

FAMOUS DAVES OF AMERICA INC

Form 10-K

March 16, 2012

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-K**  
**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the Fiscal Year Ended January 1, 2012**  
**Commission File No. 0-21625**

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

(Exact name of registrant as specified in its charter)

**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**

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

Title of each class	Name of each exchange on which registered
<b>Common Stock, \$0.01 par value</b>	<b>The NASDAQ Global Market</b>

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

Indicate by check mark if the registrant is a well-seasoned issuer, as defined in Rule 405 of the Securities Exchange Act of 1934 (the Act) Yes  No

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

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

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

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

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

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  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 Act). Yes  No

The aggregate market value of common stock held by non-affiliates of the registrant was approximately \$72.8 million as of July 1, 2011 (the last business day of the registrant's most recently completed second quarter), assuming solely for the purpose of this calculation that all directors, officers, and more than 10% shareholders of the registrant are affiliates. The determination of affiliate status for this purpose is not necessarily conclusive for any other purpose.

As of March 12, 2012, 7,615,048 shares of the registrant's Common Stock were outstanding.

## DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant's definitive Proxy Statement for our Annual Meeting of Shareholders (the 2011 Proxy Statement) are incorporated by reference into Part III of this Form 10-K, to the extent described in Part III. The 2011 Proxy Statement will be filed within 120 days after the end of the registrant's fiscal year ended January 1, 2012.



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**PART I**

**ITEM 1. BUSINESS**

**General Development of Business**

Famous Dave's of America, Inc. ( Famous Dave's , Company or we ) was incorporated as a Minnesota corporation in March 1994 and opened its first restaurant in Minneapolis, Minnesota in June 1995. As of January 1, 2012, there were 187 Famous Dave's restaurants operating in 37 states, including 54 company-owned restaurants and 133 franchise-operated restaurants. An additional 63 franchise restaurants were committed to be developed through signed area development agreements at January 1, 2012.

In fiscal 2011, the Company realized a comparable sales increase for all company-owned restaurants of 1.5% compared to a comparable sales increase of 0.7% for fiscal 2010. The franchise-operated restaurants saw improvement in their comparable sales, as well, ending the year with comparable sales that were flat to the prior year compared to a decrease of 0.8% in fiscal 2010. During 2011, the Company opened two new company-owned restaurants, including one which was a Shack style counter-service restaurant (see Concept evolution below) and eight new franchise-operated restaurants.

On the marketing front, during 2011 we featured unique promotions, including our Citrus Grill offering which featured entrées under 660 calories, our third Dave's Day, which is a celebration of our founder, and a Southside Rib Tip promotion, representing a core menu item that was reinvented with a dry rub and a new Southside Sauce. Also, we continued to develop innovative and foundational training programs, such as those that support our Guest Experience initiative and we rolled out extensive training materials to all company-owned and franchise-operated restaurants.

Fiscal 2011 earnings per diluted share were \$0.68, including \$0.04 of non-cash impairment charges for specific restaurant assets. This compared to earnings per diluted share of \$0.82 in fiscal 2010, which included a \$0.15 non-cash net gain related to our acquisition of certain restaurants in New York and New Jersey.

In 2012, the Company will continue to focus on the following three key initiatives and believes that if we do all successfully, we will generate shareholder value and create a long-term sustainable brand.

Growth and extension of brand presence

Concept evolution, and

Enhancing core systems, processes and infrastructure

**Growth and extension of brand presence**

We expect to open up to fifteen new restaurants in fiscal 2012, including two to three company-owned restaurants and a franchise-operated restaurant in Winnipeg, Canada which would be our first international restaurant. We will also continue to invest in our existing base of restaurants and have several significant remodeling projects planned that will combine both exterior and interior remodeling efforts. Finally, we will continue to pursue the expansion of our geographical footprint by entering into new area development and franchise agreements, with both new and existing partners. To incentivize growth, any partner which 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. We have a clear vision for growth, incorporating both the counter service, as well as full-service formats. Our long-term goal is clear: we anticipate growing to 400-500 restaurants system-wide domestically, with additional future growth internationally.

**Concept evolution**

It is important that Famous Dave's remains relevant, and as such, we will continue to evolve our concept in terms of menu, restaurant format and guest satisfaction as part of a long-term strategy to remain top of mind with



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guests. In 2012, we will strategically manage our menu seeking to improve it with new, innovative and relevant offerings, including new items, new plate presentations, ala cart items and exciting limited time offers. Also, we will continue to be actively engaged in our communities through catering as well as through supporting and sponsoring charitable and community events on a regular basis.

In 2011, the Company built a counter-service, quick casual, Shack style restaurant. The Shack style restaurant was the reinvention of the counter service type restaurant which was the style of many of the Company's early restaurants. In 2012, we will continue to refine the Shack concept, reviewing the layout of the restaurants, trade dress, music, décor, ambiance, and menu offerings. We anticipate the Shack format to be a potentially strong growth vehicle that should achieve broad acceptance among guests, offer compelling economics in terms of construction costs, and provide speed to market and an additional growth vehicle for our system.

### **Enhancing core systems, processes and infrastructure**

As part of this initiative, we will continue the implementation of systems that will focus on the guest, such as a redesign of our web presence, Guest Experience initiatives, and an e learning pilot for our company and franchise restaurants. Additionally, we will continue to enhance other core systems such as our Human Resource Information System (HRIS), our budgeting and forecasting system, and labor scheduling tool. These infrastructure systems will help increase efficiency and will allow our team to focus their efforts on better serving our guest.

### **Financial Information about Segments**

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

### **Narrative Description of Business**

Famous Dave's restaurants, a majority of which offer full table service, feature hickory-smoked off-the-grill entrée favorites. We seek to differentiate ourselves by providing high-quality food in distinctive and comfortable environments with signature décor and signage. As of January 1, 2012, 48 of our company-owned restaurants were full-service and 6 were counter-service. Generally, our prototypical design includes the following elements: a designated bar, a signature exterior smokestack, a separate entrance for our category-leading TO GO business and a patio (where available). This design enables us to capitalize on a consistent trade-dress and readily identifiable look and feel for our future locations. We have 6,000 and 5,000 square foot packages that can be built as a free standing building, a 4,000 square foot model that most likely would be constructed as an end cap of a building, and a new 3,000 square foot design which would be constructed as a counter service location in an existing building.

In 2011, we and several of our franchisees, successfully converted restaurants from existing casual dining chains. Also, franchisees converted other retail buildings into restaurants such as a car dealership and a movie rental store. In late 2011, one of those conversions was a company-owned restaurant in Eden Prairie, Minnesota, which was converted to a prototype Shack style counter service restaurant, utilizing our new 3,000 square foot prototype. We will continue to evolve this Shack counter fast casual format and bring this to our franchise community as well. In fiscal 2010, we opened one full-service restaurant which was a conversion of another restaurant concept and was approximately 6,000 square feet. We did not open any restaurants in 2009, however, the restaurants that we opened in 2006, 2007, and 2008 were approximately 6,000 square feet, and had approximately 175 seats, with an additional 50 seats in the bar, and 32 additional seats on the patio.

As previously mentioned, we offer lower cost conversion packages that provide our franchisees with flexibility to build in cost effective formats, which includes opportunities to convert existing restaurants and

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other footprints into a Famous Dave’s restaurant. Due to the flexibility and scalability of our concept, we believe that there are a variety of development opportunities available now and in the future.

We pride ourselves on the following:

**High Quality Food** Each restaurant features a distinctive selection of authentic hickory-smoked off-the-grill barbecue favorites, such as flame-grilled St. Louis-style and baby back ribs, Texas beef brisket, Georgia chopped pork, country-roasted chicken, and generous signature sandwiches and salads. Additionally in 2011, we added our Citrus Grill family of entrée’s featuring shrimp, salmon, steak tenderloins, and naked ribs, served with grilled pineapple and a side of broccoli, at less than 660 calories. Also, enticing side items, such as honey-buttered corn bread, potato salad, coleslaw, Shack Fries™ and Wilbur Beans™, accompany the broad entrée selection. Homemade desserts, including Famous Dave’s Bread Pudding, Hot Fudge Kahlua Brownies, and Key Lime Pie, are a specialty. To complement our entrée and appetizer items and to suit different customer tastes, we offer six regional tableside barbeque sauces: Rich & Sassy®, Texas Pit™, Georgia Mustard™, Devil’s Spit®, Sweet and Zesty™ and Wilbur’s Revenge. These sauces, in addition to a variety of seasonings, rubs, marinades, and other items are also distributed in retail grocery stores throughout the country under licensing agreements. Additionally, we often introduce specialty barbeque sauces with our limited time offerings and popular ones may get added to our menu, such as our Pineapple Rage and Southside BBQ sauces.

We believe that high quality food, scratch cooking and the fact that we smoke our meats daily at each of our restaurants are principal points of differentiation between us and other casual dining competitors and are a significant contributing factor to repeat business. We also feel that our focus on barbecue being a noun, a verb and a culture allows for product innovation without diluting our brand. As a noun, barbeque refers to the art of the smoke and sauce. As a verb, barbeque refers to the act of grilling. As a culture, barbeque refers to the competitive spirit. As a result, we see no geographic impediments to scaling our concept and brand.

**Distinctive Environment Décor and Music** Our original décor theme was a nostalgic roadhouse shack ( Original Shack ), as defined by the abundant use of rustic antiques and items of Americana. In late 1997, we introduced the Lodge format which featured décor reminiscent of a comfortable Northwoods hunting lodge with a full-service dining room and small bar. In addition, we developed a larger Blues Club format that featured authentic Chicago Blues Club décor and live music seven nights a week. We have evolved our format to that of a full-service concept with several Prototypical designs that incorporate the best attributes of the past restaurants while providing a consistent brand image for the future. Of our 54 restaurants as of January 1, 2012, 48 were full-service restaurants and 6 were counter-service restaurants. Below is a breakdown of the various styles of full and counter-service restaurants:

Full-service:

- 26 Lodge format
- 6 Original Shack format
- 1 Blues Club format, located in Minneapolis market
- 15 Prototypical format

Counter-service:

- 5 Original Shack format
- 1 Shack format

We are evolving our Shack concept with a new fast casual format and opened our first new prototype in 2011 in Eden Prairie, MN. In 2012, the Company will continue to review the layout of the restaurants, trade dress, music, décor, ambiance, and menu offerings.



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

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### **Operating Strategy**

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

***Operational Excellence*** During fiscal 2011, we continued to focus on operational excellence and integrity, and on creating a consistently enjoyable guest experience, both in terms of food and hospitality, across our system. We define operational excellence as an uncompromising attention to the details of our recipes, preparation and cooking procedures, handling procedures, rotation, sanitation, cleanliness and safety. Operational excellence also means an unyielding commitment to provide our guests with precision service during every visit. In our restaurants, we strive to emphasize value and speed of service by employing a streamlined operating system based on a focused menu and simplified food preparation techniques.

Our menu focuses on a number of popular smoked, barbeque, grilled meat, entrée items and delicious side dishes which are prepared using easy-to-operate kitchen equipment and processes that use prepared proprietary seasonings, sauces and mixes. This streamlined food preparation system helps lower the cost of operation by requiring fewer staff, lower training costs, and eliminates the need for highly compensated chefs. In order to enhance our appeal, expand our audience, and feature our cravable products, we promote Limited-Time Offerings (LTOs) which can provide higher margins than our regular menu items. We believe that constant and exciting new product introductions, offered for a limited period of time, encourage trial visits, build repeat traffic and increase exposure to our regular menu. Additionally, in order to increase customer frequency, we have assembled a research and development product pipeline designed to generate approximately four product introductions annually.

During 2011, we offered our guests several promotions and LTOs, which were well received. Early in 2011, we featured the Citrus Grill promotion which highlighted six entrées all less than 660 calories. Additionally, four of the six featured items were added to the regular menu. During the spring, and in support of the appearance of our founder, Dave Anderson, on the Food Network's Best in Smoke reality show, we featured Blackberry BBQ sauce on our St. Louis-style ribs and Georgia chopped pork along with an appetizer featured on the show, Georgia Pork Lettuce Wraps.

In the summer of 2011, we had our US of BBQ Hawaii offering, which featured Huli Buli Chicken and a Kahlua brownie. Also, we celebrated our 3rd Dave's Day where guests named Dave, David, or Davey could receive a free entrée up to \$15.00 and if a guest's middle name was Dave, David, or Davey, they could receive 1/2 off any entrée up to \$7.50. Lastly, this summer our Hog Days of Summer LTO featured our Buck a Bone and \$0.50 Wing promotion where a guest could buy up to six St. Louis style spare ribs for a \$1.00 each or six or more chicken wings for \$0.50 each with the purchase of an entrée.

This past fall we featured our Southside Rib Tip promotion. Our rib tips have always been a core menu item, but we reinvented them, changing the cut and seasoning them with a dry rub and a new Southside Sauce developed by Dave Anderson, and paired them with hell-fire pickle chips and pickled red onions. As we look to 2012, we have a full pipeline of new and innovative limited time offerings. Our current limited time offering, which runs in support of the Lenten season, is featuring our Beer-Battered Cod, and on Fridays we are offering an All-You-Can-Eat Cod fish special.

***Human Resources and Training/Development*** We know a key ingredient to our success as an employer and of our concept lies with our ability to hire, train, engage and retain FAMOUS team members at all levels of our organization. We place a great deal of importance on creating an exceptional working environment for all of our team members. Through our Human Resource, Talent Management and Training/Development resources, tools and programs, we continually enhance and support superior performance within our restaurants. Our foundational guiding principle is to have Raving Internal Fans which emphasizes our commitment to doing the right thing for the organization while ensuring we have the right people in the right roles with the right resources and tools.

We are a performance-based organization committed to recognizing and rewarding performance at all levels of the organization. Our performance management process includes performance calibration at the organizational

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level as a means of providing measureable, comparative team member evaluations relative to peer contribution, taking into account specific core competencies and goals, as well as our core values of Famous PRIDE (Passion, Respect, Innovation, Diversity, Excellence). It is designed to provide a complete picture of performance that is consistent across the organization. We offer a total rewards program that is benchmarked closely against the industry and includes health and welfare coverage, 401(k) and non-qualified deferred compensation with a company match, base pay and incentive pay programs developed to sustain our market competitive position.

We strive to instill enthusiasm and dedication in our Team Members and continually solicit feedback regarding our organization. We are in the second year of our Talking PRIDE Team Member Engagement Survey. Through our Talking PRIDE Engagement Survey results, we have established baseline action plans which are continually benchmarked to enhance our team member experience. We have conducted a follow-up Pulse Survey to measure our progress with effectively sharing results, establishing action plans, and implementing actions. We have an annual Business Conduct Survey that is offered to all Support Center and Restaurant Management Team Members. The results of this survey allow us to measure the extent to which Do the Right Thing exists in our organization. The results are shared within the organization and we measure and monitor progress in this area. In 2012, we will be introducing ethical workplace training for all managers in our business to allow us to continue to strengthen our strong base as a value and ethics based organization. In addition, we have an online employee ethics compliance tool, which includes a bi-lingual anonymous call center, and a sophisticated issue tracking and reporting platform across all Famous Dave's company locations.

We have numerous programs designed to recognize and reward our team members for outstanding performance. These programs include the Famous PRIDE Award, Spirit of the Flame Award and Ring of Fire Program. Our Famous PRIDE Award encourages those within the company to submit nominations for fellow team members who live and breathe Famous PRIDE. Five individuals receive this prestigious honor each year. Our Spirit of the Flame Award encourages those within the organization to nominate and recognize one winner from our company operations team or support center and one winner from our franchise community. The two individuals receiving this award are selected based on their demonstration of continuous and exemplary FAMOUS behavior and outstanding contributions resulting in a significant and positive impact to Famous Dave's brand and business. Our Ring of Fire Program recognizes the MOST FAMOUS of the FAMOUS. This program, offered to both company and franchise operations, rewards those operating practices that will help us grow strong as a system. Exceptional operational performance is defined by consistently adhering to Famous Dave's programs and systems and also by having a high regard for guests, team members, the community and the Famous Dave's culture.

These initiatives are crucial towards our ability to maintain turnover levels that are below industry averages consisting of several data sources for our industry. Our restaurant management turnover for fiscal 2011 was approximately 12%, restaurant hourly turnover was approximately 45%. During fiscal 2011, our Human Resource and Training organization focused on the selection and retention of talent through programs in overall performance management, safety and risk reduction, and continued enhancements in our organizational structures for all positions in the business.

In the Training and Development arena, we offer a variety of ongoing on-the-job and classroom training programs for the operations teams (hourly team members, Restaurant Managers, and Multi-Unit Managers) in an effort to create defined career paths. Our FD101 University provides our newer restaurant managers a foundational training for restaurant operations, including ServSafe Food and Alcohol Certification; followed by our Famous Dave's Management Certification program which provides a library of workshop offerings for our operators including the guest experience, and orientation to training. In 2011, Famous Dave's introduced Managing with PRIDE (MWP) workshops, completed training of all current corporate operations and support center managers and built the program into the FD101 curriculum. MWP is a comprehensive vignette-based program designed to provide managers an easy-to-remember behavioral model that defines when and how, conduct, behavior, and performance are governed by organizational policy and law.

In 2011, we introduced new tools to assist system-wide manager and team development including an orientation tool-kit and Investment Training for locations with targeted development/improvement needs. We will continue to develop resources and add tools to support our system. For instance, in 2012 we will be

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introducing a variety of new programs, including: ethics based training, expanding our Managing with PRIDE program, the Pitmaster Program, Multi-Unit Manager Workshops, and Leadership Development. We will maximize the use of technology by piloting an e-learning platform to enable us to continue expanding the reach of our programs through an electronic-based learning system with interactive modules and online testing and administration.

Our system-wide Brand Conference is held annually in March and features business sessions on Marketing, Guest Experience, Training, and Product Innovation. Participants include all company-owned restaurant General Managers, Area Directors, and Directors of Operations, as well as many Franchise Partners, Franchise General Managers and Franchise Multi-Unit Operators.

## **Restaurant Operations**

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

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

We also have two Directors of Operations. Each of these individuals is responsible for approximately half of the company-owned restaurants, which allows us to have our operations leadership closer to the day-in and day-out business of our restaurants. The Directors of Operations assist in the professional development of our Area Directors and General Managers. They are also instrumental in driving our vision of operational integrity and contributing to the improvement of results achieved at our restaurants, including building sales, developing personnel and growing profits. These Directors report to the Vice President of Company Operations.

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

***Off-Premise Occasions Focus on Convenience*** In addition to our lively and entertaining dine-in experience, we provide our guests with maximum convenience by offering expedient take-out service and catering. We believe that Famous Dave's entrées and side dishes are viewed by guests as traditional American picnic foods that maintain their quality and travel particularly well, making them an attractive choice to replace a home-cooked meal. Also, the high quality, reasonable cost and avoidance of preparation time make take-out of our product particularly attractive. Our off-premise sales provide us with revenue opportunities beyond our in-house seating capacity and we continue to seek ways to leverage these segments of our business. During fiscal 2011, our industry-leading off-premise sales for the casual dining sector, was approximately 32.0% of net restaurant sales, compared to 31.0% for fiscal 2010.

Catering, which grew modestly in 2011, accounts for approximately 9.9% of our net sales for fiscal 2011, as compared to 9.5% in 2010. We see catering as an opportunity for new consumers to sample our product who would not otherwise have had the opportunity to visit our restaurants, and each restaurant has a dedicated vehicle to support our catering initiatives.

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TO GO, accounted for approximately 22.1% of net restaurant sales for fiscal 2011 and grew slightly from 21.5% of net restaurant sales in 2010. This was due to a continued focus on our TO GO guests, which included the roll out of our on-line ordering system. Additionally, our restaurants have been designed specifically to accommodate a significant level of TO GO sales, including a separate TO GO entrance with prominent and distinct signage, and for added convenience, we separately staff the TO GO counter. We believe our focus on TO GO enables Famous Dave's to capture a greater portion of the take-out market and allows consumers to trade within our brand, when dining in is not always an option. We pursue efforts to increase awareness of TO GO in all company-owned and franchise-operated restaurants by featuring signage and merchandising both inside and outside the restaurants.

**Customer Satisfaction** We believe that we achieve a significant level of repeat business by providing high-quality food, efficient friendly service, and warm caring hospitality in an entertaining environment at moderate prices. We strive to maintain quality and consistency in each of our restaurants through the purposeful hiring, training and supervision of personnel and the establishment of, and adherence to, high standards of performance, food preparation and facility maintenance. We have also built family-friendly strategies into each restaurant's food, service and design by providing children's menus, smaller-sized entrees at reduced prices and changing tables in restrooms. We diligently monitor the guest experience through the use of an interactive voice response (IVR) guest feedback system to ensure that our system is producing desired results. Through this IVR system, we obtain an OSAT score, which measures overall guest satisfaction using a rating scale of one to five. The company rating is based on the number of responses that give the highest rating of five. During 2011, our guest satisfaction scores increased over the prior year. As part of this continued initiative, the Company will monitor a new metric, Raving Fans, which is a combination of the OSAT scores, the guest's intent to return in the next 30 days, and their intent to recommend Famous Dave's to others.

**Value Proposition and Guest Frequency** We offer high quality food and a distinctive atmosphere at competitive prices to encourage frequent patronage. Lunch and dinner entrees range from \$5.99 to \$23.32 resulting in a per person average of \$15.38 during fiscal 2011. During fiscal 2011, lunch checks averaged \$13.39 and dinner checks averaged \$16.62. We believe that value priced offerings and new product introductions, offered for a limited period of time, will help drive new, as well as infrequent guests into our restaurants for additional meal occasions. We offer an All American Feast which serves 5-6 guests at an excellent value. During the fourth quarter of fiscal 2011, the Company used targeted direct mail to businesses and consumers that featured promotions for dine-in, to-go, and catering, as well as a bounce-back program that offered free entrees, appetizers and other items for guests who return during the promotional timeframe. This promotion was successful in terms of comparable sales growth and increased guest counts, however resulted in a higher level of discounts. Our limited time offerings throughout the year were system-wide with all company-owned restaurants and approximately 90% of our franchise locations participated. We supported the promotions with radio and TV advertising.

## **Marketing and Promotion**

We believe that Famous Dave's is the category-defining brand in barbecue. Specializing in a unique and distinctive brand of grilled, smoked, and southern style food, our menu specialty helps set the brand apart from the rest of the crowded field in casual dining. To further develop the advertising and promotional materials and programs designed to create brand awareness and increase the reach of the brand, we have a system-wide marketing fund. All company-owned, and those franchise-operated restaurants with agreements signed after December 17, 2003, are required to contribute a percentage of net sales to this fund. In 2011, the required contribution to this fund was 0.75%. To further leverage our brand position, in 2012, the contribution has been increased to 1.0% of net sales.

The marketing team, working with outside consultants and other resources, is responsible for the advertising, promotion, creative development, branding and media-buying for Famous Dave's. In addition to the traditional marketing and publicity methods, Famous Dave's uses marketing efforts that include television, internet, radio, email Club, direct mail, website marketing promotion and outdoor billboards. During 2011, we reached 1.2 million PIG Club (Pretty Important Guest Loyalty Club) members and 150,000 fans on Facebook. In 2012, we will also be incorporating more social media features into our advertising strategy.

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Since inception, Famous Dave's has won over 500 awards, including the Best Sauce in America. In 2011, Famous Dave's won the People's Choice Award Best Ribs in America at the 2011 Great American Rib Cook-Off in Cleveland and Best BBQ Restaurant at the 2011 National Capital Barbecue Battle in Washington, D.C., for the sixth year in a row. Famous Dave's was also named a category-leading franchise opportunity by Entrepreneur Magazine in 2011. Additional awards won by our system during 2011 were:

Best BBQ in Delaware    *The News Journal*    Christiana, DE

Best BBQ Restaurant    KING 5 *Best of Western Washington* poll    Seattle, WA

Best BBQ in the Valley    *Phoenix Magazine*    Phoenix, AZ

Best BBQ and Best Catering    *The Community Press of Northern Kentucky*    Florence, KY

Best BBQ    *What's Up 2011 Best of the Best*    El Paso, TX

Best BBQ    *Best of Maui*    Maui, HI

Best BBQ    *Taste of Tacoma*    Tacoma, WA

Best BBQ    *Yuma Sun*    Yuma, AZ

Best BBQ in Las Vegas    *Review Journal*    Las Vegas, NV

Best Barbecue Restaurant and Best New Restaurant    *Reno News & Review*, Reno, NV

Best Barbecue Reader's Poll    *Minneapolis-St. Paul City Pages*    Minneapolis, MN

Best Barbecue    *Best of Long Island*    Westbury, NY

Best Barbecue <sup>st</sup> Place    *Toast of Music City 2011*, Hermitage, Franklin, & Smyrna, TN

Best Barbecue    KMGH (ABC affiliate) website A-List    Denver, CO

Best Ribs    *The Nashville Scene*    Nashville, TN

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Best Ribs of the Red River Valley *The Fargo Forum* Fargo, ND

Best Ribs Southwest Florida Ultimate Rib Fest Ft Myers, FL

Best Ribs and Best Dessert (Bread Pudding) *Taste of Madison* Madison, WI

Best Ribs Reader's Choice *The Amarillo Globe* Amarillo, TX

Best Ribs Readers of *The Press of Atlantic City* Mays Landing, NJ

Best Ribs *Maryland Independent* Waldorf, MD

Best Brisket Pig Trail Harley Davidson and Sam's Club Annual Brisket Battle Rogers, AR

Favorite BBQ *Standard Examiner* Reader's Choice awards Layton, UT

1st Place BBQ Wings People's Choice Kenosha King of Wings Kenosha, WI

First Place Chicken, First Place Chef's Choice Annual Gary Maddox Cook-Off Philadelphia, PA

First Place Judge's Choice Grand Haven *Battle of the Bones* Grandville, MI

First Place BBQ/Ribs *Cecil Whig* Christiana, DE

The strategic focus for marketing and promotion for 2012 remains the same to be the category defining brand in BBQ, create more competitive distinction, and continue to strengthen the perception of value in the consumer's mind. We plan to feature four limited time offerings in 2012 that will introduce our customers to new flavor profiles, innovative products and provide value and margin opportunity. In 2012, we will launch a new website focused on improving the brand image and faster revenue generation. Additionally, a number of new initiatives are planned around enhancing the menu, the guest experience, events marketing and social media.

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### **Location Strategy**

We believe that the barbeque segment of the casual dining niche of the restaurant industry continues to offer strong growth opportunities, and we see no impediments to our growth on a geographical basis. Our geographical concentration as of January 1, 2012 was 44% Midwest, 19% South, 27% West and 10% Northeast. We were located in 37 states as of January 1, 2012.

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

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

As part of our development strategy, we will seek conversion opportunities for future restaurants in order to streamline the development process and to minimize the up-front investment. We will also evaluate the use of our 6,000, 5,000, 4,000 and 3,000 square foot prototypes where it makes sense. With the reintroduction of the Shack style counter-service restaurant, we believe this format will allow us to access new markets or strategically locate these restaurants in existing markets where a full-service restaurant could not be sustained. We intend to finance development through the use of cash on hand, cash flow generated from operations, and through availability on our revolving line of credit.

***Company-Owned Restaurant Expansion*** We are planning to open two to three company-owned restaurants in 2012, including one Shack style, counter-service, fast casual format. In the future, we will continue to build in our existing markets in high profile, heavy traffic retail locations as part of our future operating strategy to continue to build brand awareness. Our plan is to focus on sustainable, controlled growth, primarily in markets where multiple restaurants can be opened, thereby expanding consumer awareness, and creating opportunities for operating, distribution, and marketing efficiencies.

***Franchise-Operated Restaurant Expansion*** We anticipate opening 10 to 12 new franchise restaurants during 2012. This will include our first restaurant outside of the U.S., in Canada. Our goal is to continue to improve the economics of our current restaurant prototypes, while providing more cost-effective development options for our franchisees. As of January 1, 2012, we had signed franchise area development agreements with aggregate commitments for 63 additional units that are expected to open over approximately the next seven years. However, there can be no assurance that these franchisees will fulfill their commitments or fulfill them within the anticipated timeframe. Our franchise system is a significant part of our brand's success. As such, another one of our goals is to be a valued franchisor; to enhance communication and recognition of best practices throughout the system and to continue to expand our franchisee network. During 2012, to incentivize growth of the Shack style counter-service; any of our franchisees who signs a franchise agreement and opens one will receive a 50% discount on the initial franchise fee for this restaurant.

Generally, we find franchise candidates with prior franchise casual-dining restaurant experience in the markets for which they will be granted. In the past, area development agreements generally ranged from 3 to 15 restaurants, however, due to economic and market conditions, we have been willing to discuss smaller unit agreements as well. We are also looking at individual franchise restaurants in the right markets where it makes sense. Additionally, we believe the Shack format will allow us to bring new franchisees into the system who specialize in fast-casual counter-service concepts and who normally would not be interested in our brand.



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### **Purchasing**

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

Approximately 90% of our food and non-alcoholic beverage purchases are on contract, with the majority being proteins. Pork represents approximately 37% of our total purchases, while chicken is approximately 10%, beef, which includes hamburger and brisket, is approximately 11%, and seafood is approximately 2%. Our purchasing department contracts, our food and beverage costs and trends associated with each are discussed under Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

### **Information Technology**

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

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

Average guest check broken down by location, by server, by day part, and by revenue center;

Daily reports of revenue and labor (both current and forecasted);

Weekly reports of selected controllable restaurant expenses;

Monthly reporting of detailed revenue and expenses; and

Ideal vs. actual usage variance reporting for critical restaurant-level materials;

This visibility enables every level of the Famous Dave's organization to manage the key controllable costs within our industry, including food and labor costs.

Below are the significant information technology initiatives completed in fiscal 2011:

Roll-out of web-based ordering solution providing ease of ordering for our guests and an additional sales channel with future capabilities for mobile and Facebook ordering.

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Selection and implementation of a budgeting solution that will expand upon current capabilities, increase efficiencies, and integrate with the evolution of other systems.

Creation of a marketing portal to facilitate the ordering, distribution and customization of marketing materials for localization and for the franchise community.

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In 2012, the department will leverage technology to support the needs of the Company through several initiatives listed below:

Implementation of capabilities for forecasting in the budgeting solution to realize additional efficiencies, improvements in reporting, and allow better integration with other systems.

Continued expansion of a Human Resource Information System (HRIS) leveraging additional capabilities to drive further efficiencies and self-service processes.

Expansion of the food cost/supply chain back-office solution to include predictive features for ordering and product preparation that will enhance the effectiveness of efforts to manage cost.

Evaluation and selection of an enhanced labor management solution providing labor scheduling efficiencies, self-service processes, and more effective integration with other systems.

Roll-out of a redesigned FamousDaves.com website with clear pathways to ordering channels, enhanced capabilities for restaurant level customization, and social media integration.

Replace end-of-life data backup software and hardware allowing for decreased maintenance effort and increased data protection.

## **Trademarks**

Our Company has registered various trademarks, makes use of various unregistered marks, and intends to vigorously defend these marks.

Famous Dave's and the Famous Dave's logo are registered trademarks of Famous Dave's of America, Inc. The Company highly values its trademarks, trade names and service marks and will defend against any improper use of its marks to the fullest extent allowable by law.

## **Franchise Program**

We have offered franchises of our concept since July 1998 and currently file our franchise disclosure document in all 50 states. Our growth and success depends in part upon our ability to attract, contract with and retain qualified franchisees. It also depends upon the ability of those franchisees to successfully operate their restaurants with our standards of quality and promote and develop Famous Dave's brand awareness.

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

At January 1, 2012, we had 43 ownership groups operating 133 Famous Dave's franchise restaurants. Signed area development agreements, representing commitments to open an additional 63 franchise restaurants, were in place as of January 1, 2012. There can be no assurance that these franchisees will fulfill their commitments or fulfill them within the anticipated timeframe. We continue to grow the franchise program and anticipate 10 to 12 additional franchise restaurants will open during fiscal 2012.

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As of January 1, 2012, we had franchise-operated restaurants in the following locations:

<b>State</b>	<b>Number of Franchise-Operated Restaurants</b>
Arkansas	2
Arizona	6
California	14
Colorado	6
Delaware	2
Florida	1
Hawaii	1
Idaho	2
Illinois	3
Indiana	3
Iowa	3
Kansas	5
Kentucky	1
Maine	1
Massachusetts	1
Michigan	8
Minnesota	9
Missouri	3
Montana	4
Nebraska	5