

FAMOUS DAVES OF AMERICA INC

Form 10-Q

November 02, 2012

[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES**

**EXCHANGE ACT OF 1934**

For the Quarterly Period Ended September 30, 2012

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES**

**EXCHANGE ACT OF 1934**

Commission File No. 0-21625

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

(Exact name of registrant as specified in its charter)

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

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

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

**12701 Whitewater Drive, Suite 200**  
**Minnetonka, MN 55343**  
(Address of principal executive offices) (Zip code)

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

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

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

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

As of October 29, 2012, 7,506,757 shares of the registrant's Common Stock were outstanding.

**Table of Contents**

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

**TABLE OF CONTENTS**

	<b>Page</b>
<b>PART I FINANCIAL INFORMATION</b>	
Item 1 Consolidated Financial Statements (unaudited)	
<u>Consolidated Balance Sheets As of September 30, 2012 and January 1, 2012</u>	3
<u>Consolidated Statements of Operations For the three and nine months ended September 30, 2012 and October 2, 2011</u>	4
<u>Consolidated Statements of Cash Flows For the three and nine months ended September 30, 2012 and October 2, 2011</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
Item 2 <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
Item 3 <u>Quantitative and Qualitative Disclosures About Market Risk</u>	28
Item 4 <u>Controls and Procedures</u>	28
<b>PART II OTHER INFORMATION</b>	
Item 1 <u>Legal Proceedings</u>	28
Item 2 <u>Unregistered Sale of Equity Securities and Use of Proceeds</u>	28
Item 5 <u>Other Information</u>	29
Item 6 <u>Exhibits</u>	30
<b><u>SIGNATURES</u></b>	31
<b>CERTIFICATIONS</b>	

**Table of Contents****FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****SEPTEMBER 30, 2012 AND JANUARY 1, 2012***(in thousands, except share and per share data)*

	September 30, 2012	January 1, 2012
	(Unaudited)	
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 2,004	\$ 1,148
Restricted cash	697	275
Accounts receivable, net	3,449	3,430
Inventories	2,743	2,754
Deferred tax asset	873	525
Prepaid expenses and other current assets	3,042	1,765
Current portion of notes receivable	17	60
<b>Total current assets</b>	<b>12,825</b>	<b>9,957</b>
<b>Property, equipment and leasehold improvements, net</b>	<b>59,616</b>	<b>60,972</b>
<b>Other assets:</b>		
Intangible assets, net	2,806	2,841
Other assets	310	347
	<b>\$ 75,557</b>	<b>\$ 74,117</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Current portion of long-term debt and financing lease obligation	\$ 934	\$ 904
Accounts payable	3,819	1,940
Accrued compensation and benefits	2,521	4,696
Other current liabilities	3,763	4,397
<b>Total current liabilities</b>	<b>11,037</b>	<b>11,937</b>
<b>Long-term liabilities:</b>		
Line of credit	14,400	11,000
Long-term debt, less current portion	4,873	5,383
Financing lease obligation, less current portion	3,872	4,068
Deferred tax liability	1,697	1,425
Other liabilities	6,839	6,210
<b>Total liabilities</b>	<b>42,718</b>	<b>40,023</b>
<b>Shareholders' equity:</b>		
Common stock, \$.01 par value, 100,000,000 shares authorized, 7,357,000 and 7,707,000 shares issued and outstanding at September 30, 2012 and January 1, 2012, respectively	71	77
Additional paid-in capital	1,012	5,871
Retained earnings	31,756	28,146

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

<b>Total shareholders equity</b>	32,839	34,094
	\$ 75,557	\$ 74,117

See accompanying notes to consolidated financial statements.

- 3 -

**Table of Contents****FAMOUS DAVES OF AMERICA, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****SEPTEMBER 30, 2012 AND OCTOBER 2, 2011***(in thousands, except share and per share data)**(Unaudited)*

	Three Months Ended		Nine Months Ended	
	September 30, 2012	October 2, 2011	September 30, 2012	October 2, 2011
<b>Revenue:</b>				
Restaurant sales, net	\$ 34,896	\$ 34,315	\$ 103,938	\$ 103,560
Franchise royalty revenue	4,352	4,234	13,355	12,644
Franchise fee revenue	295	150	540	320
Licensing and other revenue	378	228	900	783
<b>Total revenue</b>	<b>39,921</b>	<b>38,927</b>	<b>118,733</b>	<b>117,307</b>
<b>Costs and expenses:</b>				
Food and beverage costs	11,007	10,292	32,419	30,577
Labor and benefits costs	11,456	10,829	33,659	32,390
Operating expenses	10,794	9,536	29,645	28,584
Depreciation and amortization	1,520	1,404	4,448	4,154
General and administrative expenses	4,370	4,012	12,524	12,534
Asset impairment and estimated lease termination and other closing costs	13	(28)	288	158
Pre-opening expenses	19	237	317	282
Net loss on disposal of property	3	3	17	10
<b>Total costs and expenses</b>	<b>39,182</b>	<b>36,285</b>	<b>113,317</b>	<b>108,689</b>
<b>Income from operations</b>	<b>739</b>	<b>2,642</b>	<b>5,416</b>	<b>8,618</b>
<b>Other expense:</b>				
Interest expense	(282)	(261)	(793)	(821)
Interest income	2	6	5	19
Other (expense) income, net	(13)	(15)	7	(15)
<b>Total other expense</b>	<b>(293)</b>	<b>(270)</b>	<b>(781)</b>	<b>(817)</b>
<b>Income before income taxes</b>	<b>446</b>	<b>2,372</b>	<b>4,635</b>	<b>7,801</b>
<b>Income tax benefit (expense)</b>	<b>399</b>	<b>(807)</b>	<b>(1,025)</b>	<b>(2,653)</b>
<b>Net income</b>	<b>\$ 845</b>	<b>\$ 1,565</b>	<b>\$ 3,610</b>	<b>\$ 5,148</b>
<b>Basic net income per common share</b>	<b>\$ 0.12</b>	<b>\$ 0.20</b>	<b>\$ 0.48</b>	<b>\$ 0.64</b>
<b>Diluted net income per common share</b>	<b>\$ 0.11</b>	<b>\$ 0.19</b>	<b>\$ 0.47</b>	<b>\$ 0.63</b>

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

<b>Weighted average common shares outstanding basic</b>	7,327,000	7,994,000	7,494,000	8,041,000
<b>Weighted average common shares outstanding diluted</b>	7,478,000	8,173,000	7,659,000	8,219,000

See accompanying notes to consolidated financial statements.

- 4 -

**Table of Contents****FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****SEPTEMBER 30, 2012 AND OCTOBER 2, 2011***(in thousands)**(Unaudited)*

	<b>Nine Months Ended</b>	
	<b>September 30, 2012</b>	<b>October 2, 2011</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 3,610	\$ 5,148
Adjustments to reconcile net income to cash flows provided by operations:		
Depreciation and amortization	4,448	4,154
Asset impairment and estimated lease termination and other closing costs	288	158
Net loss on disposal of property	17	10
Amortization of deferred financing costs	8	45
Inventory reserve	12	
Deferred income taxes	(76)	148
Deferred rent	695	644
Stock-based compensation	1,062	960
Tax benefit for equity awards issued	67	121
Changes in operating assets and liabilities:		
Restricted cash	(422)	(194)
Accounts receivable, net	6	108
Inventories	(76)	(236)
Prepaid expenses and other current assets	(1,285)	(654)
Deposits	28	15
Accounts payable	1,794	(1,210)
Accrued compensation and benefits	(2,476)	(1,242)
Other current liabilities	(752)	570
Long-term deferred compensation	(27)	(69)
<b>Cash flows provided by operating activities</b>	<b>6,921</b>	<b>8,476</b>
<b>Cash flows from investing activities:</b>		
Proceeds from the sale of restaurant assets	1,200	
Purchases of property, equipment and leasehold improvements	(4,303)	(3,407)
Payments received on notes receivable	43	363
<b>Cash flows used for investing activities</b>	<b>(3,060)</b>	<b>(3,044)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from draws on line of credit	23,700	21,900
Payments on line of credit	(20,300)	(24,900)
Payments for debt issuance costs		(96)
Payments on long-term debt and financing lease obligation	(676)	(457)
Proceeds from exercise of stock options	76	128
Tax benefit for equity awards issued	67	121
Repurchase of common stock	(5,872)	(3,113)
<b>Cash flows used for financing activities</b>	<b>(3,005)</b>	<b>(6,417)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>856</b>	<b>(985)</b>



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

<b>Cash and cash equivalents, beginning of period</b>	1,148	2,654
<b>Cash and cash equivalents, end of period</b>	\$ 2,004	\$ 1,669

See accompanying notes to consolidated financial statements.

- 5 -

**Table of Contents****FAMOUS DAVES OF AMERICA, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(1) Basis of Presentation**

We, Famous Daves of America, Inc. ( Famous Daves or the Company ), were incorporated in Minnesota on March 14, 1994. We develop, own, operate and franchise restaurants under the name Famous Daves. As of September 30, 2012, there were 187 Famous Daves restaurants operating in 34 states and one Canadian province, including 53 company-owned restaurants and 134 franchise-operated restaurants. An additional 68 franchise restaurants were committed to be developed through signed area development agreements as of September 30, 2012.

We prepared these consolidated financial statements in accordance with Securities and Exchange Commission ( SEC ) Rules and Regulations. These unaudited financial statements represent the consolidated financial statements of Famous Daves and its subsidiaries as of September 30, 2012 and January 1, 2012 and for the three and nine month periods ended September 30, 2012 and October 2, 2011. The information furnished in these financial statements includes normal recurring adjustments and reflects all adjustments, which are, in our opinion, necessary for a fair presentation. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Form 10-K for the fiscal year ended January 1, 2012 as filed with the SEC.

Due to the seasonality of our business, revenue and operating results for the three and nine months ended September 30, 2012 are not necessarily indicative of the results to be expected for the full year.

**Reclassifications** Certain reclassifications have been made to prior year amounts to conform to the current year's presentation.

**(2) Net Income Per Common Share**

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

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

<i>(in thousands, except per share data)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2012</b>	<b>October 2, 2011</b>	<b>September 30, 2012</b>	<b>October 2, 2011</b>
<b>Net income per common share basic:</b>				
Net income	\$ 845	\$ 1,565	\$ 3,610	\$ 5,148
Weighted average shares outstanding	7,327	7,994	7,494	8,041
<b>Net income per common share basic</b>	<b>\$ 0.12</b>	<b>\$ 0.20</b>	<b>\$ 0.48</b>	<b>\$ 0.64</b>
<b>Net income per common share diluted:</b>				
Net income	\$ 845	\$ 1,565	\$ 3,610	\$ 5,148
Weighted average shares outstanding	7,327	7,994	7,494	8,041
Dilutive impact of common stock equivalents outstanding	151	179	165	178
Adjusted weighted average shares outstanding	7,478	8,173	7,659	8,219
<b>Net income per common share diluted</b>	<b>\$ 0.11</b>	<b>\$ 0.19</b>	<b>\$ 0.47</b>	<b>\$ 0.63</b>

**Table of Contents**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

There were 15,000 and 25,500 stock options outstanding as of September 30, 2012 and October 2, 2011 respectively, that were not included in the computation of diluted EPS because they were anti-dilutive.

**(3) Allowance for Doubtful Accounts**

**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 \$129,000 and \$18,000 at September 30, 2012 and January 1, 2012, respectively. Accounts receivable are written off when they become uncollectible, and payments subsequently received on such receivables are credited to allowance for doubtful accounts. Accounts receivable balances written off have not exceeded allowances provided. 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, as well as other variances.

**(4) Public Relations and Marketing Development Fund and Restricted Cash**

We have a system-wide Public Relations and Marketing Development Fund, to which company-owned restaurants, in addition to franchise-operated restaurants subject to franchise agreements that were signed after December 17, 2003, are required to contribute a percentage of net sales, currently 1.0%, for use in public relations and marketing development efforts throughout the system. The assets held by this fund are considered restricted. Accordingly, we reflect the cash related to this fund in restricted cash and reflect the liability in accounts payable on our consolidated balance sheets as of September 30, 2012 and January 1, 2012. As of September 30, 2012 and January 1, 2012, we had approximately \$697,000 and \$275,000 in this fund, respectively.

**(5) Intangible Assets, net**

The Company has intangible assets that consist of liquor licenses and lease interest assets. The liquor licenses are indefinite lived assets and are not subject to amortization. The lease interest assets are amortized, to occupancy costs, on a straight-line basis over the remaining term of each respective lease.

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

A reconciliation of beginning and ending amounts of intangible assets for the nine and twelve months ended September 30, 2012 and January 1, 2012, respectively, are presented in the table below:

<i>(in thousands)</i>	Remaining estimated useful life (years)	Original Cost	Accumulated Amortization	Net Book Value	Less Current Portion	Non Current Portion
<b>Balance at September 30, 2012</b>						
Lease interest assets	27	1,417	(123)	1,294	(48)	1,246
Liquor licenses		1,560		1,560		1,560
<b>Total</b>		<b>2,977</b>	<b>(123)</b>	<b>2,854</b>	<b>(48)</b>	<b>2,806</b>

<i>(in thousands)</i>	Remaining estimated useful life (years)	Original Cost	Accumulated Amortization	Net Book Value	Less Current Portion	Net Book Value
<b>Balance at January 1, 2012</b>						
Lease interest assets	28	1,417	(88)	1,329	(48)	1,281
Liquor licenses		1,560		1,560		1,560
<b>Total</b>		<b>2,977</b>	<b>(88)</b>	<b>2,889</b>	<b>(48)</b>	<b>2,841</b>

Amortization for each of the next five years is expected to be approximately \$48,000 per year.

**(6) Credit Facility, Long-Term Debt and Debt Covenants**

The Company and certain of its subsidiaries (collectively known as the Borrower) currently have a Credit Agreement with Wells Fargo Bank, National Association. The Credit Agreement will expire on July 5, 2016. It contains a \$30.0 million revolving credit facility (the Facility) with an opportunity to increase to \$50.0 million, a term loan (the Term Loan) and up to \$3.0 million of letters of credit which reduce the availability of the Facility. At September 30, 2012, the principal amount outstanding under the Facility and the Term Loan was \$14.4 million and \$5.6 million, respectively, along with approximately \$620,000 in letters of credit for real estate locations. The Credit Agreement allows for the termination of the Facility by the Borrower without penalty at any time. We expect to use any borrowings under the Credit Agreement for general working capital purchases as needed. Under the Credit Agreement, the Borrower has granted the Lender a security interest in all current and future personal property of the Borrower.

Principal amounts outstanding under the Facility bear interest either at an adjusted Eurodollar rate or Base Rate plus an applicable margin. The applicable margin depends on the Company's Adjusted Leverage Ratio at the end of the previous quarter. For the nine months ended September 30, 2012 and October 2, 2011, our weighted average interest rate for the Facility was 2.79% and 2.74%, respectively. Unused portions of the Facility are subject to a fee which was 0.375% at September 30, 2012. An option exercise fee would also apply to increased outstanding amounts between \$30.0 and \$50.0 million.

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

Principal amounts outstanding under the Term Loan bear interest at the same rate as the Facility. The weighted average interest rate of the Term Loan for the nine months ended September 30, 2012 and October 2, 2011 was 2.37% and 2.60%, respectively. The Company is required to make minimum annual amortization payments of 10.0% of the principal balance of the Term Loan.

The Facility contains various financial covenants as well as customary affirmative and negative covenants for credit facilities of this type, which include, among others limitations on the Borrower detailed in the Facility, a capital expenditure limits and permitted stock repurchase limits (limited to \$10.0 million in aggregate during any 12 month period, and \$30.0 million in aggregate during the term of the agreement). We were in compliance with all covenants as of September 30, 2012.

**(7) Other Current Liabilities**

Other current liabilities consisted of the following at:

<i>(in thousands)</i>	<b>September 30, 2012</b>	<b>January 1, 2012</b>
Gift cards payable	\$ 1,370	\$ 1,916
Other liabilities	1,282	1,196
Sales tax payable	736	863
Income tax payable	142	275
Deferred franchise fees	120	105
Accrued property and equipment purchases	113	42
	<b>\$ 3,763</b>	<b>\$ 4,397</b>

**(8) Other Liabilities**

Other liabilities consisted of the following at:

<i>(in thousands)</i>	<b>September 30, 2012</b>	<b>January 1, 2012</b>
Deferred rent	\$ 6,579	\$ 5,915
Other liabilities	158	193
Asset retirement obligations	102	102
	<b>\$ 6,839</b>	<b>\$ 6,210</b>

**(9) Performance Shares, Stock Options, Other Forms of Compensation, and Common Share Repurchases****Stock-based Compensation**

We have adopted a 1995 Stock Option and Compensation Plan, a 1997 Employee Stock Option Plan, a 1998 Director Stock Option Plan and an Amended and Restated 2005 Stock Incentive Plan (the 2005 Plan ; all such plans are collectively referred to as the Plans ), pursuant to which we may grant stock options, stock appreciation rights, restricted stock, performance shares, and other stock and cash



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

awards to eligible participants. At the Company's annual shareholders' meeting held on May 3, 2011, the Company's shareholders approved a 450,000 share increase in the number of shares authorized and reserved for issuance under the 2005 Plan. Under the 2005 Plan, an aggregate of 346,099 shares of our Company's common stock remained unreserved and available for issuance at September 30, 2012.

We recognized stock-based compensation expense in our consolidated statements of operations for the three and nine months ended September 30, 2012 and October 2, 2011, respectively, as follows:

<i>(in thousands)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2012</b>	<b>October 2, 2011</b>	<b>September 30, 2012</b>	<b>October 2, 2011</b>
<b>Performance Share Programs:</b>				
2009 Program	\$	\$ 60	\$	\$ 182
2010 Program	60	81	207	270
2011 Program	100	116	310	354
2012 Program	124		372	
 Performance Shares	 \$ 284	 \$ 257	 \$ 889	 \$ 806
Director Shares	24	21	71	52
Restricted Stock	34	34	102	102
	 \$ 342	 \$ 312	 \$ 1,062	 \$ 960

**Performance Shares**

We recognize compensation cost for these share-based awards over the requisite service period (i.e. fixed treatment) based on their fair value, which is the closing stock price at the date of grant. Participants in each performance share program are entitled to receive a specified number of shares of our common stock ( Performance Shares ) based upon our achieving a specified percentage of the cumulative total of the earnings per share goals established by our compensation committee for each fiscal year within a three-year performance period (the Cumulative EPS Goal ). In the second and third year of any performance share program, the estimated attainment percentage is based on the forecasted earnings per share for that program. For the 2010 and 2011 programs, the attainment percentages were estimated at 91.0% and 91.8%, respectively. In the first year of any program, we estimate the attainment rate to be 100.0%. We have recorded compensation expense net of the estimated non-attainment rates. We will continue to evaluate the need to adjust the attainment percentages in future periods.

During the first quarter of fiscal 2012, we issued 263,891 shares upon satisfaction of conditions under the 2009 performance share program, representing the achievement of approximately 99.0% of the target payout for this program. Recipients elected to forfeit 101,203 of those shares to satisfy tax withholding obligations, resulting in a net issuance of 162,688 shares.

For the 2010 and 2011 programs, if the Company achieves at least 80% of the Cumulative EPS Goal, then each recipient will be entitled to receive a percentage of the Target number of Performance Shares granted that is equal to the percentage of the Cumulative EPS Goal achieved, up to 100%. The maximum share payout a recipient will be entitled to receive under the 2010 and 2011 programs is 100% of the Target number of Performance Shares granted if the Cumulative EPS Goal is met or exceeded.

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

The Compensation Committee elected to change the terms of the Performance Share Program for the fiscal 2012 program. As revised, the participants' rights to receive Performance Shares will be contingent on the Company achieving cumulative earnings per share for fiscal 2012, 2013 and 2014 equal to at least the sum of the amounts achieved by the Company during fiscal 2011, 2012 and 2013 (as adjusted by the Compensation Committee, if applicable). If the Company achieves this threshold, then participants will be entitled to receive a percentage of their Target number of Performance Shares equal to the percentage of the Cumulative EPS Goal achieved by the Company, up to 100%. If the Company achieves more than 100% of the Cumulative EPS Goal, then participants will be entitled to receive 100% of their Target number of Performance Shares, plus an additional percentage equal to twice the incremental percentage increase in the Cumulative EPS Goal achieved over 100% (e.g., if the Company achieves 103% of the Cumulative EPS Goal, then participants will be entitled to receive 106% of their Target number of Performance Shares); provided that the maximum payout under the fiscal 2012 program is capped at 110% of the Target number of Performance Shares.

At September 30, 2012, the following performance share programs were in progress:

<b>Award Date</b>	<b>Performance Share Program</b>	<b>Target No. of Performance Shares (Originally Granted)<sup>(1)</sup></b>	<b>No. of Performance Shares (Outstanding at September 30, 2012)<sup>(2)</sup></b>
1/4/2010	2010 Program	193,700	165,984
1/3/2011	2011 Program	129,900	115,991
1/2/2012	2012 Program	144,200	144,200

(1) Assumes achievement of 100% of the applicable Cumulative EPS Goal.

(2) Assumes an estimated payout equal to the forecasted achievement of the applicable Cumulative EPS Goal, net of employee forfeitures.

**Board of Directors Compensation**

We recognized Board of Directors' compensation expense in our consolidated statement of operations for the three and nine months ended September 30, 2012 and October 2, 2011, respectively, as follows:



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

<i>(in thousands)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2012<sup>(1)</sup></b>	<b>October 2, 2011<sup>(2)</sup></b>	<b>September 30, 2012<sup>(3)</sup></b>	<b>October 2, 2011<sup>(4)</sup></b>
Stock-based compensation <sup>(5)(6)</sup>	\$ 24	\$ 21	\$ 71	\$ 53
Cash compensation	102	115	306	311
<b>Total board of directors compensation</b>	<b>\$ 126</b>	<b>\$ 136</b>	<b>\$ 377</b>	<b>\$ 364</b>

(1) The three months ended September 30, 2012 consisted of 3 months of board service for the board year May 2012 – April 2013.

(2) The three months ended October 2, 2011 consisted of 3 months of board service for the board year May 2011 – April 2012.

(3) The nine months ended September 30, 2012 consisted of 4 months of board service for the board year of May 2011 – April 2012 and 5 months of board service for the board year May 2012 – April 2013.

(4) The nine months ended October 2, 2011 consisted of 4 months of board service for the board year of May 2010 – April 2011 and 5 months of board service for the board year May 2011 – April 2012.

(5) On May 5, 2009 and September 29, 2009, one-time 25,000 share restricted stock awards were granted to Lisa A. Kro and Wallace B. Doolin, respectively, upon joining the board of directors. The grants to Ms. Kro and Mr. Doolin had grant date fair values of \$168,000 and \$150,000, respectively, and vest ratably over a period of five years beginning on the commencement date of their board service.

(6) On August 2, 2011, a one-time 15,000 share restricted stock award was granted to John F. Gilbert III, upon joining the board of directors. The grant to Mr. Gilbert had a grant date fair value of \$153,750 and vests ratably over a period of five years beginning on the commencement date of his board service.

**Stock Options**

In general, the stock options we have issued under the Plans vest over a period of 3 to 5 years and expire 10 years from the date of grant. The 1995 Stock Option and Compensation Plan expired on December 29, 2005, the 1997 Employee Stock Option Plan expired on June 24, 2007, and the 1998 Director Stock Option Plan expired on June 19, 2008. Although incentives are no longer eligible for grant under these plans, each such plan will remain in effect until all outstanding incentives granted thereunder have either been satisfied or terminated. Information regarding our Company's stock options is summarized below:

<i>(number of options in thousands)</i>	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
Outstanding at January 1, 2012	193	\$ 6.68
Exercised	(5)	6.72
Canceled or expired	(6)	10.98
Outstanding at April 1, 2012	182	\$ 6.55
Exercised	(45)	6.51
Canceled or expired	(5)	10.98
Outstanding at July 1, 2012	132	\$ 6.40
Exercised		
Canceled or expired		

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

Outstanding at September 30, 2012	132	\$	6.40
Options Exercisable at September 30, 2012	132	\$	6.40

- 12 -

**Table of Contents**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Common Share Repurchases**

In November 2010, our Board of Directors authorized the repurchase of 1.0 million shares of our common stock under a stock repurchase program. As of May 1, 2012, we completed the repurchase of all 1.0 million shares under that program, for approximately \$9.9 million at an average market price per share of \$9.91, excluding commissions. On May 1, 2012, our Board of Directors approved a new stock repurchase program that authorized the repurchase of up to 1.0 million additional shares of our common stock in both the open market or through privately negotiated transactions. As of September 30, 2012 we had repurchased 323,862 shares under this new program for approximately \$3.4 million at an average market price of \$10.49, excluding commissions. During the first nine months of 2011, the Company used approximately \$3.1 million to repurchase 306,130 shares at an average price of \$10.15, excluding commissions.

**Employee Stock Purchase Plan**

The Company maintains an Employee Stock Purchase Plan, which gives eligible employees the option to purchase shares of our common stock (total purchases in a year may not exceed 10% of an employee's current year compensation) at 100% of the fair market value of the such shares at the end of each calendar quarter. There were approximately 1,303 and 1,640 shares purchased, respectively, with a weighted average fair value of \$9.92 and \$8.32 during the third quarter of 2012 and third quarter of 2011, respectively. For the nine months ended September 30, 2012 and October 2, 2011, there were approximately 3,584 shares and 4,079 shares purchased, respectively, with a weighted average fair value of \$10.80 and \$9.25, respectively. For the nine months ended September 30, 2012 and October 2, 2011 the Company recognized no expense related to the stock purchase plan due to it being non-compensatory as defined by IRS Section 423.

**(10) Retirement Savings Plans**

**401(k) Plan**

We have a pre-tax salary reduction/profit-sharing plan under the provisions of Section 401(k) of the Internal Revenue Code, which covers employees meeting certain eligibility requirements. In fiscal 2012, we will match 25.0%, and in fiscal 2011, we matched 25.0%, of the employee's contribution up to 4.0% of their earnings. Employee contributions were approximately \$136,000 and \$151,000 for the third quarter of fiscal years 2012 and 2011, respectively. The employer match was \$24,000 and \$24,000, respectively, for the third quarter of fiscal years 2012 and 2011. For the nine months ended September 30, 2012 and October 2, 2011, eligible participants contributed approximately \$427,000 and \$444,000, respectively, to the plan and the Company provided matching funds of approximately \$70,000 and \$67,000, respectively. There were no discretionary contributions to the plan during the first nine months of fiscal year 2012 and \$11,000 of discretionary contributions during the first nine months of fiscal year 2011.

**Non-Qualified Deferred Compensation Plan**

We have a Non-Qualified Deferred Compensation Plan effective as of February 25, 2005 (the "Deferred Compensation Plan"). Eligible participants are those employees who are at the director level and above and who are selected by the Company to participate in the Deferred Compensation Plan. Participants must complete a deferral election each year to indicate the level of compensation (salary, bonus and commissions) they wish to have deferred for the coming year. This deferral election is irrevocable except to the extent permitted by the Deferred Compensation Plan Administrator, and the Regulations promulgated by the IRS. During fiscal 2012 and fiscal 2011, we are matching 25% of the first 4.0% contributed and paying a declared interest rate of 6.0% on balances outstanding. The board of directors administers the Deferred Compensation Plan and may change the rate or any other aspects of the Deferred Compensation Plan at any time.

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



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

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

For the quarter ended September 30, 2012 and October 2, 2011, eligible participants contributed approximately \$36,000 and \$31,000 to the Deferred Compensation Plan, respectively, and the Company provided matching funds and interest of approximately \$20,000 and \$17,000, respectively. For the nine months ended September 30, 2012 and October 2, 2011, eligible participants contributed approximately \$113,000 and \$105,000, respectively, to the Deferred Compensation Plan and the Company provided matching funds and interest of approximately \$57,000 and \$49,000, respectively.

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

In accordance with FASB Accounting Standards Codification for Property, Plant, and Equipment, we evaluate restaurant sites and long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of restaurant sites to be held and used is measured by a comparison of the carrying amount of the restaurant site to the undiscounted future net cash flows expected to be generated on a restaurant-by-restaurant basis. If a restaurant is determined to be impaired, the loss is measured by the amount by which the carrying amount of the restaurant site exceeds its fair value. Fair value is estimated based on the best information available including estimated future cash flows, expected growth rates in comparable restaurant sales, remaining lease terms and other factors. 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. Following is a summary of these events during the third quarter of fiscal 2012 and fiscal 2011.

**Asset Impairment and Estimated Lease Termination and Other Closing Costs (in thousands):**

<b>Restaurants</b>	<b>Reason</b>	<b>Three Months Ended September 30, 2012</b>	<b>Nine Months Ended September 30, 2012</b>
Vernon Hills, IL	Lease reserve <sup>(1)</sup>	\$	77
Various	Costs for closed restaurants <sup>(2)</sup>	13	211
<b>Total for 2012</b>		<b>\$ 13</b>	<b>\$ 288</b>

(1) The lease reserve equals the net present value of the remaining lease obligations for the Vernon Hills, IL restaurant, net of expected sublease income, which is equal to zero.

(2) The Company incurred various costs for previously closed restaurants.

**Table of Contents****FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Asset Impairment and Estimated Lease Termination and Other Closing Costs (in thousands):**

Restaurants	Reason	Three Months Ended October 2, 2011	Nine Months Ended October 2, 2011
Various	Costs for closed restaurants <sup>(1)</sup>	\$ (28)	\$ 10
Gaithersburg, MD	Asset Impairment <sup>(2)</sup>		148
<b>Total for 2011</b>		<b>\$ (28)</b>	<b>\$ 158</b>

<sup>(1)</sup> The Company incurred various costs for previously closed restaurants, including a recapture of accrued expenses for approximately \$30,000, in Palatine, IL and Carpentersville, IL.

<sup>(2)</sup> Based on the Company's assessment of expected cash flows, an asset impairment charge was recorded for this restaurant that will be relocated within its existing market in 2013.

**(12) Fair Value Measurements***Non-Financial Assets Measured on a Non-Recurring Basis*

In the first nine months of fiscal 2012, there were no impairment charges recorded that required a determination of fair value. In the first quarter of fiscal 2011, an impairment charge was recorded for approximately \$148,000 for a restaurant that the Company will relocate within its existing market in early 2013. This restaurant had a carrying value of approximately \$327,000. We determined fair value based on projected discounted future operating cash flows of the restaurants over their remaining service life using a discount rate that is commensurate with the risk inherent in our current business model, which reflects our own judgment. The fair value of approximately \$179,000 was determined by using significant unobservable inputs (Level 3).

**(13) Supplemental Cash Flow Information**

(in thousands)	Nine Months Ended	
	September 30, 2012	October 2, 2011
Cash paid for interest	\$ 725	\$ 801
Cash paid for taxes	\$ 1,488	\$ 1,953
<b>Non-cash investing and financing activities:</b>		
Accrued property and equipment purchases	\$ 72	\$ 189
Reclassification of additional-paid-in-capital to payroll taxes payable for performance shares issued	\$ 1,189	\$ 82

**(14) Recently Issued Accounting Pronouncement**

In July 2012, the FASB amended Accounting Standards Codification: Subtopic 350-30, Intangibles - Goodwill and Other - General Intangibles Other than Goodwill. This amendment allows an entity the option to first evaluate qualitative events and circumstances on a basis of weight of evidence and significance to determine if it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the events and circumstances by way of weight as described above, an entity concludes that the indefinite-lived intangible asset has a likelihood of 50% or greater of being impaired, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the

quantitative impairment test by comparing the fair value with the

**Table of Contents**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

carrying amount. However, if the entity concludes otherwise, no further action is required. Under the guidance, an entity also has the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. An entity will be able to resume performing the qualitative assessment in any subsequent period if it chooses to do so. The amendments in this ASU are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The Company does not anticipate that the adoption of this ASU will have a material impact on our consolidated financial statements.

**(15) Income Taxes**

The effective income tax rate for the nine months ended September 30, 2012 was 22.1% compared to an effective income tax rate of 34.0% for the quarter ended October 2, 2011. The decrease in the effective income tax rate, year over year, was primarily attributable to an increase in the impact of employment tax credits for employee reported tips for the current year as well as the previous open tax years. As such, the Company has amended certain tax returns to capture this additional credit during the third quarter of fiscal 2012. During the fourth quarter, the Company anticipates completing the amendment process for the remainder of the open tax years. The impact on the effective income tax rate for these credits will be treated discretely in the period the returns are filed as required by the Codification. We expect a tax rate of approximately 16% to 19% for fiscal 2012.

**(16) Subsequent Events**

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

On October 8, 2012, John Gilbert III, was named Chief Executive Officer, and Christopher O'Donnell was named President and Chief Operating Officer by the Company's board of directors. On October 8, 2012, and pursuant to the agreement governing Mr. Gilbert's employment, the Company granted 150,000 shares of restricted stock having an aggregate grant date fair value of \$1,465,500. These shares of restricted stock will vest in equal annual installments on each of the first five anniversaries of the grant date provided that Mr. Gilbert remains employed by the Company through the applicable vesting date. The compensation expense will be recognized under general and administrative expense in our consolidated statements of operations in equal quarterly installments commencing in the fourth quarter of fiscal 2012 and continuing through the applicable service period until the third quarter of fiscal 2017.

Subsequent to September 30, 2012, the Company and certain of its subsidiaries (collectively known as the Borrower) executed the Second Amendment to the Second Amended and Restated Credit Agreement with Wells Fargo Bank, National Association. This amendment added an additional pricing tier that provides increased flexibility for our customary and affirmative covenants.



---

**Table of Contents**

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

**Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OVERVIEW**

Famous Dave s of America, Inc. was incorporated as a Minnesota corporation in March 1994 and opened its first restaurant in Minneapolis in June 1995. As of September 30, 2012, there were 187 Famous Dave s restaurants operating in 34 states and one Canadian province, including 53 company-owned restaurants and 134 franchise-operated restaurants. An additional 68 franchise restaurants were in various stages of development as of September 30, 2012.

***Fiscal Year***

Our fiscal year ends on the Sunday closest to December 31<sup>st</sup>. Our fiscal year is generally 52 weeks; however, it periodically consists of 53 weeks. The fiscal years ending December 30, 2012 (fiscal 2012) and January 1, 2012 (fiscal 2011) are both 52 week fiscal years.

***Revenue***

Our revenue consists of restaurant sales, franchise-related revenue, and licensing and other revenue. Our franchise-related revenue is comprised of area development fees, initial franchise fees, and continuing royalty payments. Our area development fee consists of a one-time, non-refundable payment equal to \$10,000 per restaurant in consideration for the services we perform in preparation of executing each area 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 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. Our initial, non-refundable, franchise fee typically ranges from \$30,000 to \$40,000 per restaurant, of which \$5,000 is recognized immediately when a franchise agreement is signed, reflecting the commission earned and expenses incurred related to the sale. The remaining non-refundable fee of \$25,000 to \$35,000 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). During fiscal 2012, to incentivize growth, any partner who signs a franchise agreement and opens a Shack style counter service restaurant in fiscal 2012 will have their initial franchise fees reduced by 50% for that restaurant. The franchise agreement represents a separate and distinct earnings process from the area development agreements. 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 franchisees pay us a monthly royalty of 5% of their net sales.

***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 staff gain experience following a restaurant s opening, labor scheduling, food cost management and operating expense control typically improve to levels similar to those at our more established restaurants.

**Table of Contents****FAMOUS DAVES OF AMERICA, INC. AND SUBSIDIARIES****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, bonuses, team member benefits, legal fees, accounting fees, consulting fees, travel, rent and general insurance are major items in this category. Additionally, we record expense for Managers In Training (MIT's) in this category for approximately six weeks prior to a restaurant opening. We also provide franchise services for which the revenue is included in other revenue and the expenses are included in general and administrative expenses.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2012	October 2, 2011	September 30, 2012	October 2, 2011
Food and beverage costs <sup>(1)</sup>	31.5%	30.0%	31.2%	29.5%
Labor and benefits costs <sup>(1)</sup>	32.8%	31.6%	32.4%	31.3%
Operating expenses <sup>(1)</sup>	30.9%	27.8%	28.5%	27.6%
Depreciation & amortization (restaurant level) <sup>(1)</sup>	3.9%	3.6%	3.8%	3.6%
Depreciation & amortization (corporate level) <sup>(2)</sup>	0.4%	0.4%	0.4%	0.4%
General and administrative expenses <sup>(2)</sup>	10.9%	10.3%	10.5%	10.7%
Asset impairment and estimated lease termination and other closing costs <sup>(1)</sup>		(0.1)%	0.3%	0.2%
Pre-opening expenses and net loss on disposal of equipment <sup>(1)</sup>	0.1%	0.7%	0.3%	0.3%
<b>Total costs and expenses <sup>(2)</sup></b>	<b>98.1%</b>	<b>93.2%</b>	<b>95.4%</b>	<b>92.7%</b>
Income from operations <sup>(2)</sup>	1.9%	6.8%	4.6%	7.3%

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

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

<sup>(3)</sup> Data regarding our restaurant operations as presented in the table includes sales, costs and expenses associated with our Rib Team, which recorded a net loss of \$40,000 and net income of \$10,000 for the three months ended September 30, 2012 and October 2, 2011, respectively. The Rib Team recorded a net loss of \$64,000 and \$19,000 for the nine months ended September 30, 2012 and October 2, 2011, respectively. Our Rib Team travels around the country introducing people to our brand of barbeque, and building brand awareness.

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the accompanying unaudited consolidated financial statements and notes, and the audited consolidated financial statements and notes included in our Form 10-K for the fiscal year ended January 1, 2012.

**Results of Operations Three and Nine months ended September 30, 2012 compared to Three and Nine months ended October 2, 2011.****Total Revenue**

Total revenue of approximately \$39.9 million for the third quarter of fiscal 2012 increased \$994,000 or 2.6%, from \$38.9 million in the comparable quarter in fiscal 2011. For the nine months ended September 30, 2012, total revenue of approximately \$118.7 million increased approximately \$1.4 million or 1.2% over revenue of approximately \$117.3 million, for the nine months ended October 2, 2011.

**Restaurant Sales, net**

Restaurant sales were approximately \$34.9 million for the third quarter of fiscal 2012 compared to approximately \$34.3 million for the same period in fiscal 2011, reflecting a 1.7% increase. The year-over-year increase in third quarter sales reflected a comparable sales increase of 0.2%,

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

the addition of two new company-owned restaurants since the third quarter of 2011 and a weighted average price increase of approximately 2.2%.

- 18 -

---

**Table of Contents**

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

These increases were partially offset by the closure of the Vernon Hills, Illinois and Tulsa, Oklahoma restaurants. On a weighted basis, To-Go represented 0.9% of the comparable sales increase, and was partially offset by a 0.6% decline in dine-in sales and a 0.1% decline in catering sales. For the third quarter of fiscal 2012, off-premise sales were 35.2% of total sales, with To-Go representing 21.9% and catering representing 13.3%. This compares to off-premise sales of 34.1% for the prior year. As a percentage of dine-in sales, our adult beverage sales at our company-owned restaurants were 9.1% and 9.0% for the third quarter of fiscal 2012 and 2011, respectively.

Restaurant sales for the nine months ended September 30, 2012 were approximately \$103.9 million compared to approximately \$103.6 million for the nine months ended October 2, 2011, reflecting a 0.4% increase. The year over year increase in restaurant sales was the result of the third quarter's sales increase. As a percentage of dine-in sales, our adult beverage sales at our company-owned restaurants were 9.3% and 9.2% for the nine months of fiscal 2012 and 2011, respectively.

***Franchise-Related Revenue***

Franchise-related revenue consists of royalty revenue and franchise fees, which include initial franchise fees and area development fees. Franchise-related revenue was approximately \$4.6 million for the third quarter of fiscal 2012, compared to \$4.4 million for the third quarter of fiscal 2011. There were 134 franchise-operated restaurants open at September 30, 2012 compared to 131 franchise-operated restaurants open at October 2, 2011. The year over year increase in franchise royalties reflects a net increase of three franchise restaurants since the third quarter of 2011 partially offset by a 2.8% decline in comparable sales.

Franchise-related revenue was approximately \$13.9 million for the nine months ended September 30, 2012 compared to approximately \$13.0 million for the nine months ended October 2, 2011, primarily reflecting a year-over-year increase in royalty revenue of 5.6% for the nine month timeframe.

***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. For the third quarter of fiscal 2012, the licensing royalty revenue was approximately \$201,000 compared to approximately \$148,000 for the comparable period of fiscal 2011. Licensing royalty revenue was approximately \$600,000 for the nine months ended September 30, 2012 as compared to \$572,000 for the comparable period of fiscal 2011.

Other revenue for the fiscal 2012 third quarter was approximately \$177,000 compared to \$80,000 for the comparable prior year quarter. The year over year increase in other revenue was the result of increased opening assistance provided to the three franchise-operated restaurants that opened during the third quarter. Other revenue for the nine months ended September 30, 2012 was approximately \$300,000 compared to approximately \$211,000 for the comparable period of fiscal 2011.

***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 for the third quarter of fiscal 2012 increased 0.2%, compared to fiscal 2011's third quarter decrease of 0.1%. At the end of the third quarter of fiscal 2012 and the third quarter of fiscal 2011, there were 49 and 51 restaurants, respectively, included in the company-owned comparable sales base.

**Table of Contents****FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES**

Same store net sales for company-owned restaurants open at least 24 months for the nine months ended September 30, 2012 decreased 0.6%, compared to fiscal 2011's nine months ended October 2, 2011 increase of 0.8%. For the nine months ended September 30, 2012 and October 2, 2011, there were 49 and 44 restaurants, respectively, included in the company-owned comparable sales base.

Same store net sales on a 24 month basis for franchise-operated restaurants for the third quarter of fiscal 2012 decreased 2.8%, compared to a decrease of 1.0% for the prior year comparable period. For the third quarter of 2012 and the third quarter of 2011, there were 112 and 109 restaurants, respectively, included in the franchise-operated comparable sales base.

Same store net sales on a 24 month basis for franchise-operated restaurants for the first nine months of fiscal 2012 and fiscal 2011 decreased 1.5% and 0.7%, respectively. For the first nine months of fiscal 2012 and fiscal 2011, there were 109 and 102 restaurants, respectively, included in the franchise-operated 24 month comparable sales base.

**Average Weekly Net Sales and Operating Weeks**

The following table shows company-owned and franchise-operated average weekly net sales and company-owned and franchise-operated operating weeks for the third quarter of fiscal 2012 and fiscal 2011:

	Three Months Ended		Nine Months Ended	
	September 30, 2012	October 2, 2011	September 30, 2012	October 2, 2011
<b>Average Weekly Net Sales (AWS):</b>				
Company-Owned	\$ 50,554	\$ 50,199	\$ 50,231	\$ 50,859
Full-Service	\$ 52,362	\$ 51,582	\$ 52,118	\$ 52,396
Counter-Service	\$ 36,411	\$ 37,089	\$ 35,483	\$ 36,373
Franchise-Operated	\$ 53,016	\$ 53,772	\$ 54,258	\$ 54,344
AWS 2005 and Post 2005: <sup>(1)</sup>				
Company-Owned	\$ 53,200	\$ 54,806	\$ 52,910	\$ 55,647
Franchise-Operated	\$ 55,656	\$ 56,446	\$ 57,173	\$ 57,364
AWS Pre-2005: <sup>(1)</sup>				
Company-Owned	\$ 48,519	\$ 47,264	\$ 48,266	\$ 47,848
Franchise-Operated	\$ 47,549	\$ 48,562	\$ 48,218	\$ 48,445
<b>Operating Weeks:</b>				
Company-Owned	688	681	2,063	2,033
Franchise-Operated	1,717	1,687	5,131	4,998

<sup>(1)</sup> Provides further delineation of AWS for restaurants opened during pre-fiscal 2005, and restaurants opened during and after fiscal 2005, timeframes.

**Food and Beverage Costs**

Food and beverage costs for the third quarter of fiscal 2012 were approximately \$11.0 million or 31.5% of net restaurant sales, compared to approximately \$10.3 million or 30.0% of net restaurant sales for the third quarter of fiscal 2011. We continue to face pressure on our margins primarily due to an increase in commodity costs because of rising corn prices, since corn is a key ingredient in many of our products. Additionally, continuing a trend we saw throughout the second quarter, as guests looked for greater value, we saw a shift in our menu mix

**Table of Contents**

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

during the third quarter toward lower-priced, but lower-margin items. Lastly, we have strategically slowed the progress of some of the initiatives mentioned at the beginning of 2012 to ensure their long-term success, both in terms of dollar savings, as well as delivering a value proposition to our guests. As such we have seen a delay in anticipated savings during 2012 from certain strategic initiatives, but still expect to realize savings in 2013.

As we continue to combat the pressure on our margins, in September, we took a price increase of 1.0% on selected menu items, which combined with a price increase from earlier in the year, resulted in a 2.85% weighted average menu price increase for all of fiscal 2012. In addition, a key for us to effectively manage food costs will be to have a number of suppliers in various geographic regions. As such, we continue to grow our supplier network, particularly in the western part of the United States. We expect that these new suppliers will allow us to optimize our freight costs to distribution centers, thereby lowering freight costs across the rest of the system.

Another key initiative for us is to transition to selling some of our key proteins in the same unit of measure we receive them. An example of this would be selling wings by weight as opposed to by the piece. It is important to note, that as we evaluate this strategy we do not propose to change portion sizes or the value delivered to our guests. We will also be transitioning to a new preparation process for our brisket, resulting in a substantially better product as well as cost savings. Each brisket will now be slow-smoked; hand-crafted in our restaurants each day and will result in a more authentic signature BBQ item but with improved margins.

Food and beverage costs for the first nine months of fiscal 2012 were approximately \$32.4 million or 31.2% of net restaurant sales compared to approximately \$30.6 million or 29.5% of net restaurant sales for the comparable period of fiscal 2011.

As mentioned at the beginning of fiscal 2012, we anticipated food inflation for fiscal 2012 to be approximately 5.0% to 7.0% for all of our contracted food items such as pork, chicken, and brisket, and as we look to the remainder of the year, we affirm our food inflation will be approximately 6.0%. Predominately due to the strategic delay in certain initiatives, as well as the increased discounts associated with our fourth quarter direct mail and bounce-back programs, we are updating our previous guidance, and now anticipate food and beverage costs, as a percentage of net sales, to be approximately 140 to 145 basis points higher than the prior year.

In spite of the challenges in the commodity markets, we are cautiously optimistic about 2013. Based on what we have contracted to date, in combination with our previously mentioned strategic initiatives, we are currently anticipating a 2.0% decline in our contracted food and beverage costs for next year. During the third quarter of 2012, we executed a new contract for the majority of our pork product through all of fiscal 2013 at a minimum of a 0.5% year over year decline, which positions us well to capitalize on future savings should we see further opportunities in 2013. Certain components of our chicken and brisket contracts have been negotiated through the first quarter of 2013; however, we are still trying to negotiate final pricing.

***Labor and Benefits Costs***

Labor and benefits costs for the third quarter ended September 30, 2012 were approximately \$11.5 million or 32.8% of net restaurant sales, compared to approximately \$10.8 million or 31.6% of net restaurant sales for the three months ended October 2, 2011. This increase was primarily due to higher direct labor costs as well as higher medical claims and workers compensation premiums year over year. Labor and benefits for the nine months ended September 30, 2012 were approximately \$33.7 million or 32.4% of net restaurant sales, compared to approximately \$32.4 million or 31.3% of net restaurant sales for the nine months ended October 2, 2011.

Based on the results from the first nine months of the year and the anticipated increased level of discounts in the fourth quarter resulting in less cost efficient labor, we are updating our previous guidance, and now expect labor and benefits costs, as a percentage of sales, to be 110 to 115 basis points unfavorable to fiscal 2011's percentage.

---

**Table of Contents**

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

***Operating Expenses***

Operating expenses for the third quarter of fiscal 2012 were approximately \$10.8 million or 30.9% of net restaurant sales, compared to operating expenses of approximately \$9.5 million or 27.8% of net restaurant sales for the third quarter of fiscal 2011. This increase was primarily due to the shift in timing of the fourth quarter media and direct-mail marketing initiatives of approximately 280 basis points from the fourth quarter of 2011 to the third quarter of 2012, as well as increased other restaurant operating costs year over year due to price inflation. Operating expenses for the nine months ended September 30, 2012 were approximately \$29.6 million or 28.5% of net restaurant sales, compared to approximately \$28.6 million or 27.6% of net restaurant sales for the nine months ended October 2, 2011.

Due to an increased spend related to a more targeted fourth quarter direct-mail marketing promotions, we now anticipate, on an annual basis, advertising expense will be approximately 3.4% of net sales for 2012 including a 1.0% contribution to the Marketing Fund. We are updating our previous guidance and are now projecting operating expenses, as a percentage of net sales, for fiscal 2012 to be approximately 40-45 basis points higher than 2011's percentage. This increase from our previous guidance reflects increased marketing spend from our original estimate of 3.0% to the current estimate of 3.4%, as well as increased discounts associated with our fourth quarter promotions.

***Depreciation and Amortization***

Depreciation and amortization expense for the third quarter of 2012 was approximately \$1.5 million or 3.8% of total revenue compared to \$1.4 million or 3.6% for the second quarter of fiscal 2011. Depreciation and amortization expense for the nine months ended September 30, 2012 and October 2, 2011 was approximately \$4.4 million and \$4.2 million, respectively, and was 3.7% and 3.5%, respectively, of total revenue.

***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 the third quarter of 2012, we incurred approximately \$19,000 of pre-opening expenses. During the third quarter of 2011, we incurred approximately \$237,000 of pre-opening expenses, which included pre-opening rent. During the nine months ended September 30, 2012 and October 2, 2011, we incurred pre-opening expenses of \$317,000 and \$282,000, respectively. We anticipate pre-opening costs for 2012 to be approximately \$502,000 for the opening of two company-owned restaurants later in the year, including pre-opening rent of \$85,000.

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

In accordance with FASB Accounting Standards Codification for Property, Plant, and Equipment, we evaluate restaurant sites and long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of restaurant sites to be held and used is measured by a comparison of the carrying amount of the restaurant site to the undiscounted future net cash flows expected to be generated on a restaurant-by-restaurant basis. If a restaurant is determined to be impaired, the loss is measured by the amount by which the carrying amount of the restaurants' assets exceeds its fair value. Fair value is estimated based on the best information available including estimated future cash flows, expected growth rates in comparable restaurant sales, remaining lease terms 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. The following is a summary of these events during the third quarter of fiscal 2012 and fiscal 2011.

**Table of Contents****FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES****Asset Impairment and Estimated Lease Termination and Other Closing Costs (in thousands):**

<b>Restaurants</b>	<b>Reason</b>	<b>Three Months Ended September 30, 2012</b>	<b>Nine Months Ended September 30, 2012</b>
Vernon Hills, IL	Lease reserve <sup>(1)</sup>	\$	\$ 77
Various	Costs for closed restaurants <sup>(2)</sup>	13	211
<b>Total for 2012</b>		<b>\$ 13</b>	<b>\$ 288</b>

<sup>(1)</sup> The lease reserve equals the net present value of the remaining lease obligations for the Vernon Hills, IL restaurant, net of expected sublease income, which is equal to zero.

<sup>(2)</sup> The Company incurred various costs for previously closed restaurants.

**Asset Impairment and Estimated Lease Termination and Other Closing Costs (in thousands):**

<b>Restaurants</b>	<b>Reason</b>	<b>Three Months Ended October 2, 2012</b>	<b>Nine Months Ended October 2, 2012</b>
Various	Costs for closed restaurants <sup>(1)</sup>	\$ (28)	\$ 10
Gaithersburg, MD	Asset Impairment <sup>(2)</sup>		148
<b>Total for 2011</b>		<b>\$ (28)</b>	<b>\$ 158</b>

<sup>(1)</sup> The Company incurred various costs for a previously closed restaurant, including a recapture of accrued expenses for approximately \$30,000, in Palatine, IL and Carpentersville, IL.

<sup>(2)</sup> Based on the Company's assessment of expected cash flows, an asset impairment charge was recorded for this restaurant that will be relocated within its existing market in 2013.

***General and Administrative Expenses***

General and administrative expenses for the third quarter of 2012 were approximately \$4.4 million or 10.9% of total revenue, compared to approximately \$4.0 million or 10.3% of total revenue for the third quarter of fiscal 2011. This increase was primarily due to the annualized impact of purposeful investments in corporate infrastructure, as well as a year over year increase in required franchise opening assistance. Our general and administrative expenses do not incorporate any corporate bonus accrual for the third quarter of fiscal 2012 and compares to a corporate bonus accrual of approximately \$219,000 for the third quarter of fiscal 2011.

General and administrative expenses for the first nine months of fiscal 2012, respectively, were approximately \$12.5 million or 10.5% of total revenue compared to approximately \$12.5 million or 10.7% of total revenue for the first nine months of fiscal 2011. We are expecting stock-based and board of director cash compensation to be approximately \$1.8 million in fiscal 2012, as follows (in thousands):

Performance	Restricted	Board of Directors	Total
Shares	Stock and	Stock and	



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

	Restricted Stock Units	Cash Compensation
\$ 1,073	\$ 210	\$ 489
		\$ 1,772

- 23 -

---

**Table of Contents**

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

We are updating our previous guidance, and now anticipate general and administrative expenses as a percentage of revenue, to be approximately 30-35 basis points unfavorable to 2011's percentage, primarily due to the addition of the Chief Operating Officer position as well as increased stock-based compensation related to a restricted stock grant for our newly appointed Chief Executive Officer.

***Interest Expense***

Interest expense was approximately \$282,000 or 0.7% of total revenue for the third quarter of fiscal 2012, compared to approximately \$261,000 or 0.7% of total revenue for the comparable time frame of fiscal 2011. This category includes interest expense for notes payable, financing lease obligations, our line of credit, and interest for deferrals made under our non-qualified deferred compensation plan.

Interest expense was approximately \$793,000 or 0.7% of total revenue for the first nine months of fiscal 2012 and approximately \$821,000 or 0.7% of total revenue for the first nine months of fiscal 2011. For full fiscal 2012, we still expect interest expense to be essentially flat, as a percentage of revenue, to fiscal 2011.

***Interest Income***

Interest income was approximately \$2,000 and \$6,000 for the third quarter of fiscal 2012 and fiscal 2011, respectively. Interest income was approximately \$5,000 and \$19,000 for the first nine months of fiscal 2012 and fiscal 2011, respectively. Interest income reflects interest received on short-term cash and cash equivalent balances.

***Provision for Income Taxes***

For the third quarter of 2012, we recorded an estimated benefit of income taxes of approximately \$399,000 or 89.5% of income before income taxes, compared to a tax provision of approximately \$807,000 or 34.0% of income before income taxes, for the third quarter of 2011. For the nine months ended September 30, 2012, our tax provision was approximately \$1.0 million, or 22.1% of income before income taxes, compared to the prior year comparable period of approximately \$2.7 million, or 34.0% of income before income taxes.

The decrease in the effective income tax rate, year over year, was primarily attributable to an increase in the impact of employment tax credits for employee reported tips for the current year as well as previous tax years that were amended. As such, the Company has amended certain tax returns to capture this additional credit during the third quarter of fiscal 2012. During the fourth quarter, the Company anticipates completing the amendment process for the remainder of the open tax years. The impact on the effective income tax rate for these credits will be treated discretely in the period the returns are filed as required by the Codification. We estimate an effective tax rate of approximately 16.0% - 19.0% for fiscal 2012.

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

Net income for the three months ended September 30, 2012 was approximately \$845,000, or \$0.12 per basic and \$0.11 per diluted share, respectively, on approximately 7,327,000 weighted average basic shares outstanding and 7,478,000 weighted average diluted shares outstanding, respectively. Net income for the three months ended October 2, 2011 was approximately \$1.6 million, or \$0.20 per basic share and \$0.19 per diluted share on approximately 7,994,000 weighted average basic shares outstanding and 8,173,000 weighted average diluted shares outstanding, respectively.

Net income for the nine months ended September 30, 2012 was approximately \$3.6 million, or \$0.48 per basic share and \$0.47 per diluted share, respectively, on approximately 7,494,000 weighted average basic shares outstanding and approximately 7,659,000 weighted average diluted shares outstanding, respectively. Net income for the nine months ended October 2, 2011 was approximately \$5.1 million, or \$0.64 per basic share and \$0.63 per diluted share, respectively, on approximately 8,041,000 weighted average basic shares outstanding and approximately 8,219,000 weighted average diluted shares outstanding, respectively.

---

**Table of Contents**

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

**Financial Condition, Liquidity and Capital Resources**

Our balance of unrestricted cash and cash equivalents was approximately \$2.0 million at September 30, 2012 and approximately \$1.1 million at January 1, 2012.

Our current ratio, which measures our immediate short-term liquidity, was 1.16 at September 30, 2012 and 0.83 at January 1, 2012. The current ratio is computed by dividing total current assets by total current liabilities. The change in our ratio was primarily due to increases in our cash and cash equivalents balance, as well as our prepaid expenses relating to our payments for insurance premiums and estimated income tax payments made during the first nine months of fiscal 2012. Additionally, this increase was due to a reduction in our accrued compensation and benefits resulting from the 2011 corporate bonus payout in March of 2012, as well as no 2012 corporate bonus accrual. These increases were partially offset by an increase in our accounts payable balance due to higher purchasing volumes attributable to the seasonality of our business. As is true with most restaurant companies, we often operate in a negative working capital environment due to the fact that we receive cash up front from customers and then pay our vendors on a delayed basis.

Net cash provided by operating activities through the third quarter of 2012 was approximately \$6.9 million and reflects net income of approximately \$3.6 million, depreciation and amortization of approximately \$4.4 million, an increase in accounts payable of \$1.8 million, stock-based compensation of \$1.1 million, and an increase in deferred rent of \$695,000. These net increases were partially offset by a decrease in accrued compensation and benefits of \$2.5 million and other current liabilities of \$752,000, as well as an increase in prepaid expense and other current assets of \$1.3 million.

Net cash provided by operating activities for the nine months ended October 2, 2011 was approximately \$8.5 million. Cash provided by operating activities was primarily from net income of approximately \$5.1 million, depreciation and amortization of approximately \$4.2 million, stock-based compensation of \$960,000, an increase in deferred rent of \$644,000, and an increase in other current liabilities of \$570,000. These net increases were partially offset by a decrease in accounts payable of \$1.2 million, a decrease in accrued compensation and benefits of \$1.2 million and an approximate \$654,000 increase in prepaid expenses and other current assets.

Net cash used for investing activities was approximately \$3.1 million for the first nine months of fiscal 2012 and was \$3.0 million for the first nine months of fiscal 2011. On March 2, 2012, the Company sold the restaurant assets of its Tulsa Oklahoma restaurant for approximately \$1.2 million. During the first nine months of 2012 and 2011, we used approximately \$4.3 million and \$3.4 million, respectively, on capital expenditures for our existing restaurants and for other infrastructure projects.

We are updating our previous guidance, and now expect total 2012 capital expenditures to be approximately \$6.5 million, reflecting two new restaurant openings, continued investments in our existing restaurants, including several significant remodeling projects, and continued investments in corporate infrastructure systems.

Net cash used for financing activities was approximately \$3.0 million and \$6.4 million in the first nine months of fiscal 2012 and fiscal 2011, respectively. During the first nine months of 2012, we had draws of \$23.7 million on our line of credit and had repayments of \$20.3 million. During the first nine months of 2012 we used \$5.9 million to repurchase 539,596 shares at an average price of \$10.68, excluding commissions, under the current share repurchase program and the recently completed, previous share repurchase program. During the nine months ended October 2, 2011, we had draws of \$21.9 million on our line of credit and had repayments of \$24.9 million. During the first nine months of fiscal 2011, we also used approximately \$3.1 million to repurchase 306,130 shares at an average price of \$10.15, excluding commissions, under the completed November 2010 share repurchase program.

---

**Table of Contents**

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

The Company and certain of its subsidiaries (collectively known as the Borrower) currently have a Credit Agreement with Wells Fargo Bank, National Association. The Credit Agreement will expire on July 5, 2016. It contains a \$30.0 million revolving credit facility (the Facility) with an opportunity to increase to \$50.0 million, a term loan (the Term Loan) and up to \$3.0 million of letters of credit which reduce the availability of the Facility. At September 30, 2012, the principal amount outstanding under the Facility and the Term Loan was \$14.4 million and \$5.6 million, respectively, along with approximately \$620,000 in letters of credit for real estate locations. The Credit Agreement allows for the termination of the Facility by the Borrower without penalty at any time. We expect to use any borrowings under the Credit Agreement for general working capital purchases as needed. Under the Credit Agreement, the Borrower has granted the Lender a security interest in all current and future personal property of the Borrower.

Principal amounts outstanding under the Facility bear interest either at an adjusted Eurodollar rate or Base Rate plus an applicable margin. The applicable margin depends on the Company's Adjusted Leverage Ratio at the end of the previous quarter. For the nine months ended September 30, 2012 and October 2, 2011, our weighted average interest rate for the Facility was 2.79% and 2.74%, respectively. Unused portions of the Facility are subject to a fee which was 0.375% at September 30, 2012. An option exercise fee would also apply to increased outstanding amounts between \$30.0 and \$50.0 million.

Principal amounts outstanding under the Term Loan bear interest at the same rate as the Facility. The weighted average interest rate of the Term Loan for the nine months ended September 30, 2012 and October 2, 2011 was 2.37% and 2.60%, respectively. The Company is required to make minimum annual amortization payments of 10.0% of the principal balance of the Term Loan.

The Facility contains various financial covenants as well as customary affirmative and negative covenants for credit facilities of this type, which include, among others limitations on the Borrower detailed in the Facility, a capital expenditure limits and permitted stock repurchase limits (limited to \$10.0 million in aggregate during any 12 month period, and \$30.0 million in aggregate during the term of the agreement). We were in compliance with all covenants as of September 30, 2012.

Subsequent to September 30, 2012, the Company and certain of its subsidiaries (collectively known as the Borrower) executed the Second Amendment to the Second Amended and Restated Credit Agreement with Wells Fargo Bank, National Association. This amendment added an additional pricing tier based on increased flexibility for our customary and affirmative covenants. The material terms of this amendment are discussed below in Part II, Item 5 of this report.

**Contractual Obligations**

See Notes 8 and 9 to our Consolidated Financial Statements in our Fiscal 2011 Annual Report on Form 10-K for the details of our contractual obligations.

Under the combined Facility and Term Loan we are subject to various financial covenants which include maximum target capital expenditures, cash flow ratios and adjusted leverage ratios.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements.

**Critical Accounting Policies**

Our significant accounting policies are described in Note 1 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended January 1, 2012. The accounting policies used in preparing our interim 2012 consolidated financial statements are the same as those described in our Fiscal 2011 Annual Report on Form 10-K.

---

**Table of Contents**

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

**Forward-Looking Information**

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

Our future results, including results related to forward-looking statements, involve a number of risks and uncertainties that are difficult to predict, including but not limited to those identified herein under Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended January 1, 2012. No assurance can be given that the results reflected in any forward-looking statements will be achieved. Any forward-looking statements made by us or on our behalf speak only as of the date on which such statement is made. Our forward-looking statements are based upon assumptions that are sometimes based upon estimates, data, communications and other information from suppliers, government agencies and other sources that may be subject to revision. We do not undertake any obligation to update or keep current either (i) any forward-looking statements to reflect events or circumstances arising after the date of such statement, or (ii) the important factors that could cause our future results to differ materially from historical results or trends, results anticipated or planned by us, or which are reflected from time to time in any forward-looking statement which may be made by us or on our behalf.

**Additional Information on Famous Dave s**

We are currently subject to the informational requirements of the Exchange Act of 1934, as amended. As a result, we are required to file periodic reports and other information with the SEC, such as annual, quarterly and current reports, proxy and information statements. You are advised to read this Form 10-Q in conjunction with the other reports, proxy statements and other documents we file from time to time with the SEC. If you would like more information regarding Famous Dave s, you may read and copy the reports, proxy and information statements and other documents we file with the SEC, at prescribed rates, at the SEC s public reference room at 450 Fifth Street, NW, Washington, DC 20549. You may obtain information regarding the operation of the SEC s public reference rooms by calling the SEC at 1-800-SEC-0330. Our SEC filings are also available to the public free of charge at the SEC s website. The address of this website is <http://www.sec.gov>. Our most current SEC filings, such as our annual, quarterly and current reports, proxy statements and press releases are available to the public free of charge on our website.

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

---

**Table of Contents**

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

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our Company's 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 which 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. Our total outstanding long-term debt as of September 30, 2012 was approximately \$23.1 million, including our line of credit, our term loan with Wells Fargo and financing lease obligations. The terms of our credit facility with Wells Fargo Bank, National Association, as administrative agent and lender 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-priced purchase commitments for food from vendors. In addition, we believe that substantially all of our food is available from several sources, which helps to control food commodity risks. We have secondary source suppliers for certain items and in 2012 we have continued to make this a key area of focus in order to protect the supply chain and to ensure a more fair and competitive pricing environment. We believe we have the ability to increase menu prices, or vary the menu options offered, if needed, in response to a food product price increase.

**Item 4. CONTROLS AND PROCEDURES**

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

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

**PART II. OTHER INFORMATION**

**Item 1. LEGAL PROCEEDINGS**

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

**Item 2. UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS**

On May 1, 2012, our Board of Directors approved a new stock repurchase program that authorized the repurchase of up to 1.0 million additional shares of our common stock in both the open market or through privately negotiated transactions. As of September 30, 2012 we had repurchased 323,862 shares under this program for approximately \$3.4 million at an average market price of \$10.49, excluding commissions. We made no repurchases during the third quarter of fiscal 2012.

**Table of Contents**

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

**Item 5. OTHER INFORMATION**

On November 1 2012, the Company and its subsidiaries (collectively with the Company as the Borrower ) entered into the Second Amendment (the Amendment ) to the Company s Second Amended and Restated Credit Agreement with Wells Fargo Bank, National Association, as administrative agent and lender (the Lender ) (as amended, the Credit Agreement ). As described elsewhere in this report, the Credit Agreement provides for loans consisting of a revolving credit facility of \$30.0 million, with an opportunity to increase the amount to \$50.0 million (the Facility ), a term loan (the Term Loan ) and up to \$3.0 million of letters of credit which reduce the availability of the Facility. At September 30, 2012, the principal amount outstanding under the Facility and the Term Loan was \$14.4 million and \$5.6 million, respectively, along with approximately \$620,000 in letters of credit for real estate locations. The Borrower has granted the Lender a security interest in all of the Borrower s current and future personal property to secure obligations under the Credit Agreement.

This amendment added an additional pricing tier that provides increased flexibility for our customary and affirmative covenants. The foregoing description of the Amendment does not purport to be complete and is qualified in its entirety by reference to the Amendment itself, a copy of which is filed as Exhibit 10.1 to this report and incorporated herein by reference. The benefits of the representations and warranties set forth in the Amendment are intended to be relied upon by the parties to the Amendment only, and do not constitute continuing representations and warranties of the Borrower to any other party or for any other purpose.

**Table of Contents**

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

**Item 6. EXHIBITS**

- 10.1 Second Amendment to the Second Amended and Restated Credit Agreement by and between Wells Fargo Bank, National Association and Famous Dave s of America, Inc. dated November 1, 2012
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS XBRL Instance Document
- 101.SCH XBRL Schema Document
- 101.CAL XBRL Calculation Linkbase Document
- 101.LAB XBRL Label Linkbase Document
- 101.PRE XBRL Presentation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document



**Table of Contents**

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

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

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

**( Registrant )**

Dated: November 2, 2012

By: /s/ John F. Gilbert  
John F. Gilbert  
Chief Executive Officer  
Director (Principal Executive Officer)

Dated: November 2, 2012

/s/ Diana Garvis Purcel  
Diana Garvis Purcel  
Chief Financial Officer and Secretary  
(Principal Financial and Accounting Officer)

- 31 -

**Table of Contents**

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

<b>Exhibit Number</b>	<b>Description</b>
10.1	Second Amendment to the Second Amended and Restated Credit Agreement by and between Wells Fargo Bank, National Association and Famous Dave s of America, Inc. dated November 1, 2012
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document