by the Company.

(3) Counter service restaurant

ITEM 3. LEGAL PROCEEDINGS

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

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

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

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

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

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

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

Market Information

Our common stock has traded on the NASDAQ Stock Market since July 24, 1997 under the symbol DAVE. Currently, our common stock trades on the NASDAQ Global Market. The following table summarizes the high and low sale prices per share of our common stock for the periods indicated, as reported on the NASDAQ Global Market.

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

Holders

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

Dividends

Our Board of Directors has not declared any dividends on our common stock since our inception, and does not intend to pay out any cash dividends on our common stock in the foreseeable future. We presently intend to retain all

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earnings, if any, to provide for growth, reduce our debt levels, and repurchase our common stock. The payment of cash dividends in the future, if any, will be at the discretion of the Board of Directors and will depend upon such factors as earnings levels, capital requirements, loan agreement restrictions, our financial condition and other factors deemed relevant by our Board of Directors.

Stock Performance Graph

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

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

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

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Famous Dave s of America, Inc., the S&P 500 Index,

and S&P Small Cap Restaurants

* $100 invested on 1/1/12 in stock or 12/31/11 in index, including reinvestment of dividends. Fiscal year ending January 1, 2017 with previous specific fiscal year ends at January 1, 2012, December 30, 2012, December 29, 2013, December 28, 2014 and January 3, 2016.

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Purchases of Equity Securities by the Issuer

None

ITEM 6. SELECTED FINANCIAL DATA

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

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

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FINANCIAL HIGHLIGHTS

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

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

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

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

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

(4) The Supplemental Sales Information excludes the impact of the seven Chicago restaurants that were refranchised in the first quarter of 2016, with the exception that the seven restaurants are included in the total number of Company-owned restaurants.

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

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

OVERVIEW

Famous Dave s of America, Inc. was incorporated as a Minnesota corporation in March 1994 and opened its first restaurant in Minneapolis in June 1995. As of January 1, 2017, there were 176 Famous Dave s restaurants operating in 32 states, the Commonwealth of Puerto Rico, Canada, and the United Arab Emirates, including 37 Company-owned restaurants and 139 franchise-operated restaurants. An additional 62 franchise restaurants were committed to be developed through signed area development agreements as of January 1, 2017.

Fiscal Year

Our fiscal year ends on the Sunday nearest December 31st of each year. Our fiscal year is generally 52 weeks; however, it periodically consists of 53 weeks. The fiscal years ended January 1, 2017 (fiscal 2016), consisted of 52 weeks while January 3, 2016 (fiscal 2015) consisted of 53 weeks, and December 28, 2014 (fiscal 2014) consisted of 52 weeks. Fiscal 2017, which ends on January 1, 2018, will consist of 52 weeks.

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

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

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

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

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

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

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

Liquor licenses The Company owns transferable liquor licenses in jurisdictions with a limited number of authorized liquor licenses. These licenses were capitalized as indefinite-lived intangible assets and are included in intangible assets, net in our consolidated balance sheets (see note 3 to our consolidated financial statements) at January 1, 2017 and January 3, 2016. We annually review the liquor licenses for impairment and in fiscal 2016 we impaired one license by $50,000 as we believe its value has experienced a long-term decline due to changes in the economic and demographic circumstances in the related area. In 2015 no impairment charges were required to be recorded. Additionally, the costs of obtaining non-transferable liquor licenses that are directly issued by local government agencies for nominal fees are expensed as incurred. Annual liquor license renewal fees are expensed over the renewal term.

Accounts receivable, net We provide an allowance for uncollectible accounts on accounts receivable based on historical losses and existing economic conditions, when relevant. We provide for a general bad debt reserve for franchise receivables due to increases in days sales outstanding and deterioration in general economic market conditions. This general reserve is based on the aging of receivables meeting specified criteria and is adjusted each quarter based on past due receivable balances. Additionally, we have periodically established a specific reserve on certain receivables as necessary. Any changes to the reserve are recorded in general and administrative expenses. The allowance for uncollectible accounts was approximately $270,000 and $246,000, at January 1, 2017 and January 3, 2016, respectively. In fiscal 2015, the increase in the allowance for doubtful accounts was primarily due to the aging of receivables associated with certain franchisee groups. Accounts receivable balances written off have not exceeded allowances provided. We believe all accounts receivable in excess of the allowance are fully collectible. If accounts receivable in excess of provided allowances are determined uncollectible, they are charged to expense in the period that determination is made. Outstanding past due accounts receivable are subject to a monthly interest charge on unpaid balances which is recorded as interest income in our consolidated statements of operations. In assessing recoverability of these receivables, we make judgments regarding the financial condition of the franchisees based primarily on past and current payment trends, as well as other variables, including annual financial information, which the franchisees are required to submit to us.

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

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

Results of Operations

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

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

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

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

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

The following table presents items in our consolidated statements of operations as a percentage of total revenue or net restaurant sales, as indicated, for the following fiscal years:[4]

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

(1) As a percentage of restaurant sales, net

(2) As a percentage of total revenue

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

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

Fiscal Year 2016 Compared to Fiscal Year 2015

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

Total Revenue

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

Restaurant Sales, net

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

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Franchise-Related Revenue

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

Licensing and Other Revenue

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

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

Same Store Net Sales (or Comparable Net Sales)

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

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

Same store net sales for franchise-operated restaurants are not our revenues and are not included in our consolidated financial statements. Our management believes that disclosure of comparable restaurant net sales for franchise-operated restaurants provides useful information to investors because historical performance and trends of Famous Dave s franchisees relate directly to trends in franchise royalty revenues that the Company receives from such franchisees and have an impact on the perceived success and value of the Famous Dave s brand. It also provides a comparison against which management and investors can analyze the extent to which Company-owned restaurants are realizing their revenue potential.

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Average Weekly Net Sales and Operating Weeks

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

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

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

Food and Beverage Costs

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

Labor and Benefits Costs

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

Operating Expenses

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

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

Depreciation and Amortization

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

General and Administrative Expenses

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

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Asset Impairment and Estimated Lease Termination and Other Closing Costs

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

Restaurant Optimization

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

Richmond, VA Area Restaurant Closures

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

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

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

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

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

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

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

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

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

Pre-opening Expenses

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

Interest Expense

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

Interest Income

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

Provision for Income Taxes

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

Income or loss from discontinued operations, net of taxes

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

Basic and Diluted Net Income (Loss) Per Common Share

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

Fiscal Year 2015 Compared to Fiscal Year 2014

Total Revenue

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

Restaurant Sales, net

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

Franchise-Related Revenue

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

Licensing and Other Revenue

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

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

Same Store Net Sales

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

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

Same store net sales for franchise-operated restaurants are not revenues of the Company and are not included in the Company s consolidated financial statements. The Company s management believes that disclosure of comparable restaurant net sales for franchise-operated restaurants provides useful information to investors because historical performance and trends of Famous Dave s franchisees relate directly to trends in franchise royalty revenues that the Company receives from such franchisees and have an impact on the perceived success and value of the Famous Dave s brand. It also provides a comparison against which management and investors can analyze the extent to which Company-owned restaurants are realizing their revenue potential.

Average Weekly Net Sales and Operating Weeks

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

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

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

Food and Beverage Costs

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

Labor and Benefits Costs

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

Operating Expenses

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

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

Depreciation and Amortization

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

General and Administrative Expenses

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

Asset Impairment and Estimated Lease Termination and Other Closing Costs

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

Richmond, VA Area Restaurant Closures

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

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

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

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

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

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

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

Pre-opening Expenses

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

Interest Expense

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

Interest Income

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

Provision for Income Taxes

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

Income or loss from discontinued operations, net of taxes

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

Basic and Diluted Net Income Per Common Share

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

Financial Condition, Liquidity and Capital Resources

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Contractual Obligations

(In thousands)

Payments Due by Period (including interest)

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

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

(2) Includes $1.7 million of land to be conveyed at the end of the lease term.

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

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Off-Balance Sheet Arrangements

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

Income Taxes

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

Recent Accounting Guidance

Recently adopted accounting guidance

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

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

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

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

Recent accounting guidance not yet adopted

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. The FASB issued ASU No. 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net) in March 2016, ASU 2016-10 Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing in April 2016, ASU 2016-11, Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting in May 2016 and ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients in May 2016. These new standards provide for a single, principles-based model for revenue recognition that replaces the existing revenue recognition guidance. In July 2015, the FASB deferred the effective date of ASU 2014-09 until annual and interim periods beginning on or after December 15, 2017. It will replace most existing revenue recognition guidance under U.S. GAAP when it becomes effective. It permits the use of either a retrospective

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

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes the existing guidance for lease accounting, Leases (Topic 840). ASU 2016-02 requires lessees to recognize a lease liability and a right-of-use asset for all leases. Lessor accounting remains largely unchanged. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted for all entities. ASU 2016-02 requires a modified retrospective approach for all leases existing at, or entered into after the date of initial adoption, with an option to elect to use certain transition relief. As shown in Note 8, there are $114.4 million in future minimum rental payments for operating leases that are not currently on our balance sheet; therefore, we expect this will have a material impact on our balance sheet and related disclosures.

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

Inflation

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

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

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

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ITEM 9A. CONTROLS AND PROCEDURES
Disclosure Controls and Procedures

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

Management s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934, as amended). Our management assessed the effectiveness of our internal control over financial reporting as of January 1, 2017. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the 2013 *Internal Control-Integrated Framework*. Our management has concluded that, as of January 1, 2017, our internal control over financial reporting is effective based on these criteria.

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

Changes in Internal Control over Financial Reporting

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

ITEM 9B. OTHER INFORMATION
On February 24, 2017, Abelardo Ruiz ceased his employment with the Company.

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PART III

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

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

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

ITEM 11. EXECUTIVE COMPENSATION

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

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

Securities Authorized for Issuance under Equity Compensation Plans

Effective May 5, 2015, we adopted a 2015 Equity Plan (the 2015 Plan), pursuant to which we may grant stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance stock units and other stock and cash awards to eligible participants. We also maintain an Amended and Restated 2005 Stock Incentive Plan (the 2005 Plan). The 2005 Plan prohibits the granting of incentives after May 12, 2015, the tenth anniversary of the date such Plan was approved by the Company s shareholders. Nonetheless, the 2005 Stock Incentive Plan will remain in effect until all outstanding incentives granted thereunder have either been satisfied or terminated. Together, the 2015 Plan and 2005 Plan are referred to herein as the Plans. Under the 2015 Plan, an aggregate of 34,050 shares of our Company s common stock remained unreserved and available for issuance at January 1, 2017.

The purpose of the 2015 Plan is to increase shareholder value and to advance the interests of the Company by furnishing a variety of economic incentives designed to attract, retain and motivate team members (including officers), certain key consultants and directors of the Company. The Plans have each been approved by the Company s shareholders. The following table sets forth certain information as of January 1, 2017, with respect to the 2005 Plan and the 2015 Plan.

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

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

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

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

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

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

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

Exhibits:

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

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Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders

Famous Dave s of America, Inc.

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

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Famous Dave s of America, Inc. and subsidiaries as of January 1, 2017 and January 3, 2016, and the results of their operations and their cash flows for each of the three years in the period ended January 1, 2017 in conformity with accounting principles generally accepted in the United States of Ameri; DISPLAY: block; MARGIN-LEFT: 0pt; MARGIN-RIGHT: 0pt" align="right">25%/yr for 4 yrs

10/27/2016
15,000 — $3.05
25%/yr for 4 yrs
11/6/2017
30,000 — $2.10
25%/yr for 4 yrs
1/31/2018
37,500 12,500 $2.66
25%/yr for 4 yrs
2/4/2020
12,500 12,500 $2.69
25%/yr for 4 yrs
11/3/2020
10,000 30,000 $1.39
25%/yr for 4 yrs
10/27/2021
— 40,000 $0.98
25%/yr for 4 yrs
10/25/2022
— 13,000 $0.87
25%/yr for 4 yrs
1/31/2023

Dorothy Cipolla
15,000 — $4.53
2 year cliff
2/28/2016
20,000 — $4.80
25%/yr for 4 yrs
10/27/2016

	10,000	—	$3.05	25%/yr for 4 yrs	11/6/2017
	7,500	2,500	$2.66	25%/yr for 4 yrs	2/4/2020
	4,500	4,500	$2.69	25%/yr for 4 yrs	11/3/2020
	3,125	9,375	$1.39	25%/yr for 4 yrs	10/27/2021
	—	12,500	$0.98	25%/yr for 4 yrs	10/25/2022
	—	4,000	$0.87	25%/yr for 4 yrs	1/31/2023
Alan Symmons					
	5,000	—	$5.24	4 year cliff	10/18/2016
	5,000	—	$3.27	25%/yr for 4 yrs	12/3/2017
	7,500	2,500	$2.66	25%/yr for 4 yrs	2/4/2020
	3,500	3,500	$2.69	25%/yr for 4 yrs	11/3/2020
	3,125	9,375	$1.39	25%/yr for 4 yrs	10/27/2021
	—	12,500	$0.98	25%/yr for 4 yrs	10/25/2022
	—	4,000	$0.87	25%/yr for 4 yrs	1/31/2023

The stock options are issued pursuant to the Company’s Amended and Restated Omnibus Incentive Plan and have a ten year life. The awards will terminate 90 days after termination of employment.

Director Compensation

The Company uses a combination of cash and stock-based incentive compensation to attract and retain qualified candidates to serve on its Board of Directors. In setting director compensation, the Company considers the significant amount of time that directors expend in fulfilling their duties to the Company as well as the skill-level required by the Company of members of the Board of Directors.

Cash Compensation Paid to Board Members

For fiscal year 2005 and beyond, all non-employee members of the Board of Directors receive a retainer of $2,000 per month, paid quarterly. There are no meeting attendance fees paid unless, by action of the Board of Directors, such fees are deemed advisable due to a special project or other effort requiring extra-normal commitment of time and effort. Additionally, the following fees are paid to the Chairman of the Board and Committee Chairmen on a quarterly basis for their responsibilities overseeing their respective functions:

	Amount	
Chairman of the Board	$	15,000
Audit Committee Chairman	$	2,000
Compensation Committee Chairman	$	1,000
Finance Committee Chairman	$	1,000

The Directors earned the amounts above for fiscal 2013, which amounts reflect a 5% reduction from the normal base fee amount. This reduction was put in place when the Orlando staff received a pay reduction in April 2012. The board fees reverted to the normal base fee amounts when the Orlando pay reduction was eliminated in the fourth quarter of fiscal 2013. Directors who are employees of the Company receive no compensation for their service as directors.

Stock Option/Restricted Stock Program

All directors are eligible to receive equity incentives under the Company's Amended and Restated Omnibus Incentive Plan, including stock options, restricted stock awards or units. In fiscal 2013, the following directors received grants under the Company's Amended and Restated Omnibus Incentive Plan:

	Restricted Stock Units			
Name of Director	Number of Units Granted	Grant Date	Fair Value Price Per Share	
Dr. Steve Brueck	40,000	1/31/2013	$	0.87
Sohail Khan	40,000	1/31/2013	$	0.87
Louis Leeburg	40,000	1/31/2013	$	0.87
Robert Ripp	40,000	1/31/2013	$	0.87
Gary Silverman	40,000	1/31/2013	$	0.87
M. Scott Faris	40,000	1/31/2013	$	0.87
	240,000			

Director Summary Compensation Table

The table below summarizes the compensation paid by the Company to non-employee directors for the fiscal year ended June 30, 2013.

Name (1)		Fees Earned or Paid in Cash ($)(2)		Stock Awards ($)(3)		All Other Compensation ($)			Total ($)
(a)		(b)		(c)		(g)			(h)
Robert Ripp	$	79,800	$	38,461	$	11,594	(4)	$	129,855
Sohail Khan	$	22,800	$	38,461	$	—		$	61,261
Steve Brueck	$	22,800	$	38,461	$	—		$	61,261
Louis Leeburg	$	30,400	$	38,461	$	—		$	68,861
Gary Silverman	$	26,600	$	38,461	$	—		$	65,061
M. Scott Faris	$	22,800	$	10,717	$	—		$	33,517

(1) J. James Gaynor, the Company's President and Chief Executive Officer during fiscal 2013, is not included in this table as he was an employee of the Company and thus received no compensation for his services as director. The compensation received by Mr. Gaynor as an employee of the Company is shown in the Summary Compensation Table on page 26.

(2) Total fees earned for fiscal 2013, includes all fees earned, including earned but unpaid fees. The amounts of unpaid fees for each director are as follows: Mr. Ripp - $19,950, Mr. Leeburg - $7,600, Mr. Silverman - $6,650, Dr. Brueck - $5,700, Mr. Khan - $5,700 and Mr. Faris - $5,700.

(3) Reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended June 30, 2013 in accordance with ASC Topic 718 and thus may include amounts from awards granted in and prior to 2013.

(4) Mr. Ripp's "other compensation" includes monies received for travel reimbursement for fiscal 2013. This amount includes parking, mileage and toll expenses for Company related meetings and leased aircraft fees for travel to one board meeting.

Narrative Disclosure of Summary Compensation Table of Directors

The following is a narrative discussion of the material information which we believe is necessary to understand the information disclosed in the previous tables. The following narrative disclosure is separated into sections, with a separate section for each of our directors, expect for Mr. Gaynor.

Robert Ripp

Cash Compensation (Base Fees and Position Fees).

Mr. Ripp earned total cash compensation for his services to the Company in fiscal 2013 in the amount of $79,800 of which $19,950 was due in accounts payable at year end. This represents his retainer and chairman fees for fiscal 2013. The base fees to Mr. Ripp for fiscal 2013 constituted approximately 61% of the total fees paid to Mr. Ripp as set forth in the "Total" column in the Summary Compensation Table.

Long-Term Equity Incentive Awards.

On February 4, 2010, Mr. Ripp was granted a restricted stock unit for 15,000 shares, all of which are now vested. Based on the vesting schedule of the stock, the Company recognized compensation expense of $9,950 in fiscal 2012 and $5,807 in fiscal 2013 in accordance with ASC Topic 718, Stock Compensation.

On November 3, 2010, Mr. Ripp was granted a restricted stock unit for 15,000 shares. One-third of the shares vests on each of the first, second and third anniversaries of the grant date. Based on the vesting schedule of the stock, the Company recognized compensation expense of $13,450 in fiscal 2012 and $13,450 in fiscal 2013 and expects to recognize $4,487 in fiscal 2014 in accordance with ASC Topic 718, Stock Compensation.

On October 27, 2011, Mr. Ripp was granted a restricted stock unit for 29,000 shares. One-third of the shares vests on each of the first, second and third anniversaries of the grant date. Based on the vesting schedule of the stock, the Company recognized compensation expense of $10,078 in fiscal 2012 and $13,437 in fiscal 2013 and expects to recognize $13,437 in fiscal 2014 and $3,358 in fiscal 2015 in accordance with ASC Topic 718, Stock Compensation.

On January 31, 2013, Mr. Ripp was granted a restricted stock unit for 40,000 shares. One-third of the shares vests on each of the first, second and third anniversaries of the grant date. Based on the vesting schedule of the stock, the Company recognized compensation expense of $5,767 in fiscal 2013 and expects to recognize $11,533 in fiscal 2014 and fiscal 2015 and $5,766 in fiscal 2016 in accordance with ASC Topic 718, Stock Compensation.

Sohail Khan

Cash Compensation (Base Fees and Position Fees).

Mr. Khan earned total cash compensation for his services to the Company in fiscal 2013 in the amount of $22,800 of which $5,700 was due in accounts payable at year end. This represents his retainer for fiscal 2013. The base fees to Mr. Khan for fiscal 2013 constituted approximately 37% of the total fees paid to Mr. Khan as set forth in the "Total" column in the Summary Compensation Table.

Long-Term Equity Incentive Awards.

On February 4, 2010, Mr. Khan was granted a restricted stock unit for 15,000 shares, all of which are now vested. Based on the vesting schedule of the stock, the Company recognized compensation expense of $9,950 in fiscal 2012 and $5,807 in fiscal 2013 in accordance with ASC Topic 718, Stock Compensation.

On November 3, 2010, Mr. Khan was granted a restricted stock unit for 15,000 shares. One-third of the shares vests on each of the first, second and third anniversaries of the grant date. Based on the vesting schedule of the stock, the Company recognized compensation expense of $13,450 in fiscal 2012 and $13,450 in fiscal 2013 and expects to recognize $4,487 in fiscal 2014 in accordance with ASC Topic 718, Stock Compensation.

On October 27, 2011, Mr. Khan was granted a restricted stock unit for 29,000 shares. One-third of the shares vests on each of the first, second and third anniversaries of the grant date. Based on the vesting schedule of the stock, the Company recognized compensation expense of $10,078 in fiscal 2012 and $13,437 in fiscal 2013 and expects to recognize $13,437 in fiscal 2014 and $3,358 in fiscal 2015 in accordance with ASC Topic 718, Stock Compensation.

On January 31, 2013, Mr. Khan was granted a restricted stock unit for 40,000 shares. One-third of the shares vests on each of the first, second and third anniversaries of the grant date. Based on the vesting schedule of the stock, the Company recognized compensation expense of $5,767 in fiscal 2013 and expects to recognize $11,533 in fiscal 2014 and fiscal 2015 and $5,766 in fiscal 2016 in accordance with ASC Topic 718, Stock Compensation.

Steven Brueck

Cash Compensation (Base Fees and Position Fees).

Dr. Brueck earned total cash compensation for his services to the Company in fiscal 2013 in the amount of $22,800 of which $5,700 due in accounts payable at year end. This represents his retainer for fiscal 2013. The base fees to Dr. Brueck for fiscal 2013 constituted approximately 37% of the total fees paid to Dr. Brueck as set forth in the “Total” column in the Summary Compensation Table.

Long-Term Equity Incentive Awards.

On February 4, 2010, Dr. Brueck was granted a restricted stock unit for 15,000 shares, all of which are now vested. Based on the vesting schedule of the stock, the Company recognized compensation expense of $9,950 in fiscal 2012 and $5,807 in fiscal 2013 in accordance with ASC Topic 718, Stock Compensation.

On November 3, 2010, Dr. Brueck was granted a restricted stock unit for 15,000 shares. One-third of the shares vests on each of the first, second and third anniversaries of the grant date. Based on the vesting schedule of the stock, the Company recognized compensation expense of $13,450 in fiscal 2012 and $13,450 in fiscal 2013 and expects to recognize $4,487 in fiscal 2014 in accordance with ASC Topic 718, Stock Compensation.

On October 27, 2011, Dr. Brueck was granted a restricted stock unit for 29,000 shares. One-third of the shares vests on each of the first, second and third anniversaries of the grant date. Based on the vesting schedule of the stock, the Company recognized compensation expense of $10,078 in fiscal 2012 and $13,437 in fiscal 2013 and expects to recognize $13,437 in fiscal 2014 and $3,358 in fiscal 2015 in accordance with ASC Topic 718, Stock Compensation.

On January 31, 2013, Dr. Brueck was granted a restricted stock unit for 40,000 shares. One-third of the shares vests on each of the first, second and third anniversaries of the grant date. Based on the vesting schedule of the stock, the Company recognized compensation expense of $5,767 in fiscal 2013 and expects to recognize $11,533 in fiscal 2014 and fiscal 2015 and $5,766 in fiscal 2016 in accordance with ASC Topic 718, Stock Compensation.

Louis Leeburg

Cash Compensation (Base Fees and Position Fees).

Mr. Leeburg earned total cash compensation for his services to the Company in fiscal 2013 in the amount of $30,400 of which $7,600 was due in accounts payable at year end. This represents his retainer and fee for audit committee chair for fiscal 2013. The base fees to Mr. Leeburg for fiscal 2013 constituted approximately 44% of the total fees paid to Mr. Leeburg as set forth in the “Total” column in the Summary Compensation Table.

Long-Term Equity Incentive Awards.

On February 4, 2010, Mr. Leeburg was granted a restricted stock unit for 15,000 shares, all of which are now vested. Based on the vesting schedule of the stock, the Company recognized compensation expense of $9,950 in fiscal 2012 and $5,807 in fiscal 2013 in accordance with ASC Topic 718, Stock Compensation.

On November 3, 2010, Mr. Leeburg was granted a restricted stock unit for 15,000 shares. One-third of the shares vests on each of the first, second and third anniversaries of the grant date. Based on the vesting schedule of the stock, the Company recognized compensation expense of $13,450 in fiscal 2012 and $13,450 in fiscal 2013 and expects to recognize $4,487 in fiscal 2014 in accordance with ASC Topic 718, Stock Compensation.

On October 27, 2011, Mr. Leeburg was granted a restricted stock unit for 29,000 shares. One-third of the shares on each of the first, second and third anniversaries of the grant date. Based on the vesting schedule of the stock, the Company recognized compensation expense of $10,078 in fiscal 2012 and $13,437 in fiscal 2013 and expects to recognize $13,437 in fiscal 2014 and $3,358 in fiscal 2015 in accordance with ASC Topic 718, Stock Compensation.

On January 31, 2013, Mr. Leeburg was granted a restricted stock unit for 40,000 shares. One-third of the shares vests on each of the first, second and third anniversaries of the grant date. Based on the vesting schedule of the stock, the Company recognized compensation expense of $5,767 in fiscal 2013 and expects to recognize $11,533 in fiscal 2014 and fiscal 2015 and $5,766 in fiscal 2016 in accordance with ASC Topic 718, Stock Compensation.

Gary Silverman

Cash Compensation (Base Fees and Position Fees).

Mr. Silverman earned total cash compensation for his services to the Company in fiscal 2013 in the amount of $26,600 of which $6,650 was due in accounts payable at year end. This represents his retainer and fee for compensation committee chair for fiscal 2013. The base fees to Mr. Silverman for fiscal 2013 constituted approximately 41% of the total fees paid to Mr. Silverman as set forth in the "Total" column in the Summary Compensation Table.

Long-Term Equity Incentive Awards.

On February 4, 2010, Mr. Silverman was granted a restricted stock unit for 15,000 shares. One-third of the shares vests on each of the first, second and third anniversaries of the grant date. Based on the vesting schedule of the stock, the Company recognized compensation expense of $9,950 in fiscal 2012 and $5,807 in fiscal 2013 in accordance with ASC Topic 718, Stock Compensation.

On November 3, 2010, Mr. Silverman was granted a restricted stock unit for 15,000 shares. One-third of the shares vests on each of the first, second and third anniversaries of the grant date. Based on the vesting schedule of the stock, the Company recognized compensation expense of $13,450 in fiscal 2012 and $13,450 in fiscal 2013 and expects to recognize $4,487 in fiscal 2014 in accordance with ASC Topic 718, Stock Compensation.

On October 27, 2011, Mr. Silverman was granted a restricted stock unit for 29,000 shares. One-third of the shares vests on each of the first, second and third anniversaries of the grant date. Based on the vesting schedule of the stock, the Company recognized compensation expense of $10,078 in fiscal 2012 and $13,437 in fiscal 2013 and expects to recognize $13,437 in fiscal 2014 and $3,358 in fiscal 2015 in accordance with ASC Topic 718, Stock Compensation.

On January 31, 2013, Mr. Silverman was granted a restricted stock unit for 40,000 shares. One-third of the shares on each of the first, second and third anniversaries of the grant date. Based on the vesting schedule of the stock, the Company recognized compensation expense of $5,767 in fiscal 2013 and expects to recognize $11,533 in fiscal 2014 and fiscal 2015 and $5,766 in fiscal 2016 in accordance with ASC Topic 718, Stock Compensation.

M. Scott Faris

Cash Compensation (Base Fees and Position Fees).

Mr. Faris earned total cash compensation for his services to the Company in fiscal 2013 in the amount of $22,800 of which $5,700 was due in accounts payable at year end. This represents his retainer and fee for compensation committee chair for fiscal 2013. The base fees to Mr. Faris for fiscal 2013 constituted approximately 68% of the total fees paid to Mr. Faris as set forth in the "Total" column in the Summary Compensation Table.

Long-Term Equity Incentive Awards.

On December 23, 2011, Mr. Faris was granted a restricted stock unit for 15,000 shares. One-third of the shares vests on each of the first, second and third anniversaries of the grant date. Based on the vesting schedule of the stock, the Company recognized compensation expense of $2,889 in fiscal 2012 and $4,950 in fiscal 2013 and expects to recognize $4,950 in fiscal 2014 and $2,061 in fiscal 2015 in accordance with ASC Topic 718, Stock Compensation.

On January 31, 2013, Mr. Faris was granted a restricted stock unit for 40,000 shares. One-third of the shares vests on each of the first, second and third anniversaries of the grant date. Based on the vesting schedule of the stock, the Company recognized compensation expense of $5,767 in fiscal 2013 and expects to recognize $11,533 in fiscal 2014 and fiscal 2015 and $5,766 in fiscal 2016 in accordance with ASC Topic 718, Stock Compensation.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

Equity Compensation Plan Information

The following table sets forth as of June 30, 2013, the end of the Company's most recent fiscal year, information regarding (i) all compensation plans previously approved by our stockholders and (ii) all compensation plans not previously approved by our stockholders:

Equity Compensation Plans

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise and grant price of outstanding options, warrants and rights	Number of securities remaining available for future issuance
Equity compensation plans approved by security holders	2,715,625	$ 2.38	848,012
Equity compensation plans not approved by security holders	—	—	—

Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth, as of September 5, 2013, the number and percentage of outstanding shares of the Company's Class A common stock, owned by: (i) each director (which includes all nominees) at such date, (ii) each of the named executive officers named in the Summary Compensation Table for Executive Officers in Item 11 above, (iii) directors and named executive officers of the Company as a group, and (iv) each person known by the Company to be the beneficial owner of more than 5% of the outstanding Class A common stock of the Company.

The number of shares beneficially owned by each director, named executive officer and greater than 5% beneficial owner is determined under SEC rules, and the information is not necessarily indicative of the beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares to which the individual has the sole or shared voting power or investment power and also any shares which the individual has the right to acquire within 60 days of September 5, 2013, through the exercise of any stock option or other right to purchase, such as a warrant. Unless otherwise indicated, each person has sole investment and voting power (or shares such power with his or her spouse) with respect to the shares set forth in the following table. In certain instances, the number of shares listed may include, in addition to shares owned directly, shares held by the spouse or children of the person, or by a trust or estate of which the person is a trustee or an executor or in which the person may have a beneficial interest. The table that follows is based upon information supplied in a questionnaire completed by each named executive officer and director. The information for our stockholders beneficially owning greater than 5% of our Class A common stock is based on previous information supplied or filed by such stockholders.

	Securities Class A Common Stock						
Name and Address (1)	Restricted (2)	Unrestricted	Warrants	Options	Amount of Shares of Class A Common Stock Beneficially Owned		Percent Owned (%)
Robert Ripp, Director	155,700	579,526	131,581	36,100	902,907	(3) (4)	6.1 %
Gary Silverman, Director	155,700	44,955	3,158	21,100	224,913	(5)	1.6 %
Louis Leeburg, Director	155,700	57,898	455	6,100	220,153	(6)	1.6 %
Sohail Khan, Director	156,900	—	—	6,100	163,000	(7)	1.2 %
Dr. Steven Brueck, Director	155,700	42,919	3,158	6,100	207,877	(8)	1.5 %
M. Scott Faris, Director	55,000	—	—	—	55,000		0.4 %
J. James Gaynor, President & CEO	—	43,442	3,386	248,000	294,828	(9)	1.5 %
Dorothy Cipolla, CFO, Secretary & Treasurer	—	—	—	93,000	93,000		*
Alan Symmons, Vice President of Engineering	—	—	—	56,000	56,000		*
All directors and named executive officers currently holding office as a group (9 persons)	834,700	768,740	141,738	472,500	2,217,678		13.1 %
Berg & Berg Enterprises, LLC	—	2,574,007	—	—	2,574,007	(10)	18.5 %
Pudong Science and Technology (Cayman) Co., Ltd.	—	1,021,855	—	—	1,021,855	(11)	6.9 %

* less than 1%

Notes:

(1) Except as otherwise noted, each of the parties listed above has sole voting and investment power over the securities listed. The address for all directors and officers is "in care of" LightPath Technologies, Inc., 2603 Challenger Tech Court, Suite 100, Orlando, FL 32826. The address for Berg & Berg Enterprises, LLC, as filed on a Schedule 13G filed February 14, 2008, is 10050 Bandley Drive, Cupertino, CA, 94014. The address for Pudong Science and Technology (Cayman) Co. Ltd., as filed on a Schedule 13G filed August 15, 2013, is 13 Building, No. 439, Chunxiao Rd., Zhangjiang High-tech park, Pudong, Shanghai 201203, PRC.

(2) Restricted stock units awarded to our directors vest over three years. All directors have elected to defer receipt of the shares until after they leave the Board, either by reason of resignation, termination or otherwise, therefore these shares remain unissued. All unvested restricted stock units for directors will vest upon their resignation or termination from the Board. The amount of restricted stock above reflects both vested and unvested shares included in the restricted stock unit awards. The amounts of vested shares for each director are as follow: Mr. Ripp – 91,366, Mr. Silverman – 91,366, Mr. Leeburg – 91,366, Mr. Khan – 92,566, Dr. Brueck – 91,366 and Mr. Faris – 5,000.

(3) Does not include 7,812 shares of Class A common stock and warrants to purchase 15,000 shares of Class A common stock which are owned by trusts for Mr. Ripp's adult children and for which he disclaims beneficial ownership.

(4) Includes 167,681 shares of Class A common stock with respect to which Mr. Ripp has the right to acquire. Mr. Ripp holds warrants which are currently exercisable for an aggregate of 131,581 shares of Class A common stock and options which are currently exercisable for an aggregate of 36,100 shares of Class A common stock.

(5) Includes 24,258 shares of Class A common stock with respect to which Mr. Silverman has the right to acquire. Mr. Silverman holds warrants which are currently exercisable for an aggregate of 3,158 shares of Class A common stock and options which are currently exercisable for an aggregate of 21,100 shares of Class A common stock.

(6) Includes 6,555 shares of Class A common stock with respect to which Mr. Leeburg has the right to acquire. Mr. Leeburg holds warrants which are currently exercisable for an aggregate of 455 shares of Class A common stock and options which are currently exercisable for an aggregate of 6,100 shares of Class A common stock.

(7) Includes 6,100 shares of Class A common stock with respect to which Mr. Khan has the right to acquire. Specifically, Mr. Khan holds options which are currently exercisable for an aggregate of 6,100 shares of Class A common stock.

(8) Includes 9,258 shares of Class A common stock with respect to which Dr. Brueck has the right to acquire. Dr. Brueck holds warrants which are currently exercisable for an aggregate of 3,158 shares of Class A common stock and options which are currently exercisable for an aggregate of 6,100 shares of Class A common stock.
(9) Includes 251,386 shares of Class A common stock with respect to which Mr. Gaynor has the right to acquire. Mr. Gaynor holds warrants which are currently exercisable for an aggregate of 3,386 shares of Class A common stock and options which are currently exercisable for an aggregate of 248,000 shares of Class A common stock.
(10) Excludes 199,556 shares of Class A common stock with respect to which Berg & Berg Enterprises, LLC ("BBE") may have the right to acquire in the future. BBE holds warrants which would be exercisable for an aggregate of 199,556 shares of Class A common stock. However, neither BBE nor the Company is able to effect any exercise of the warrants to the extent that after giving effect to such issuance after exercise BBE would beneficially own in excess of 4.99% of the number of shares of Class A common stock outstanding immediately after giving effect to the issuance of shares issuable upon exercise warrants. Given that BBE currently holds 18.5% of the issued and outstanding share of Class A common stock, the warrants cannot be exercised.
(11) Pudong Science and Technology (Cayman) Co., Ltd. is wholly owned by Shanghai Pudong Science and Technology Investment Co., Ltd., and for purposes hereof is also deemed as beneficial owner of the shares.

There are no arrangements known to the Company which may at a subsequent date result in a change-in-control.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Certain Relationships and Related Transactions

When the Company is contemplating entering into any transaction in which any executive officer, director, nominee or any family member of the foregoing would have any direct or indirect interest, regardless of the amount involved, the terms of such transaction have to be presented to the full Board of Directors (other than any interested director) for approval. The Board has not adopted a written policy for related party transaction review but when presented with such transaction, they are discussed by the full Board of Directors and documented in the board minutes.

There were no transactions with related persons during fiscal 2013 that are required to be disclosed pursuant to applicable SEC rules.

Director Independence

In accordance with NCM and SEC rules, the Board of Directors affirmatively determines the independence of each director and nominee for election as a director in accordance with guidelines it has adopted, which include all elements of independence set forth in the NCM listing standards. Based on these standards, the Board of Directors has determined that each of the following non-employee directors is independent and has no relationship with the Company, except as a director and stockholder of the Company.

Robert Ripp	Steven Brueck
Gary Silverman	Sohail Khan
Louis Leeburg	M. Scott Faris

All of the members of the audit and compensation committees are also independent.

Item 14. Principal Accountant Fees and Services.

The following table presents fees paid or to be paid for professional audit services rendered by Cross, Fernandez & Riley, LLP ("CFR") for the audit of the Company's annual financial statements during the years ended June 30, 2013 and 2012, and fees billed for other services rendered by CFR:

	Fiscal 2013	Fiscal 2012
Audit Fees (1)	118,650	119,385
Audit-Related Fees	—	
Tax Fees	—	—
All Other Fees	—	14,250
Total All Fees	$ 118,650	$ 133,635

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(1) Audit Fees consisted of fees billed for professional services rendered for the audit of the Company's annual financial statements and review of the interim financial statements included in quarterly reports, and review of other documents filed with the SEC within those fiscal years. Other fees in fiscal 2012 related to fees for a withdrawn shelf offering.

The Audit Committee has adopted policies and procedures to oversee the external audit process including engagement letters, estimated fees and solely pre-approving all permitted audit and non-audit work performed by CFR. The Audit Committee has pre-approved all fees for audit and non-audit work performed.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) The following documents are filed as part of this report:

(1) Financial Statements – See Index on page F-1

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets—As of June 30, 2013 and 2012

Consolidated Statements of Operations and Comprehensive Income—For the years ended June 30, 2013 and 2012

Consolidated Statements of Stockholders' Equity—For the years ended June 30, 2013 and 2012

Consolidated Statements of Cash Flows—For the years ended June 30, 2013 and 2012

Notes to Consolidated Financial Statements

(b) The following exhibits are filed herewith as a part of this report.

Exhibit Number	Description	Notes
3.1.1	Certificate of Incorporation of Registrant, filed June 15, 1992 with the Secretary of State of Delaware	1
3.1.2	Certificate of Amendment to Certificate of Incorporation of Registrant, filed October 2, 1995 with the Secretary of State of Delaware	1
3.1.3	Certificate of Designations of Class A common stock and Class E-1 common stock, Class E-2 common stock, and Class E-3 common stock of Registrant, filed November 9, 1995 with the Secretary of State of Delaware	1
3.1.4	Certificate of Designation of Series A Preferred Stock of Registrant, filed July 9, 1997 with the Secretary of State of Delaware	2
3.1.5	Certificate of Designation of Series B Stock of Registrant, filed October 2, 1997 with the Secretary of State of Delaware	3
3.1.6	Certificate of Amendment of Certificate of Incorporation of Registrant, filed November 12, 1997 with the Secretary of State of Delaware	3
3.1.7	Certificate of Designation of Series C Preferred Stock of Registrant, filed February 6, 1998 with the Secretary of State of Delaware	4
3.1.8	Certificate of Designation, Preferences and Rights of Series D Participating Preferred Stock of Registrant filed April 29, 1998 with the Secretary of State of Delaware	5
3.1.9	Certificate of Designation of Series F Preferred Stock of Registrant, filed November 2, 1999 with the Secretary of State of Delaware	6

3.1.10	Certificate of Amendment of Certificate of Incorporation of Registrant, filed February 28, 2003 with the Secretary of State of Delaware	7
3.2	Bylaws of Registrant	1
4.1	Rights Agreement dated May 1, 1998, between Registrant and Continental Stock Transfer & Trust Company	5
4.2	First Amendment to Rights Agreement dated as of February 28, 2008, between LightPath Technologies, Inc. and Continental Stock Transfer & Trust Company	12
10.1	Directors Compensation Agreement dated November 11, 1999 between Robert Ripp and LightPath Technologies, Inc. and First Amendment thereto	8
10.2	Amended and Restated Omnibus Incentive Plan dated October 15, 2002	9
10.3	Employee Letter Agreement dated June 12, 2008, between LightPath Technologies, Inc., and J. James Gaynor, its Chief Executive Officer & President	10
10.4	Form of Common Stock Purchase Warrant dated as of December 31, 2008, issued by LightPath Technologies, Inc., to certain investors	11
10.5	Form of Common Stock Purchase Warrant dated August 19, 2009 issued by LightPath Technologies, Inc., to certain investors	13
10.6	Form of Common Stock Purchase Warrant dated as of April 8, 2010, issued by LightPath Technologies, Inc. to certain investors	14
10.7	2004 Employee Stock Purchase Plan dated December 6, 2004	15
10.8	Form of Common Stock Purchase Warrant dated as of June 11, 2012, issued by LightPath Technologies, Inc. to certain investors	16
10.9	Securities Purchase Agreement dated as of June 11, 2012, by and among LightPath Technologies, Inc. and certain investors	16
10.10	Registration Rights Agreement dated as of June 11, 2012, by and among LightPath Technologies, Inc., and certain investors	16
10.11	Memorandum of Understanding Governing the License of Intellectual Property and Manufacturing, Sales and Distribution of Gradium dated as of September 11, 2012, by and among LightPath Technologies, Inc., and Hubei, New HuaGuang Information Materials Company, Ltd. (NHG)	17
10.12	Conversion Agreement dated March 25, 2013 between the Company and certain debenture holders of our 8% convertible debentures	18
14.1	Code of Ethics	19
21.1	Subsidiaries of the Registrant	*
23.1	Consent of Independent Registered Public Accounting Firm	*
24	Power of Attorney	*
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934	*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934	*

32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 of Chapter 63 of Title 18 of the United States Code	*
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 of Chapter 63 of Title 18 of the United States Code	*
101.INS	XBRL Instance Document	*
101.SCH	XBRL Taxonomy Extension Schema Document	*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	*
101.PRE	XBRL Taxonomy Presentation Linkbase Document	*

Notes:

1. This exhibit was filed as an exhibit to our Registration Statement on Form SB-2 (File No: 33-80119) filed with the Securities and Exchange Commission on December 7, 1995 and is incorporated herein by reference thereto.

2. This exhibit was filed as an exhibit to our annual report on Form 10-KSB40 filed with the Securities and Exchange Commission on September 11, 1997 and is incorporated herein by reference thereto.

3. This exhibit was filed as an exhibit to our quarterly report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 1997 and is incorporated herein by reference thereto.

4. This exhibit was filed as an exhibit to our Registration Statement on Form S-3 (File No. 333-47905) filed with the Securities and Exchange Commission on March 13, 1998 and is incorporated herein by reference thereto.

5. This exhibit was filed as an exhibit to our Registration Statement on Form 8-A filed with the Securities and Exchange Commission on April 28, 1998 and is incorporated herein by reference thereto.

6. This exhibit was filed as an exhibit to our Registration Statement on Form S-3 (File No: 333-94303) filed with the Securities and Exchange Commission on January 10, 2000 and is incorporated herein by reference thereto.

7. This exhibit was filed as an exhibit to our Proxy Statement filed with the Securities and Exchange Commission on January 24, 2003 and is incorporated herein by reference thereto.

8. This exhibit was filed as an exhibit to our annual report on Form 10-KSB filed with the Securities and Exchange Commission on August 31, 2000 and is incorporated herein by reference thereto.

9. The Amended and Restated Omnibus Incentive Plan, dated October 15, 2002 was filed as an exhibit to our Proxy Statement filed with the Securities and Exchange Commission on September 12, 2002. Amendment No. 1, dated October 20, 2004 and Amendment No. 2, dated December 6, 2004, were filed as an exhibit to our Registration Statement on Form S-8 (File No. 333-121389) filed with the Securities and Exchange Commission on December 17, 2004. Amendment No. 3, dated November 1, 2007 and Amendment No. 4, dated January 31, 2013, were filed as an exhibit to our Proxy Statement filed with the Securities and Exchange Commission on December 10, 2012.

10. This exhibit was filed as an exhibit to our Current Report on Form 8-K filed with the Securities and Exchange Commission on June 12, 2008, and is incorporated herein by reference thereto.

11. This exhibit was filed as an exhibit to our Current Report on Form 8-K filed with the Securities and Exchange Commission on January 6, 2009, and is incorporated herein by reference thereto.

12. This exhibit was filed as amendment number 1 to Form 8-K/A filed with the Securities and Exchange Commission on February 28, 2008, and is incorporated herein by reference thereto.

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13. This exhibit was filed as an exhibit to our Current Report on Form 8-K filed with the Securities and Exchange Commission on August 20, 2009, and is incorporated herein by reference thereto.

14. This exhibit was filed as an exhibit to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 9, 2010, and is incorporated herein by reference thereto.

15. This exhibit was filed as an exhibit to our Registration Statement on Form S-8 (File No, 333-121385) filed with the Securities and Exchange Commission on December 17, 2004, and is incorporated herein by reference thereto.

16. This exhibit was filed as an exhibit to our Current Report on Form 8-K filed with the Securities and Exchange Commission on June 11, 2012, and is incorporated herein by reference thereto.

17. This exhibit was filed as an exhibit to our Current Report on Form 8-K filed with the Securities and Exchange Commission on October 11, 2012, and is incorporated herein by reference thereto.

18. This exhibit was filed as an exhibit to our Current Report on Form 8-K filed with the Securities and Exchange Commission on March 27, 2013, and is incorporated herein by reference thereto.

19. This exhibit was filed as an exhibit to our Annual Report on Form 10-K filed with the Securities and Exchange Commission on September 16, 2009, and is incorporated herein by reference thereto.

* Filed herewith.

LightPath Technologies, Inc.

Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

The Board of Directors
LightPath Technologies, Inc.

We have audited the accompanying consolidated balance sheets of LightPath Technologies, Inc., and its subsidiaries (the "Company") as of June 30, 2013 and 2012, and the related consolidated statements of operations and comprehensive income, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing our audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Cross, Fernandez and Riley, LLP

Certified Public Accountants

Orlando, Florida
September 5, 2013

LIGHTPATH TECHNOLOGIES, INC.
Consolidated Balance Sheets

Assets	June 30, 2013	June 30, 2012
Current assets:		
Cash and cash equivalents	$ 1,565,215	$ 2,354,087
Trade accounts receivable, net of allowance of $20,617 and $18,214	2,126,907	2,133,079
Inventories, net	1,770,681	1,513,384
Other receivables	353,530	41,000
Prepaid interest expense	—	7,250
Prepaid expenses and other assets	262,236	201,459
Total current assets	6,078,569	6,250,259
Property and equipment, net	2,235,781	1,920,950
Intangible assets, net	35,397	68,265
Debt costs, net	—	3,882
Other assets	27,737	27,737
Total assets	$ 8,377,484	$ 8,271,093
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 1,065,651	$ 1,129,708
Accrued liabilities	110,628	183,910
Accrued payroll and benefits	440,462	386,234
Deferred revenue	1,966	37,750
Capital lease obligation, current portion	3,602	3,602
Total current liabilities	1,622,309	1,741,204
Capital lease obligation, less current portion	3,302	6,903
Deferred rent	220,216	345,726
Warrant liability	1,102,021	1,087,296
8% convertible debentures to related parties	—	1,012,500
8% convertible debentures	—	75,000
Total liabilities	2,947,848	4,268,629
Stockholders' equity:		
Preferred stock: Series D, $.01 par value, voting; 5,000,000 shares authorized; none issued and outstanding	—	—
Common stock: Class A, $.01 par value, voting; 40,000,000 shares authorized; 12,958,239 and 11,711,952 shares issued and outstanding, respectively	129,582	117,120
Additional paid-in capital	209,645,126	208,410,216
Accumulated other comprehensive income	52,736	88,258
Accumulated deficit	(204,397,808)	(204,613,130)
Total stockholders' equity	5,429,636	4,002,464
Total liabilities and stockholders' equity	$ 8,377,484	$ 8,271,093

The accompanying notes are an integral part of these consolidated statements.

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LIGHTPATH TECHNOLOGIES, INC.
Consolidated Statements of Operations and Comprehensive Income

	Year ended 2013	2012
Product sales, net	$11,783,539	$11,284,869
Cost of sales	6,608,288	7,250,098
Gross margin	5,175,251	4,034,771
Operating expenses:		
Selling, general and administrative	3,990,927	3,880,667
New product development	939,025	1,045,535
Amortization of intangibles	32,868	32,868
Loss on disposal of equipment	2,273	—
Total costs and expenses	4,965,093	4,959,070
Operating income (loss)	210,158	(924,299)
Other income (expense)		
Interest expense	(96,435)	(88,729)
Interest expense - debt costs	(3,882)	(3,298)
Change in fair value of warrant liability	(14,725)	103,364
Investment and other income	120,206	48,095
Net income (loss)	$215,322	$(864,867)
Income (loss) per share - basic	$0.02	$(0.09)
Number of shares used in per share calculation- basic	12,102,124	9,861,596
Income (loss) per common share - diluted	$0.02	$(0.09)
Number of shares used in per share calculation- diluted	12,959,218	9,861,596
Foreign currency translation adjustment	$(35,522.00)	$37,665.00
Comprehensive income (loss)	$179,800.00	$(827,202.00)

The accompanying notes are an integral part of these consolidated statements.

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LIGHTPATH TECHNOLOGIES, INC.
Consolidated Statement of Stockholders' Equity
Years ended June 30, 2013 and 2012

	Class A Common Stock Shares	Class A Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
Balance at June 30, 2011	9,713,099	$ 97,131	$ 207,636,440	$ 50,593	$ (203,748,263)	$ 4,035,901
Issuance of common stock for:						
Employee stock purchase plan	13,169	132	13,463	—	—	13,595
Interest payment on convertible debentures	41,832	418	86,582	—	—	87,000
Warrant issued for consulting services	—	—	15,000	—	—	15,000
Stock based compensation on stock options and restricted stock units	—	—	272,044	—	—	272,044
Sale of common stock and warrants, net	1,943,852	19,439	386,687	—	—	406,126
Net loss	—	—	—	—	(864,867)	(864,867)
Foreign currency translation adjustment	—	—	—	37,665	—	37,665
Balance at June 30, 2012	11,711,952	$ 117,120	$ 208,410,216	$ 88,258	$ (204,613,130)	$ 4,002,464
Issuance of common stock for:						
Employee stock purchase plan	10,567	106	8,875	—	—	8,981
Exercise of employee stock options	2,511	25	2,587	—	—	2,612
Conversion of debentures, net of costs	1,148,738	11,487	855,985	—	—	867,472
Interest payment on convertible debentures	84,471	844	86,156	—	—	87,000
Warrant issued for consulting services	—	—	13,000	—	—	13,000
Stock based compensation on stock options and restricted stock units	—	—	268,307	—	—	268,307
Net income	—	—	—	—	215,322	215,322
Foreign currency translation adjustment	—	—	—	(35,522)	—	(35,522)
Balance at June 30, 2013	12,958,239	$ 129,582	$ 209,645,126	$ 52,736	$ (204,397,808)	$ 5,429,636

The accompanying notes are an integral part of these consolidated statements.

LIGHTPATH TECHNOLOGIES, INC.
Consolidated Statements of Cash Flows

	Year ended June 30, 2013	2012
Cash flows from operating activities		
Net income (loss)	$215,322	$(864,867)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	813,234	1,124,038
Interest from amortization of debt costs	3,882	3,298
Warrants issued to consultant	—	7,500
Loss on disposal of property and equipment	2,273	—
Stock based compensation	268,307	272,044
Change in provision for doubtful accounts receivable	2,403	10,969
Change in fair value of warrant liability	14,725	(103,364)
Deferred rent	(125,510)	(118,536)
Changes in operating assets and liabilities:		
Trade accounts receivables	3,769	(311,004)
Other receivables	(312,530)	(10,057)
Inventories	(257,297)	109,253
Prepaid expenses and other assets	46,473	82,671
Accounts payable and accrued liabilities	(83,111)	166,039
Deferred revenue	(35,784)	37,750
Net cash provided by operating activities	556,156	405,734
Cash flows from investing activities		
Purchase of property and equipment	(1,097,470)	(628,593)
Cash flows from financing activities		
Proceeds from exercise of stock options	2,612	—
Proceeds from sale of common stock, net of costs	—	1,596,786
Proceeds from sale of common stock from employee stock purchase plan	8,981	13,595
Costs associated with settlement of debentures	(40,028)	—
Repayments of debentures	(180,000)	—
Payments on capital lease obligation	(3,601)	—
Net cash provided by (used in) financing activities	(212,036)	1,610,381
Effect of exchange rate on cash and cash equivalents	(35,522)	37,665
Increase (decrease) in cash and cash equivalents	(788,872)	1,425,187
Cash and cash equivalents, beginning of period	2,354,087	928,900
Cash and cash equivalents, end of period	$1,565,215	$2,354,087
Supplemental disclosure of cash flow information:		
Interest paid in cash	$1,874	$1,670
Income taxes paid	$2,350	$4,174
Supplemental disclosure of non-cash investing & financing activities:		
Prepaid interest on convertible debentures through the issuance of common stock	$87,000	$87,000
Issuance of common stock through the conversion of 8% debentures	$907,500	—
Fair value of warrants issued to consultant	$13,000	$15,000

The accompanying notes are an integral part of these consolidated statements.

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1. Organization and History; Management's Plans

Organization and History

LightPath Technologies, Inc. ("LightPath", the "Company", "we", "us" or "our") was incorporated in Delaware in 1992. It was the successor to LightPath Technologies Limited Partnership formed in 1989, and its predecessor, Integrated Solar Technologies Corporation formed in 1985. On April 14, 2000, the Company acquired Horizon Photonics, Inc. ("Horizon"). On September 20, 2000, the Company acquired Geltech, Inc. ("Geltech"). The Company completed its initial public offering ("IPO") during fiscal 1996. In November 2005, we formed LightPath Optical Instrumentation (Shanghai) Co., Ltd ("LPOI"), a wholly-owned manufacturing subsidiary, located in Jiading, People's Republic of China. The manufacturing operations are housed in a 16,000 square foot facility located in the Jiading Industrial Zone near Shanghai. This plant increased our overall production capacity and enabled LightPath to compete for larger production volumes of optical components and assemblies, and strengthened our partnerships within the Asia/Pacific region.

LightPath is a manufacturer and integrator of families of precision molded aspheric optics, high-performance fiber-optic collimator, GRADIUM glass lenses and other optical materials used to produce products that manipulate light. The Company designs, develops, manufactures and distributes optical components and assemblies utilizing the latest optical processes and advanced manufacturing technologies. The Company also performs research and development for optical solutions for the traditional optics markets and communications markets. As used herein, the terms LightPath, the Company, we, us or our, refer to LightPath individually or, as the context requires, collectively with its subsidiaries on a consolidated basis.

Managements Plans

The Company has previously incurred recurring losses from operations. As of June 30, 2013 the Company has an accumulated deficit of approximately $204 million. Cash flow from operations was approximately $556,000 and $406,000 during fiscal 2013 and 2012, respectively. Fiscal 2013 was the first profitable year in the Company's history. The improvements in the cash provided by operations are partly as a result of increased revenues from the additional markets we are able to address due to our low cost structure as well as manufacturing an product efficiencies. In 2006, we also implemented our cash conservation strategy, which included reducing labor, material costs and discretionary expense spending. In addition, starting in fiscal 2009 we redesigned certain product lines – collimators and precision molded optics, increased sales prices on GRADIUM products, obtained more favorable material costs by sourcing some purchased components in China, and instituted more efficient management techniques, all of which have improved our product yields. Management believes these factors will contribute towards achieving profitability, assuming we meet our sales targets.

Management has developed an operating plan for fiscal 2014 and believes the Company has adequate financial resources for achievement of that plan and to sustain its current operations in the coming year. The fiscal 2014 operating plan and related financial projections we have developed anticipate sales growth primarily from our precision molded optics product line, particularly our low-cost lenses sold in Asia, and the Company's infrared and collimator product lines. We have been targeting these markets since fiscal 2009. We expect margin improvements based on production efficiencies and reductions in product costs as a result of the shifting of our manufacturing operations to Shanghai, offset by marginal increases in selling, administrative and new product development expenditures. However, there is no assurance we will be able to achieve the necessary sales growth and gross margin improvements to sustain operations. Factors which could adversely affect cash balances in future quarters include, but are not limited to, a decline in revenue or a lack of anticipated sales growth, increased material costs, increased labor costs, planned production efficiency improvements not being realized, increases in property, casualty, benefit and liability insurance premiums and increases in other discretionary spending, particularly sales and marketing related.

Management will be monitoring the plan closely during the year and should the plan objectives not be met during the year, remedial actions will be initiated. The Company had a cash balance of approximately $1.57 million at June 30, 2013. As discussed in Note 17, during fiscal 2012, the Company raised approximately $1.6 million from the sale of common stock and warrants. The Company may still seek external debt or equity financing if it can be obtained in an amount and on terms that are acceptable; however, the Company may be required to seek external financing regardless of whether the terms would otherwise be acceptable if the Company's financial resources are not sufficient to sustain its operations or to pursue its business plan.

2. Summary of Significant Accounting Policies

Consolidated financial statements include the accounts of the Company, and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and cash equivalents consist of cash in the bank and temporary investments with maturities of 90 days or less when purchased.

Allowance for accounts receivable, is calculated by taking 100% of the total of invoices that are over 90 days past due from the due date and 10% of the total of invoices that are over 60 days past due from the due date. Accounts receivable are customer obligations due under normal trade terms. The Company performs continuing credit evaluations of its customers' financial condition. Recovery of bad debt amounts previously written off is recorded as a reduction of bad debt expense in the period the payment is collected. If the Company's actual collection experience changes, revisions to its allowance may be required. After all attempts to collect a receivable have failed, the receivable is written off against the allowance.

Inventories, which consist principally of raw materials, work-in-process and finished lenses, collimators and assemblies are stated at the lower of cost or market, on a first-in, first-out basis. Inventory costs include materials, labor and manufacturing overhead. Acquisition of goods from our vendors has a purchase burden added to cover customs, shipping and handling costs. Fixed costs related to excess manufacturing capacity have been expensed. We look at the following criteria for parts to consider for the inventory reserve: items that have not been sold in two years or that have not been purchased in two years or of which we have more than a two-year supply. These items as identified are reserved at 100%, as well as reserving 50% for other items deemed to be slow moving within the last twelve months and reserving 25% for items deemed to have low material usage within the last six months. The parts identified are adjusted for recent order and quote activity to determine the final inventory reserve. In the third quarter of fiscal 2013 we placed a 100% reserve on our isolator inventories due to our current sales forecast for this product line.

Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the related assets ranging from one to ten years. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the related assets using the straight-line method.

Long-lived assets, such as property, plant, and equipment, tooling and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to its estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

Deferred rent relates to certain of the Company's operating leases containing predetermined fixed increases of the base rental rate during the lease term being recognized as rental expense on a straight-line basis over the lease term. The Company has recorded the difference between the amounts charged to operations and amounts payable under the leases as deferred rent in the accompanying consolidated balance sheets.

Deferred revenue relates to a $1.1 million purchase order from Raytheon for which revenue is recognized on a percentage of completion basis. The Company is using the "cost-to-cost method" to allow it to measure progress toward completion based on the ratio of costs incurred to date to total estimated costs. The Company recorded in deferred revenue, or other receivables, in the accompanying consolidated balance sheet, based on the difference between the amounts invoiced on the project and the amount recognized into revenue or expenses incurred. As of June 30, 2013, the Company invoiced $743,500 and recognized $1,097,030 as revenue with the difference of $353,530 recorded as other receivables. At June 30, 2013, we had no billed accounts receivable outstanding with respect to this purchase order. The project is expected to be completed by December 2013.

Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are computed on the basis of differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based upon enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances have been established to reduce deferred tax assets to the amount expected to be realized.

The Company has not recognized a liability for uncertain tax positions. A reconciliation of the beginning and ending amount of unrecognized tax benefits or penalties has not been provided since there has been no unrecognized benefit or penalty. If there were an unrecognized tax benefit or penalty, the Company would recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses.

The Company files U.S. Federal income tax returns, and various states and foreign jurisdictions. The Company is no longer subject to U.S. federal, state, or local, or non-U.S. income tax examinations by tax authorities for years before 2010.

Revenue is recognized from product sales when products are shipped to the customer, provided that the Company has received a valid purchase order, the price is fixed, title has transferred, collection of the associated receivable is reasonably assured, and there are no remaining significant obligations. Revenues from product development agreements are recognized as milestones and are completed in accordance with the terms of the agreements and upon shipment of products, reports or designs to the customer. Invoiced amounts for sales or value-added taxes (VAT) are posted to the balance sheet and not included in revenue.

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New product development costs are expensed as incurred.

Stock-based compensation is measured at grant date, based on the fair value of the award, and is recognized as an expense over the employee's requisite service period. We estimate the fair value of each restricted stock unit or stock option as of the date of grant using the Black-Scholes-Merton pricing model. Most awards granted under our Amended and Restated Omnibus Incentive Plan vest ratably over two to four years and generally have four to ten-year contract lives. The volatility rate is based on historical trends in common stock closing prices and the expected term was determined based primarily on historical experience of previously outstanding awards. The interest rate used is the U.S. Treasury interest rate for constant maturities. The likelihood of meeting targets for option grants that are performance based are evaluated each quarter. If it is determined that meeting the targets is probable then the compensation expense will be amortized over the remaining vesting period.

Management estimates. Management makes estimates and assumptions during the preparation of the Company's consolidated financial statements that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes available, which in turn could impact the amounts reported and disclosed herein.

Financial instruments. The Company accounts for financial instruments in accordance with ASC 820, which provides a framework for measuring fair value and expands required disclosure about fair value measurements of assets and liabilities. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable.

Level 3 - Unobservable inputs that are supported by little or no market activity, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing.

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of June 30, 2013. The Company uses the market approach to measure fair value for its Level 1 financial assets and liabilities, which include cash equivalents of $728,000 at June 30, 2013. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities.

The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values. These financial instruments which include cash, trade receivables, accounts payable and accrued liabilities. Fair values were assumed to approximate carrying values for these financial instruments since they are short term in nature and their carrying amounts approximate fair values or they are receivable or payable on demand.

The Company values its warrant liabilities based on open-form option pricing models which, based on the relevant inputs, render the fair value measurement at Level 3. The Company bases its estimates of fair value for warrant liabilities on the amount it would pay a third-party market participant to transfer the liability and incorporates inputs such as equity prices, historical and implied volatilities, dividend rates and prices of convertible securities issued by comparable companies maximizing the use of observable inputs when available. See further discussion at Note 18.

The Company does not have any other financial or non-financial assets or liabilities that would be characterized as Level 2 or Level 3 instruments.

Derivative financial instruments. The Company accounts for derivative instruments in accordance with ASC 815, which requires additional disclosures about the Company's objectives and strategies for using derivative instruments, how the derivative instruments and related hedged items are accounted for, and how the derivative instruments and related hedging items affect the financial statements.

The Company does not use derivative instruments to hedge exposures to cash flow, market or foreign currency risk. Terms of convertible debt instruments are reviewed to determine whether or not they contain embedded derivative instruments that are required under ASC 815 to be accounted for separately from the host contract, and recorded on the balance sheet at fair value. The fair value of derivative liabilities, if any, is required to be revalued at each reporting date, with corresponding changes in fair value recorded in current period operating results.

Freestanding warrants issued by the Company in connection with the issuance or sale of debt and equity instruments are considered to be derivative instruments. Pursuant to ASC 815, an evaluation of specifically identified conditions is made to determine whether the fair value of warrants issued is required to be classified as equity or as a derivative liability.

Comprehensive income (loss) of the Company is defined as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Comprehensive income (loss) has two components, net income (loss) and other comprehensive income (loss), and is included on the statement of operations and comprehensive income. Our other comprehensive income (loss) consists of the foreign currency translation adjustment.

Business segments are required to be reported by the Company. As the Company only operates in principally one business segment, no additional reporting is required.

Recent accounting pronouncements. The Company has implemented all new accounting pronouncements issued by FASB and the SEC that are in effect and that may impact its financial statements, and does not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on its financial position or results of operations.

In July 2013 the FASB issued ASU 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists," which amends ASC 740, "Income Taxes." This new guidance requires that a liability related to an unrecognized tax benefit be offset against a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if certain criteria are met. The provisions of this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The Company will adopt this guidance during fiscal 2015 and does not expect the adoption to have a material effect on our financial position, results of operations or cash flows.

3. Inventories – net

The components of inventories include the following:

	June 30, 2013	June 30, 2012
Raw materials	$ 628,956	$ 578,089
Work in process	493,536	485,429
Finished goods	874,311	522,281
Reserve for obsolescence	(226,122)	(72,415)
	$ 1,770,681	$ 1,513,384

During fiscal years 2013 and 2012 the Company evaluated all reserved items and disposed of $9,174 and $33,800, respectively, of parts and wrote them off against the reserve.

4. Property and Equipment – net

Property and equipment consist of the following:

	Estimated Life (Years)	June 30, 2013	June 30, 2012
Manufacturing equipment	5 - 10	$ 3,859,620	$ 3,400,004
Computer equipment and software	3 - 5	255,100	249,478
Furniture and fixtures	5	75,762	86,358
Leasehold improvements	5 - 7	826,307	797,219
Construction in progress		279,869	237,800
Tooling	1 - 5	852,143	880,261
Total property and equipment		6,148,801	5,651,120
Less accumulated depreciation and amortization		3,913,020	3,730,170
Total property and equipment, net		$ 2,235,781	$ 1,920,950

During fiscal years 2013 and 2012, fully depreciated manufacturing equipment and computer equipment in the amount of $4,800 and $123,700, respectivley, was written off as abandoned assets. Tooling once fully amortized is disposed. Disposals for tooling were $553,300 and $579,700 for fiscal 2013 and 2012, respectively.

5. Intangible Assets – net

Intangible assets consist of the following:

	June 30, 2013	June 30, 2012
Gross carrying amount	$ 621,302	$ 621,302
Accumulated amortization	(585,905)	(553,037)
Net carrying amount	$ 35,397	$ 68,265

Amortization expense related to intangible assets totaled approximately $33,000 during the fiscal years ended June 30, 2013 and 2012.

The amount of the June 30, 2013, net intangible asset value is expected to be fully amortized by the end of fiscal 2015, with annual amortization estimated as follows:

2014	2015	Total
32,868	2,529	35,397

6. Accounts Payable

The accounts payable balance includes $51,300 of related party transactions for board of directors' fees for both June 30, 2013 and June 30, 2012.

7. Stockholders' Equity

Preferred stock—The Company's preferred stock consists of the following:

Authorized 5,000,000 shares of Series D preferred stock, $.01 par value. The stockholders of Series D preferred stock are entitled to one vote for each share held.

Common stock—The Company's common stock consists of the following:

Authorized 40,000,000 shares of Class A common stock, $.01 par value. The stockholders of Class A common stock are entitled to one vote for each share held.

In June 2012, the Company executed a Securities Purchase Agreement with nineteen institutional and private investors with respect to a private placement of an aggregate of 1,943,852 shares of our Class A common stock, at $1.02 per share and warrants to purchase 1,457,892 shares of our Common Stock at an initial exercise price of $1.32 per share (subsequently adjusted to $1.26). The warrants are exercisable for a period of five years beginning on December 11, 2012. We received aggregate gross cash proceeds from the issuance of the Common Stock (exclusive of proceeds from any future exercise of the warrants) in the amount $1,982,727.

Warrants

Warrants shares outstanding at June 30, 2013 equal 3,756,771 and include:

- a warrant to purchase up to 100,000 shares of Class A common stock at $3.20 per share at any time through September 29, 2013 issued to Robert Ripp on September 29, 2003 issued in connection with his providing a line of credit to the Company;
- warrants to purchase up to 605,771 shares of Class A common stock at $1.68 per share and warrants to purchase up to 332,843 shares of Class A common stock at $1.89 at any time through August 1, 2013 issued in connection with the sale of convertible debentures in fiscal 2009;
- warrants to purchase up to 332,102 shares of Class A common stock at $0.87 per share at any time through December 31, 2013 issued in connection with the conversion of 25% of the convertible debentures in fiscal 2009;
- warrants to purchase up to 582,229 shares of Class A common stock at $1.73 per share at any time through February 19, 2015 issued in connection with a private placement financing in fiscal 2010;
- warrants to purchase up to 101,549 shares of Class A common stock at $2.48 per share at any time through October 8, 2015 issued in connection with a private placement financing in fiscal 2010;
- warrants to purchase up to 1,652,277 shares of Class A common stock at $1.26 per share at any time through December 11, 2017 issued in connection with a private placement financing in fiscal 2012; and
- warrants to purchase up to 25,000 shares of Class A common stock at $1.03 per share at any time through December 29, 2015 and warrants to purchase up to 25,000 shares of Class A common stock at $0.95 per share at any time through April 30, 2016 issued in connection with an investor relations contract in fiscal 2012.

During July and August 2013 the Company received $1,304,678 in proceeds from the exercise of warrants. The Company issued 829,178 shares of common stock in connection with these exercises. The exercise prices ranged from $0.87 to $1.89 per share of common stock.

8. Income Taxes

Due to the Company's taxable losses from operations prior to fiscal 2013, there was no provision for income taxes and no taxes were paid during the years ended June 30, 2013 and 2012. The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities are as follows at June 30:

	2013	2012
Deferred tax assets:		
Net operating loss and credit carryforwards	$ 35,210,000	$ 36,606,000
Intangible assets	148,000	248,000
Capital loss and R&D credits	1,442,000	1,496,000
Research development expenses	652,000	694,000
Inventory	100,000	57,000
Accrued expenses and other	56,000	110,000
Gross deferred tax assets	37,608,000	39,211,000
Valuation allowance for deferred tax assets	(37,246,000)	(38,800,000)
Total deferred tax assets	362,000	411,000
Deferred tax liabilities:		
Depreciation and other	(362,000)	(411,000)
Net deferred tax liability	$ —	$ —

The reconciliation of income tax attributable to operations computed at the United States federal statutory tax rates and the actual tax provision of zero results primarily from the change in the valuation allowance.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. In order to fully realize the deferred tax asset, the Company will need to generate future taxable income of approximately $93.5 million prior to the expiration of net operating loss carry-forwards from 2014 through 2033. Based on the level of historical taxable income, management has provided for a valuation adjustment against the deferred tax assets of $37,234,000 at June 30, 2013, a decrease of approximately $1,566,000 over June 30, 2012.

At June 30, 2013, in addition to net operating loss carry forwards, the Company also has research and development credit carry forwards of approximately $1,442,000. A portion of the net operating loss carry forwards may be subject to certain limitations of the Internal Revenue Code Section 382 which would restrict the annual utilization in future periods due principally to changes in ownership in prior periods.

9. Compensatory Equity Incentive Plan and Other Equity Incentives

Share-based payment arrangements — The Company's Amended and Restated Omnibus Incentive Plan (the "Plan") included several available forms of stock compensation of which incentive stock options, non-qualified stock options and restricted stock units have been granted to date. These plans are summarized below:

Equity Compensation Arrangement	Award Shares Authorized	Award Shares Outstanding at June 30, 2013	Available for Issuance at June 30, 2013
Amended and Restated Omnibus Incentive Plan	2,715,625	1,419,709	848,012
Employee Stock Purchase Plan	200,000	—	109,457
	2,915,625	1,419,709	957,469

The 2004 Employee Stock Purchase Plan ("ESPP") permits employees to purchase common stock through payroll deductions, which may not exceed 15% of an employee's compensation, at a price not less than 85% of the market value of the stock on specified dates (June 30 and December 31). In no event may any participant purchase more than $25,000 worth of shares in any calendar year and an employee may purchase no more than 4,000 shares on any purchase date. This discount of $898 and $1,433 for fiscal 2013 and 2012, respectively, is included in selling, general and administrative expense in the accompanying financial statements.

Grant Date Fair Values and Underlying Assumptions; Contractual Terms—The Company estimates the fair value of each stock option as of the date of grant. The Company uses the Black-Scholes pricing model. The ESPP fair value is the amount of the discount the employee obtains at the date of the purchase transaction.

For stock options and restricted stock units ("RSUs") granted in the years ended June 30, 2013 and 2012, the Company estimated the fair value of each stock award as of the date of grant using the following assumptions:

	Year ended June 30, 2013	Year ended June 30, 2012
Expected volatility	110% - 120 %	119% - 122 %
Weighted average expected volatility	110% - 120 %	119% - 122 %
Dividend yields	0 %	0 %
Risk-free interest rate	0.67% - 1.72 %	0.9% - 2.01 %
Expected term, in years	3 - 7	3 - 7

Most awards granted under the Company's Plan vest ratably over two to four years and generally have three-year to ten-year contract lives. The initial assumed forfeiture rate used in calculating the fair value of option grants with both performance and service conditions was 20% for 2013 and 2012. The forfeiture rate for RSUs was 0% for both 2013 and 2012. The volatility rate is based on historical trends in common stock closing prices and the expected term was determined based primarily on historical experience of previously outstanding awards. The interest rate used is the treasury interest rate for constant maturities. The forfeiture rate for RSUs for directors is 0% because upon termination of service as a director, all outstanding RSUs immediately vest.

Information Regarding Current Share-based Payment Awards—A summary of the activity for share-based payment awards in the years ended June 30, 2013 and 2012 is presented below:

	Stock Options			Restricted Stock Units (RSUs)	
	Shares	Weighted Average Exercise Price (per share)	Weighted Average Remaining Contract Life (YRS)	Shares	Weighted Average Remaining Contract Life (YRS)
June 30, 2011	500,233	$ 3.01	6.9	434,700	0.9
Granted	90,000	1.39	9.3	160,000	1.0
Exercised	—	—	—	—	—
Cancelled	(13,840)	9.14	3.0	—	—
June 30, 2012	576,393	$ 2.61	6.4	594,700	1.0
Granted	98,500	0.96	9.4	240,000	2.6
Exercised	(2,511)	1.05	5.5	—	—
Cancelled	(87,373)	2.37	7.0	—	—
June 30, 2013	585,009	$ 2.38	5.9	834,700	1.1
Awards exercisable/ vested as of June 30, 2013	401,759	$ 2.76	4.8	463,030	—
Awards unexercisable/ unvested as of June 30, 2013	183,250	$ 1.53	8.5	371,670	1.1
	585,009			834,700	

	Stock Options	RSU	All Awards
Weighted average fair value of share awards granted for the year ended June 30, 2013	$ 0.80	$ 0.87	$ 0.85

The total intrinsic value of share options exercised for years ended June 30, 2013 and 2012 was $452 and $0, respectively.

The total intrinsic value of shares options outstanding and exercisable at both June 30, 2013 and 2012 was $9,000 and $0 respectively.

The total fair value of shares options vested during the years ended June 30, 2013 and 2012 was $123,000 and $177,000, respectively.

The total intrinsic value of RSUs exercised during the years ended June 30, 2013 and 2012 was $0 and $0, respectively.

The total intrinsic value of RSUs outstanding and exercisable at June 30, 2013 and 2012 was $508,000 and $371,000, respectively.

The total fair value of RSUs vested during the years ended June 30, 2013 and 2012 was $94,000 and $275,000, respectively.

As of June 30, 2013 there was $386,656 of total unrecognized compensation cost related to non-vested share-based compensation arrangements (including share options and restricted stock units) granted under the Plan. The cost expected to be recognized as follows:

	Stock Options	Restricted Stock Share/ Units	Total
Year ended June 30, 2014	$ 57,371	$ 163,769	$ 221,140
Year ended June 30, 2015	27,092	88,056	115,148
Year ended June 30, 2016	12,749	34,597	47,346
Year ended June 30, 2017	3,022	—	3,022
	$ 100,234	$ 286,422	$ 386,656

The table above does not include shares under the Company's ESPP, which has purchase settlement dates in the second and fourth fiscal quarters. The Company's ESPP is not administered with a look back option provision and, as a result, there is not a population of outstanding option grants during the employee contribution period.

RSU awards vest immediately or from two to four years from the grant date.

The Company issues new shares of common stock upon the exercise of stock options. The following table is a summary of the number and weighted average grant date fair values regarding our unexercisable/unvested awards as of June 30, 2013 and 2012 and changes during the two years then ended:

Unexercisable/unvested awards	Stock Options Shares	RSU Shares	Total Shares	Weighted-Average Grant Date Fair Values
June 30, 2011	182,500	200,000	382,500	$ 2.53
Granted	90,000	160,000	250,000	1.30
Vested	(74,375)	(125,000)	(199,375)	2.27
June 30, 2012	198,125	235,000	433,125	$ 2.42
Granted	98,500	240,000	338,500	0.85
Vested	(59,875)	(103,330)	(163,205)	1.91
Cancelled/Forfeited	(53,500)	—	(53,500)	1.64
June 30, 2013	183,250	371,670	554,920	$ 1.57

Acceleration of Vesting— The Company has not accelerated the vesting of any stock options or RSUs.

Financial Statement Effects and Presentation—The following table shows total stock-based compensation expense for the years ended June 30, 2013 and 2012 included in the Consolidated Statement of Operations and Comprehensive Income:

	Year ended June 30, 2013	Year ended June 30, 2012
Stock options	65,286	86,096
RSU	203,021	185,948
Total	268,307	272,044
The amounts above were included in:		
General & administrative	263,247	254,337
Cost of sales	(4,350)	8,328
New product development	9,410	9,379
	268,307	272,044

10. Earnings Per Share

Basic earnings per share is computed by dividing the weighted-average number of shares of Class A common stock outstanding, during each period presented. Diluted earnings per share is computed similarly to basic earnings per share except that it reflects the potential dilution that could occur if dilutive securities or other obligations to issue shares of Class A common stock were exercised or converted into shares of Class A common stock. The computations for basic and diluted earnings per share are described in the following table:

	Year ended June 30, 2013	2012
Net income (loss)	$ 215,322	$ (864,867)
Weighted average common shares outstanding:		
Basic	12,102,124	9,861,596
Effect of dilutive securities:		
Options to purchase common stock	1,438	—
Restricted stock units	834,700	—
Common stock warrants	20,956	—
Diluted	12,959,218	9,861,596
Earnings (Loss) per common share:		
Basic	$ 0.02	$ (0.09)
Diluted	$ 0.02	$ (0.09)
Excluded from computation:		
Options to purchase common stock	583,571	576,393
Restricted stock units	—	594,700
Common stock warrants	3,424,669	4,041,771
Convertible debentures	—	706,169
	4,008,240	5,919,033

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11. Defined Contribution Plan

The Company discontinued its profit sharing plan that permitted participants to make contributions by salary reduction pursuant to Section 401(k) of the Internal Revenue Code of 1986, as amended, in January 2009. Effective January 1, 2009, the Company transferred all plan assets to the ADP Total Source 401(k) plan. The ADP plan is a defined 401(k) contribution plan which all employees, over the age of 21, are eligible to participate in after three months of employment. The Company matched 25% of the first 6% of employee contributions until February 27, 2009 when the match was eliminated. Currently there are 17 employees who are enrolled in this program. The 401(k) contribution plan is administered by a third party. Annual discretionary contributions, if any, are made by the Company to match a portion of the funds employees contribute. The Company made no matching contributions during the fiscal years ended June 30, 2012 and 2013.

12. Lease Commitments

The Company has operating leases for office space. At June 30, 2013, the Company has a lease agreement for a manufacturing and office facility in Orlando, Florida (the "Orlando Lease"). The Orlando Lease, which is for a six-year original term with renewal options, expires April 2015.

As of June 30, 2013, the Company, through its wholly-owned subsidiary, has a lease agreement for a manufacturing and office facility in Shanghai, China (the "China Lease"). The China Lease, which is for a five-year original term with renewal options, expires April 2014.

During June 2012, the company entered into three-year capital lease agreements for computer equipment and is included as part of Property and Equipment. Assets under capital lease are included in computer equipment and software for $10,500, with accumulated amortization as of June 30, 2013 of $3,343. Amortization related to capital leases will be included in depreciation expense.

Rent expense totaled $434,930 and $436,192 during the years ended June 30, 2013 and 2012, respectively.

The approximate future minimum lease payments under capital and operating leases at June 30, 2013 were as follows:

Fiscal year ending June 30,	Capital Lease		Operating Lease
2014	$	4,300	456,556
2015		3,942	339,631
Total minimum payments		8,242	796,187
Less imputed interest		(1,338)	
Present value of minimum lease payments		6,904	
Less short term portion		3,602	
Long term portion	$	3,302	

13. Contingencies

The Company from time to time is involved in various legal actions arising in the normal course of business. Management, after reviewing with legal counsel all of these actions and proceedings, believes that the aggregate losses, if any, will not have a material adverse effect on the Company's financial position or results of operations.

14. Foreign Operations

Assets and liabilities denominated in non-U.S. currencies are translated at rates of exchange prevailing on the balance sheet date, and revenues and expenses are translated at average rates of exchange for the period. Gains or losses on the translation of the financial statements of a non-U.S. operation, where the functional currency is other than the U.S. dollar, are reflected as a separate component of equity which was a gain of $52,736 and $88,258 at June 30, 2013 and 2012, respectively. The Company as of June 30, 2013 had approximately $5,403,000 in assets and $4,327,000 in net assets located in China. The Company as of June 30, 2012 had approximately $4,304,000 in assets and $3,362,000 in net assets located in China.

15. Significant Suppliers and Customers

We utilize a number of glass compositions for the manufacture of our molded glass aspheres and lens array products. We purchase glass from Hikari, Ohara, CDGM and other suppliers.

Base optical materials, used in both GRADIUM and collimator products, are manufactured and supplied by a number of major optical and glass manufacturers. Optical fiber and collimator housings are manufactured and supplied by a number of major manufacturers.

In fiscal 2013 sales to five customers individually comprised at least 5% of our annual sales, with sales to Crimson Trace at 7%, sales to AMS Technologies AG at 10%, sales to Thorlabs at 9%, sales to Red Digital at 6% and sales to IPG Photonics at 6%. The loss of any of these customers, or a significant reduction in sales to any such customer, would adversely affect our revenues.

In fiscal 2012 sales to four customers individually comprised at least 5% of our annual sales, with sales to Crimson Trace at 10%, sales to AMS Technologies AG at 9%, sales to Thorlabs at 9% and sales to Raytheon Missile Systems at 5%. The loss of any of these customers, or a significant reduction in sales to any such customer, would adversely affect our revenues.

16. Convertible Debentures

On August 1, 2008, we executed a Securities Purchase Agreement with respect to the private placement of the Debentures. Among the investors were Steven Brueck, J. James Gaynor, Louis Leeburg, Robert Ripp, Gary Silverman and James Magos, all of whom were directors or officers of LightPath as of August 1, 2008. Mr. Magos resigned effective September 2, 2008.

Interest accruing on the Debentures was paid by issuing Class A common stock. Interest due for August 1, 2008 to August 1, 2011 was paid by issuing 27,893 shares of Class A common stock in October 2008 and 665,692 shares in December 2008. Interest accruing from August 1, 2011 to August 1, 2013, the maturity date, was paid by issuing 41,832 shares in August 2011 and 76,078 shares in August 2012.

Investors also received warrants to purchase up to 950,974 shares of our common stock (the "Warrants"). The Warrants were exercisable for a period of five years beginning on August 1, 2008 with 65% of the Warrants, exercisable for 618,133 shares, priced at $1.68 per share and the remaining 35% of the Warrants, exercisable for 332,841 shares, priced at $1.89 per share. We received gross proceeds of $970,315 from the exercise of these warrants.

We paid a commission to the exclusive placement agent for the offering, First Montauk Securities Corp. ("First Montauk"). We also issued to First Montauk and its designees warrants to purchase an aggregate of 190,195 shares of our Class A common stock at an exercise price equal to $1.68 per share. The warrants were exercisable for a period of five years beginning on August 1, 2008.

On December 31, 2008, the Debentures were amended to allow debenture holders to convert 25% of their Debentures into shares of Class A common stock. As a result, $732,250 of the Debentures were converted into 475,496 shares of Class A common stock. As an inducement to partially convert the Debentures, we issued additional warrants.

On March 25, 2013, the Company and the remaining Debenture holders holding approximately 93.10% of the outstanding principal amount of the Debentures executed the Conversion Agreement in connection with the early conversion of the Debentures. The Debenture holders party to the Conversion Agreement were Steven Brueck, J. James Gaynor, Louis Leeburg, Robert Ripp and Gary Silverman, all of whom are directors or officers of the Company, and BBE, a greater than 5% beneficial stockholder of the Company. In consideration of converting the Debentures prior to the maturity date, the Company issued to each Debenture holder additional shares of Class A common stock to compensate the converting Debenture holders for the difference between the conversion price per share, or $1.54, and the closing bid price per share of common stock as reported on the Nasdaq Capital Market on March 22, 2013, or $0.79 (the "Conversion Incentive Shares"). In connection with the conversion of the Debentures, the Company issued a total of 1,148,738 shares of common stock, 559,448 of which we issued as Conversion Incentive Shares.

In order to ensure BBE did not exceed its 19.9% beneficial ownership limitation, set forth in the Conversion Agreement, BBE partially converted its Debenture and the Company prepaid the outstanding principal amount due under BBE's Debenture following the partial conversion.

The remaining Debenture holder not party to the Conversion Agreement consented to the Company prepaying the outstanding principal amount due under its Debenture. The Company paid this amount, which totaled $75,000, on March 28, 2013.

The summary of the Debenture conversion activity by fiscal year is as follows:

Fiscal Year	Outstanding Principal Amount Converted	Shares Issued	Repayment of Outstanding Principal Amounts
2009	$ 732,250	475,487	$ 0
2010	$ 262,500	170,455	$ 0
2011	$ 832,500	540,592	$ 0
2012	$ 14,250	0	$ 14,250
2013	$ 1,087,500	589,590	$ 180,000

The issuance of the Conversion Incentive Shares also resulted in an adjustment to the exercise price of the warrants issued to certain investors on June 11, 2012 in connection with the Company's private placement. The exercise price of the warrants was adjusted from $1.32 to $1.26 per share. Since the Conversion Incentive Shares were issued to related party debt holders, the value of such shares was considered a capital contribution and was included as an offset to additional paid-in capital with no effect on the statement of operations and comprehensive income (loss).

Total principal outstanding on the Debentures and the principal amount outstanding specifically to directors, officers and stockholders owning at least 10% of the Company's securities under the Debentures was $0 and $0, respectively at June 30, 2013 and $1,087,500 and $1,012,500, respectively at June 30, 2012.

17. Private Common Stock Placements

On June 11, 2012, we executed a Securities Purchase Agreement with respect to a private placement of an aggregate of 1,943,852 shares of our Class A common stock at $1.02 per share and warrants to purchase 1,457,892 shares of our common stock at an exercise price of $1.32 per share ("June 2012 Warrants"). The June 2012 Warrants are exercisable for a period of five years beginning on December 11, 2012. We received aggregate gross cash proceeds from the issuance of the Class A common stock (exclusive of proceeds from any future exercise of the June 2012 Warrants) in the amount $1,982,727. We used the funds to provide working capital to support the continued growth of our business, primarily the expansion of our infrared molding capacity and enhancement of our glass preparation processes and test and measurement capability. The funding also supported new product development and the acquisition of new equipment, critical to the Company's growth plans.

The Company paid a commission to the exclusive placement agent for the offering, Meyer Associates, LP ("Meyer"), in an amount equal to $198,300 plus costs and expenses. The Company also issued to Meyer and its designees warrants to purchase an aggregate of 194,385 shares of our Class A common stock at exercise price equal to $1.32 per share, for a five-year term beginning December 11, 2012. Legal and other expenses to register the Class A common stock were approximately $187,641, reducing the proceeds of the offering.

As discussed in Note 16, the issuance of the Conversion Incentive Shares resulted in an adjustment to the exercise price of the June 2012 Warrants, including the warrants issued to Meyer and its designees. The exercise price of the June 2012 Warrants were adjusted from $1.32 to $1.26 per share. This reduced exercise price lowered potential proceeds on the exercise of the June 2012 Warrants by $87,474 to $1,836,944. After June 30, 2013, we have received gross proceeds from exercises of the June 2012 Warrants in the amount of $326,120.

The June 2012 Warrants issued in this placement were determined to be a derivative liability, see Note 18 to the Consolidated Financial Statements.

18. Derivative Financial Instruments (Warrant Liability)

The Company accounted for the June 2012 Warrants issued to investors under the June 11, 2012 Securities Purchase Agreement (see Note 17 above) in accordance with ASC 815-10, Derivatives and Hedging ("ASC 815-10"). ASC 815-10 provides guidance for determining whether an equity-linked financial instrument (or embedded feature) is indexed to an entity's own stock. This applies to any freestanding financial instrument or embedded feature that has all the characteristics of a derivative under ASC 815-10, including any freestanding financial instrument that is potentially settled in an entity's own stock.

Due to certain adjustments that may be made to the exercise price of the June 2012 Warrants if the Company issues or sell shares of its Class A common stock at a price which is less than the then current warrant exercise price, the June 2012 Warrants have been classified as a liability as opposed to equity in accordance with ASC 815-10 as it was determined that the June 2012 Warrants were not indexed to the Company's Class A common stock. As a result, the fair value of the June 2012 Warrants were remeasured on June 30, 2013 to reflect their fair market value at the end of the current reporting period. The June 2012 Warrants will be remeasured at each subsequent financial reporting period. The change in fair value of the June 2012 Warrants is recorded in the statement of operations and comprehensive income and is estimated using the Lattice option-pricing model using the following assumptions:

Inputs into Lattice model for warrants:	6/30/2013		
Equivalent volatility		81.03	%
Equivalent interest rate		0.44	%
Estimated stock price	$	1.0866	
Floor	$	1.1500	
Greater of estimated stock price or floor	$	1.1500	
Probability price < Strike		75.95	%
Fair value of put	$	0.8457	
Probability of Fundamental Transaction occuring		5	%

All warrants issued by the Company other than the above noted June 2012 Warrants are classified as equity.

The warrant liabilities are considered a recurring Level 3 fair value measurement, with a fair value of $1,102,021 at June 30, 2013.

The following table summarizes the activity of Level 3 inputs measured on a recurring basis for the year ended June 30, 2013:

	Warrant Liability	
Fair value, June 30, 2012	$	1,087,296
Change in fair value of warrant liability		14,725
Fair value, June 30, 2013	$	1,102,021

19. Withdrawn Financing Plan

On September 29, 2011, the Company filed a Registration Statement on Form S-1, as subsequently amended (Registration No. 333-177079) (the "Registration Statement") with the SEC announcing its intention to raise funds through the sale of Class A common stock in a fully-underwritten public offering. The Company intended to sell up to 4.5 million units, with each unit consisting of one share of our Class A common stock, one Warrant A to purchase 0.25 shares of our Class A common stock and one Warrant B to purchase 0.25 shares of our Class A common stock. On January 27, 2012, the Company filed a request for withdrawal of the Registration Statement with the SEC. The Company had determined that it was not in the best interests of the Company to proceed with the offering due to business, economic and market conditions. Prepaid offering costs of approximately $227,000 were written off in the fiscal quarter ended March 31, 2012 and are included in selling, general and administrative costs on the accompanying consolidated statement of operations and comprehensive income.

20. Deferred Revenue/Costs in Excess of Billings

In January 2012, the Company received a purchase order for $1.1 million from Raytheon. The purchase order is for development of low cost manufacturing processes for infrared optics and is in support of Raytheon's $13.4 million Defense Advanced Research Projects Agency's (DARPA) Low Cost Thermal Imaging Manufacturing (LCTI-M) program. The goal of LCTI-M is to develop a wafer scale manufacturing process that will result in a camera on a chip, making thermal imagers affordable, accessible, and ubiquitous to every warfighter.

The Company is using the "cost-to-cost method" to allow it to measure progress toward completion based on the ratio of costs incurred to date to total estimated costs. The Company has recorded in costs in excess of billings on the accompanying consolidated balance sheet the difference between the amounts invoiced on the project and the amount recognized into revenue.

As of June 30, 2013, the Company invoiced $743,500 and recognized $1,097,030 as revenue ($481,000 recognized during fiscal 2013). The balance of $353,530 is recorded as other receivables. The project is expected to be completed by December 2013. At June 30, 2013, the Company had no billed accounts receivable outtanding with respect to this purchase order as of June 30, 2013.

21. License of GRADIUM Intellectual Property

On September 19, 2012, the Company and Hubei New Hua Guang Information Materials Company, Ltd. ("NHG") entered into an exclusive Intellectual Property License Agreement for the Company's GRADIUM® glass products. The license agreement is for an initial term of five years expiring on September 19, 2017, which extends beyond the remaining life of the patents. Pursuant to the license agreement, the Company will receive $150,000 in licensing fees along with royalties on product sales starting in the fourth year of the agreement. The transaction is being accounted for under the guidance of ASC 605-10, Revenue Recognition which states, in part, revenue can be recognized when collection of the fee agreement can be reasonably assured. The Company determined that $50,000 of the $150,000 license fee under this agreement, representing the first milestone payment, was reasonably assured of being collected as of September 30, 2012. The Company recognized the $50,000 as other income for the quarter ended September 30, 2012 and collected the funds in the quarter ended December 31, 2012. No revenue on this license agreement was recognized in the remainder of fiscal 2013.

End of Consolidated Financial Statements

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

LIGHTPATH TECHNOLOGIES, INC.

Date: September 5, 2013

By: /s/ J. James Gaynor
J. James Gaynor
President & Chief Executive Officer

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

/s/ J. JAMES GAYNOR James Gaynor, President & Chief Executive Officer (Principal Executive Officer)	September 5, 2013	/s/ DOROTHY M. CIPOLLA Dorothy M. Cipolla, Chief Financial Officer (Principal Financial Officer)	September 5, 2013
/s/ ROBERT RIPP Robert Ripp Director (Chairman of the Board)	September 5, 2013	/s/ SOHAIL KHAN Sohail Khan Director	September 5, 2013
/s/ DR. STEVEN R. J. BRUECK Dr. Steven R. J. Brueck Director	September 5, 2013	/s/ LOUIS LEEBURG Louis Leeburg Director	September 5, 2013
/s/ M. Scott Faris M. Scott Faris Director	September 5, 2013	/s/ GARY SILVERMAN Gary Silverman Director	September 5, 2013

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