

FAMOUS DAVES OF AMERICA INC

Form 10-Q

November 05, 2009

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended September 27, 2009

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File No. 0-21625

FAMOUS DAVE S of AMERICA, INC.
(Exact name of registrant as specified in its charter)

Minnesota
(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 the definitions 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 30, 2009, 9,224,516 shares of the registrant's Common Stock were outstanding.

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

| | Page |
|--------------------------------------------------------------------------------------------------------------------------------------|-------------|
| PART I FINANCIAL INFORMATION | |
| Item 1 Consolidated Financial Statements | |
| <u>Consolidated Balance Sheets</u> <u>As of September 27, 2009 and December 28, 2008</u> | 3 |
| <u>Consolidated Statements of Operations</u> <u>For the three and nine months ended September 27, 2009 and September 28, 2008</u> | 4 |
| <u>Consolidated Statements of Cash Flows</u> <u>For the nine months ended September 27, 2009 and September 28, 2008</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> | 16 |
| Item 3 <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 27 |
| Item 4 <u>Controls and Procedures</u> | 28 |
| <u>PART II OTHER INFORMATION</u> | |
| Item 1 <u>Legal Proceedings</u> | 28 |
| Item 6 <u>Exhibits</u> | 29 |
| <u>SIGNATURES</u> | |
| <u>CERTIFICATIONS</u> | |
| <u>EX-10.1</u> | |
| <u>EX-31.1</u> | |
| <u>EX-31.2</u> | |
| <u>EX-32.1</u> | |

Table of Contents

FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

SEPTEMBER 27, 2009 AND DECEMBER 28, 2008

(in thousands, except share and per share data)

| | September 27, 2009 | December 28, 2008 |
|------------------------------------------------------------------|-----------------------------------|----------------------------------|
| | (Unaudited) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,629 | \$ 1,687 |
| Restricted cash | 662 | 1,170 |
| Accounts receivable, net | 4,178 | 4,702 |
| Inventories | 2,317 | 2,281 |
| Deferred tax asset | 1,627 | 1,708 |
| Prepaid expenses and other current assets | 1,964 | 1,689 |
| Current portion of notes receivable | 53 | 54 |
| Total current assets | 12,430 | 13,291 |
| Property, equipment and leasehold improvements, net | 55,047 | 58,129 |
| Other assets: | | |
| Notes receivable, less current portion | 134 | 170 |
| Deferred tax asset | 1,159 | 989 |
| Other assets | 585 | 822 |
| | \$ 69,355 | \$ 73,401 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Current liabilities: | | |
| Line of credit | \$ 13,000 | \$ 18,000 |
| Current portion of long-term debt and financing lease obligation | 212 | 441 |
| Accounts payable | 4,389 | 5,208 |
| Accrued compensation and benefits | 3,755 | 2,279 |
| Other current liabilities | 5,751 | 4,132 |
| Total current liabilities | 27,107 | 30,060 |
| Long-term liabilities: | | |
| Long-term debt, less current portion | 1,173 | 6,600 |
| Financing lease obligation, less current portion | 4,532 | 4,652 |
| Other liabilities | 4,731 | 5,905 |
| Total liabilities | 37,543 | 47,217 |

Shareholders equity:

Common stock, \$.01 par value, 100,000,000 shares authorized 9,195,000 and 9,079,000 shares issued and outstanding at September 27, 2009 and December 28, 2008, respectively

| | | |
|----------------------------------|---------------|---------------|
| | 92 | 91 |
| Additional paid-in capital | 17,128 | 16,428 |
| Retained earnings | 14,592 | 9,665 |
| Total shareholders equity | 31,812 | 26,184 |
| | \$ 69,355 | \$ 73,401 |

See accompanying notes to consolidated financial statements.

- 3 -

Table of Contents

FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
SEPTEMBER 27, 2009 AND SEPTEMBER 28, 2008
(in thousands, except share and per share data)
(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|--------------------------------------------------------------------------|---------------------------|------------------|--------------------------|------------------|
| | September | September | September | September |
| | 27, | 28, | 27, | 28, |
| | 2009 | 2008 | 2009 | 2008 |
| Revenue: | | | | |
| Restaurant sales, net | \$ 28,763 | \$ 30,407 | \$ 89,600 | \$ 93,219 |
| Franchise royalty revenue | 4,242 | 4,366 | 12,851 | 13,194 |
| Franchise fee revenue | 80 | 110 | 155 | 457 |
| Licensing and other revenue | 220 | 205 | 811 | 707 |
| Total revenue | 33,305 | 35,088 | 103,417 | 107,577 |
| Costs and expenses: | | | | |
| Food and beverage costs | 8,762 | 9,523 | 27,046 | 28,754 |
| Labor and benefits | 9,174 | 9,816 | 27,857 | 28,726 |
| Operating expenses | 7,760 | 7,497 | 23,492 | 24,162 |
| Depreciation and amortization | 1,253 | 1,397 | 3,834 | 4,126 |
| Asset impairment and estimated lease termination and other closing costs | 446 | 3,879 | 119 | 3,879 |
| General and administrative expenses | 3,701 | 3,337 | 11,976 | 12,370 |
| Pre-opening expenses | | 333 | | 636 |
| Net loss on disposal of property | 7 | 10 | 13 | 16 |
| Total costs and expenses | 31,103 | 35,792 | 94,337 | 102,669 |
| Income (loss) from operations | 2,202 | (704) | 9,080 | 4,908 |
| Other expense: | | | | |
| Loss on early extinguishment of debt | (40) | | (489) | |
| Interest expense | (277) | (504) | (1,177) | (1,478) |
| Interest income | 26 | 73 | 93 | 172 |
| Other income (expense), net | 7 | (3) | (1) | (33) |
| Total other expense | (284) | (434) | (1,574) | (1,339) |
| Income (loss) before income taxes | 1,918 | (1,138) | 7,506 | 3,569 |
| Income tax (expense) benefit | (679) | 375 | (2,579) | (1,225) |

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

| | | | | |
|-----------------------------------------------------------|-----------|-----------|-----------|-----------|
| Net income (loss) | \$ 1,239 | \$ (763) | \$ 4,927 | \$ 2,344 |
| Basic net income (loss) per common share | \$ 0.14 | \$ (0.08) | \$ 0.54 | \$ 0.25 |
| Diluted net income (loss) per common share | \$ 0.13 | \$ (0.08) | \$ 0.54 | \$ 0.24 |
| Weighted average common shares outstanding basic | 9,124,000 | 9,304,000 | 9,104,000 | 9,516,000 |
| Weighted average common shares outstanding diluted | 9,254,000 | 9,304,000 | 9,184,000 | 9,671,000 |

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 27, 2009 AND SEPTEMBER 28, 2008
(Unaudited)

| | Nine Months Ended | |
|-------------------------------------------------------------------------------------|--------------------------|------------------|
| | September | September |
| | 27, | 28, |
| | 2009 | 2008 |
| <i>(in thousands)</i> | | |
| Cash flows from operating activities | | |
| Net income | \$ 4,927 | \$ 2,344 |
| Adjustments to reconcile net income to cash flows provided by operating activities: | | |
| Depreciation and amortization | 3,834 | 4,126 |
| Asset impairment and estimated lease termination and other closing costs | 119 | 3,879 |
| Amortization of deferred financing costs | 47 | 9 |
| Loss on early extinguishment of debt | 139 | |
| Inventory reserve | 25 | |
| Net loss on disposal of property | 13 | 16 |
| Deferred income taxes | (89) | 88 |
| Deferred rent | 207 | 12 |
| Stock-based compensation | 610 | 698 |
| Changes in operating assets and liabilities: | | |
| Restricted cash | 508 | 909 |
| Accounts receivable, net | 521 | 370 |
| Inventories | (49) | (179) |
| Prepaid expenses and other current assets | (279) | (733) |
| Deposits | 95 | |
| Accounts payable | (1,279) | (311) |
| Accrued compensation and benefits | 1,448 | (331) |
| Other current liabilities | 868 | (529) |
| Long-term deferred compensation | 19 | (16) |
| Cash flows provided by operating activities | 11,684 | 10,352 |
| Cash flows from investing activities: | | |
| Purchases of property, equipment and leasehold improvements | (1,076) | (8,105) |
| Payments received on notes receivable | 37 | 59 |
| Cash flows used for investing activities | (1,039) | (8,046) |
| Cash flows from financing activities: | | |
| Proceeds from draws on line of credit | 6,000 | 19,500 |
| Payments on line of credit | (11,000) | (16,500) |
| Payments for debt issuance costs | (45) | (34) |
| Payments on long-term debt and financing lease obligations | (5,776) | (283) |
| Proceeds from exercise of stock options | 37 | 26 |
| Tax benefit for equity awards issued | 81 | 10 |
| Repurchase of common stock | | (5,072) |

| | | |
|-------------------------------------------------------|-----------------|-----------------|
| Cash flows used for financing activities | (10,703) | (2,353) |
| Decrease in cash and cash equivalents | (58) | (47) |
| Cash and cash equivalents, beginning of period | 1,687 | 1,538 |
| Cash and cash equivalents, end of period | \$ 1,629 | \$ 1,491 |

See accompanying notes to consolidated financial statements.

- 5 -

Table of Contents

FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

We, Famous Dave s of America, Inc. (Famous Dave s or the Company), were incorporated in Minnesota on March 14, 1994. We develop, own, operate and franchise restaurants under the name Famous Dave s . As of September 27, 2009, there were 177 restaurants operating in 38 states, including 46 company-owned restaurants and 131 franchise-operated restaurants. An additional 93 franchise restaurants were committed to be developed through signed area development agreements at September 27, 2009.

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 Dave s and its subsidiaries as of September 27, 2009 and December 28, 2008 and for the three and nine month periods ended September 27, 2009 and September 28, 2008. 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 December 28, 2008 as filed with the SEC.

Due to the seasonality of our business, revenue and operating results for the three and nine months ended September 27, 2009 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 (Loss) Per Common Share

Basic net income (loss) 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 (loss) per common share:

| | Three Months Ended | | Nine Months Ended | |
|------------------------------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | September 27, 2009 | September 28, 2008 | September 27, 2009 | September 28, 2008 |
| <i>(in thousands, except per-share data)</i> | | | | |
| Net income (loss) per common share basic: | | | | |
| Net income (loss) | \$ 1,239 | \$ (763) | \$ 4,927 | \$ 2,344 |
| Weighted average shares outstanding | 9,124 | 9,304 | 9,104 | 9,516 |
| Net income (loss) per common share basic | \$ 0.14 | \$ (0.08) | \$ 0.54 | \$ 0.25 |
| Net income (loss) per common share diluted: | | | | |
| Net income (loss) | \$ 1,239 | \$ (763) | \$ 4,927 | \$ 2,344 |
| Weighted average shares outstanding | 9,124 | 9,304 | 9,104 | 9,516 |
| Dilutive impact of common stock equivalents outstanding | 130 | | 80 | 155 |
| Adjusted weighted average shares outstanding | 9,254 | 9,304 | 9,184 | 9,671 |
| Net income (loss) per common share diluted | \$ 0.13 | \$ (0.08) | \$ 0.54 | \$ 0.24 |

There were 189,125 and 50,500 options outstanding as of September 27, 2009 and September 28, 2008, respectively, that were not included in the computation of diluted EPS because they were anti-dilutive.

- 6 -

Table of Contents

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

(3) Allowance for Doubtful Accounts

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 day's 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 \$306,000 and \$457,000, at September 27, 2009 and December 28, 2008, respectively. The decrease in this balance is due to adjustments to our general reserve. Accounts receivable are written off when they become uncollectible, and payments subsequently received on such receivables are credited to allowance for doubtful accounts. Account 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 the provided allowance 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, and annual financial information, which the franchisees are required to submit to us, as well as other variables.

(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 on which franchise agreements were signed after December 17, 2003, are required to contribute a percentage of net sales, currently 0.5%, to be used for 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 27, 2009 and December 28, 2008. As of September 27, 2009 and December 28, 2008, we had approximately \$662,000 and \$1.2 million in this fund, respectively.

(5) Credit Facility

The Company and certain of its subsidiaries (collectively known as the Borrower) currently have a Credit Agreement with Wells Fargo Bank, National Association, as administrative agent and lender (the Lender). The Credit Agreement, contains a \$30.0 million revolving credit facility (the Facility) with an opportunity, subject to the Company meeting identified covenants and elections, to increase the commitment to \$50.0 million. The maturity date of the Facility is May 1, 2013.

Principal amounts outstanding under the Facility bear interest either at an adjusted Eurodollar rate plus an applicable margin or at a Base Rate plus an applicable margin. The Base Rate is defined in the agreement as the higher of the Federal Funds Rate (0.25% at September 27, 2009) plus 0.5% or Wells Fargo's prime rate (3.25% at September 27, 2009). The applicable margin will depend on the Company's Adjusted Leverage Ratio, as defined, at the end of the previous quarter and will range from 1.00% to 2.00% for Euro Dollar Rate Loans and from -0.50% to +0.50% for Base Rate Loans. Unused portions of the Facility will be subject to an unused Facility fee which will be equal to either 0.25% or 0.375% of the unused portion, depending on the Company's Adjusted Leverage Ratio. Our rate for the unused portion of the Facility as of September 27, 2009, was 0.375%. An increase option exercise fee will apply to increased amounts between \$30.0 and \$50.0 million.

- 7 -

Table of Contents

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

(5) Credit Facility (continued)

The Facility contains customary affirmative and negative covenants for credit facilities of this type, including limitations on the Borrower with respect to indebtedness, liens, investments, distributions, mergers and acquisitions, dispositions of assets and transactions with affiliates of the Borrower, among others. The Facility also includes various financial covenants that have maximum target capital expenditures, cash flow ratios, and or adjusted leverage ratios. If the Company's Adjusted Leverage Ratio is greater than 3.00 to 1.00, an additional covenant applies that limits the maximum royalty receivable aged past 30 days. In addition, capital expenditure limits include permitted stock repurchase limits (limited to \$10.0 million in aggregate during any 12 month period, and \$20.0 million in aggregate during the term of the agreement).

The Credit Agreement currently provides for up to \$3.0 million in letters of credit to be used by the Company, with any amounts outstanding reducing our availability for general corporate purchases, and also allows for the termination of the Facility by the Borrower without penalty at any time. At September 27, 2009 we had \$13.0 million in borrowings under this Facility. We had \$150,000 in Letters of Credit as required by our fiscal 2005 self-funded workers' compensation insurance policy, and \$255,000 in letters of credit for real estate locations.

We obtained a covenant waiver and amendment to our Facility effective December 28, 2008. The amendment changed the definition of EBITDA in our existing Facility and specifically carved out certain franchise receivables from EBITDA and the maximum aged royalties receivable calculation under special circumstances. We paid fees of approximately \$45,000 related to the amendment, which were deferred during the first quarter of 2009 and will be amortized over the remaining life of the facility. We were in compliance with all covenants as of September 27, 2009.

(6) Notes Payable

On June 1, 2009, we elected to repay two notes prior to their expiration, related to our Minnetonka, Minnesota and Woodbury, Minnesota restaurants. Both of these notes had annual interest rates of 10.53% and were due February 2020. A total of approximately \$3.3 million was paid to retire these notes early. Included in the debt retirement payment was a pre-payment penalty of approximately \$350,000 reflected as a loss on early extinguishment of debt in our consolidated statements of operations. We recorded a non-cash charge of approximately \$100,000 to write-off associated deferred financing fees as a result of the early repayment.

On July 1, 2009 and July 31, 2009, we elected to repay two notes prior to their expiration, related to our Richmond, Virginia and Glen Allen, Virginia restaurants. These notes had annual interest rates ranging from 8.10% to 8.83% and were due in October of fiscal 2023 and June of fiscal 2022, respectively. A total of approximately \$2.6 million was paid to retire these notes early. There were no pre-payment penalties for these notes. We recorded a non-cash charge of approximately \$40,000 to write-off deferred financing fees as a result of this early repayment.

Table of Contents**FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(7) Other Liabilities**

Other liabilities at September 27, 2009 and December 28, 2008 consisted of the following:

| <i>(in thousands)</i> | September 27, 2009 | December 28, 2008 |
|-----------------------------------------------|-----------------------------------|----------------------------------|
| Deferred rent | \$ 4,334 | \$ 4,126 |
| Lease termination costs, less current portion | 374 | 1,775 |
| Other liabilities | 23 | 4 |
| | \$ 4,731 | \$ 5,905 |

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

We recognized stock-based compensation expense in our consolidated statements of operations for the three and nine months of fiscal years 2009 and 2008, respectively, as follows:

| <i>(in thousands)</i> | Three Months Ended | | Nine Months Ended | |
|-------------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| | September 27, 2009 | September 28, 2008 | September 27, 2009 | September 28, 2008 |
| Performance Share Programs: | | | | |
| Fiscal 2006 - 2008 | \$ | \$ (56) | \$ | \$ (1) |
| Fiscal 2007 - 2009 | (1) | 83 | 14 | 257 |
| Fiscal 2008 - 2010 ⁽¹⁾ | 24 | 29 | 79 | 166 |
| Fiscal 2009 - 2011 | 60 | | 188 | |
| Performance Shares | \$ 83 | 56 | \$ 281 | \$ 422 |
| Director Shares | 119 | 66 | 203 | 199 |
| Stock Options | | 7 | 24 | 70 |
| Restricted Stock Units ^{(1) (2)} | 34 | (29) | 102 | 7 |
| | \$ 236 | \$ 100 | \$ 610 | \$ 698 |

(1) Our former Chief Executive Officer ceased employment on September 11, 2008 at which time we reversed all previous stock-based compensation

expenses associated with restricted stock units and performance shares also previously granted to him.

- (2) On September 11, 2008, we appointed a new Chief Executive Officer and in conjunction with such appointment, we granted our new Chief Executive Officer a 50,000 share restricted stock unit. In addition, on the same date, we granted a 25,000 share restricted stock unit to our Chief Financial Officer.

We have adopted a 1995 Stock Option and Compensation Plan, a 1997 Employee Stock Option Plan, a 1998 Director Stock Option Plan and a 2005 Stock Incentive Plan (the Plans), pursuant to which we may grant stock options, stock appreciation rights, restricted stock, performance shares, and other stock and cash awards to eligible participants. Under the Plans, an aggregate of 353,500 shares of our Company's common stock remained unreserved and available for issuance at September 27, 2009. The stock options we have issued under the Plans are fully vested as of September 27, 2009 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 hereunder have either been satisfied or terminated.

Table of Contents**FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(8) Stock Options, Performance Shares, Other Forms of Compensation, and Common Share Repurchases
(continued)**

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

Stock Options

| <i>(number of options in thousands)</i> | Number of Options | Weighted Average Exercise Price |
|-------------------------------------------|----------------------------------|------------------------------------------------|
| Outstanding at December 28, 2008 | 389 | \$ 5.59 |
| Exercised | (1) | 2.38 |
| Canceled or expired | (9) | 5.83 |
| Outstanding at March 29, 2009 | 379 | \$ 5.59 |
| Exercised | (8) | 4.98 |
| Canceled or expired | (8) | 6.50 |
| Outstanding at June 28, 2009 | 363 | \$ 5.59 |
| Exercised | | |
| Canceled or expired | | |
| Outstanding at September 27, 2009 | 363 | \$ 5.59 |
| Options Exercisable at September 27, 2009 | 363 | \$ 5.59 |

Performance Shares

Since fiscal 2005, stock incentive awards for employees of the Company (whom we refer to as Associates), including officers, have primarily taken the form of performance shares. We have a program under which management and certain director-level Associates may be granted performance shares under the 2005 Stock Incentive Plan, subject to certain contingencies. Issuance of the shares underlying the performance share grants is contingent upon the Company achieving a specified minimum percentage of the cumulative earnings per share goals (as determined by the Compensation Committee) for each of the three fiscal years covered by the grant. Upon achieving the minimum percentage, and provided that the recipient remains an Associate during the entire three-year performance period, the Company will issue the recipient a percentage of the performance shares that is based upon the percentage of the cumulative earnings per share goals achieved. No portion of the shares will be issued if the specified percentage of earnings per share goals is achieved in any one or more fiscal years but not for the cumulative three-year period.

No recipient will have any rights as a shareholder based on the performance share grants unless and until the conditions have been satisfied and the shares have been issued to the recipient. In accordance with this program, we recognize as compensation expense the value of these stock grants as they are earned in our consolidated statements of operations throughout the performance period.

As of September 27, 2009, we had three performance share programs in progress. All of these performance share awards qualify for equity-based treatment as required under the FASB Standards Codification for Stock Compensation. Accordingly, we recognize compensation cost for these share-based awards based on their fair value, which is the closing stock price at the date of grant over the requisite service period (i.e. fixed treatment). In the third year of any performance share program the estimated attainment percentage is based on the forecasted earnings per share for that program. For the 2007- 2009 program, the Company estimates this attainment percentage to be 86.9%.

Based on our historical average of approximately 90% attainment of performance share payout, we estimated our attainment rate for the performance share program in year two to be approximately 90%. In the first year of any program, we estimate the attainment

- 10 -

Table of Contents

FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(8) Stock Options, Performance Shares, Other Forms of Compensation, and Common Share Repurchases (continued)

rate to be 100%. In accordance with FASB Standards Codification for Stock Compensation, we have recorded compensation 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 2009, we issued 26,484 shares upon satisfaction of conditions under the 2006-2008 performance share program, representing the achievement of approximately 82.3% of the target payout for this program. Recipients elected to forfeit 10,336 of those shares to satisfy tax withholding obligations, resulting in a net issuance of 16,148 shares.

For each of the three programs currently in progress, 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%. With all of the plans, except the 2009-2011 plan, if the Company achieves between 100% and 150% of the Cumulative EPS Goal, each recipient will be entitled to receive an additional percentage of the Target number of Performance Shares granted equal to twice the incremental percentage increase in the Cumulative EPS Goal over 100% (e.g., if the Company achieves 120% of the Cumulative EPS Goal, then the recipient will be entitled to receive 140% of his or her Target Performance Share amount). The maximum share payout a recipient will be entitled to receive under the 2009 - 2011 plan is 100% of the Target number of Performance Shares granted if the Cumulative EPS Goal is met.

The current status of our performance share programs as of September 27, 2009, is as follows:

| Award Date | Performance Share Program | Target No. of Performance Shares (Originally Granted) ⁽¹⁾ | Target No. of Performance Shares (Outstanding at September 27, 2009)⁽¹⁾⁽²⁾ | Maximum No. of Performance Shares⁽²⁾ |
|-------------------|----------------------------------|-----------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|--------------------------------------------------------|
| 02/21/2007 | 2007 - 2009 | 96,100 | 31,800 | 63,600 ⁽³⁾ |
| 12/31/2007 | 2008 - 2010 | 78,800 | 27,500 | 55,000 ⁽³⁾ |
| 12/29/2008 | 2009 - 2011 | 280,300 ⁽⁵⁾ | 269,600 | 269,600 ⁽⁴⁾ |

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

(2) Net of forfeitures due to employee departures.

(3) Assumes achievement of 150% of the applicable

Cumulative EPS
Goal and
corresponding
payout of 200%
of the Target
number of
Performance
Shares.

(4) The maximum
number of
shares issuable
upon
satisfaction of
conditions under
this program is
100% of the
Target number
of Performance
Shares.

(5) The aggregate
Target Number
of Performance
Shares awarded
under this
program
increased
significantly
over prior years
as a result of
one-time grants
related to the
hiring of several
new executives
in late 2008 and
early 2009, and
a significantly
lower stock
price at the
grant date.

Restricted Stock Units

On April 21, 2008, Wilson L. Craft commenced employment with the Company serving as its President and Chief Executive Officer. Also on April 21, 2008, and pursuant to the agreement governing Mr. Craft's employment, the Company granted Mr. Craft 100,000 restricted stock units having an aggregate grant date fair value of \$925,000. On September 11, 2008, Mr. Craft resigned as Chief Executive Officer and the grant of restricted stock units was cancelled in its entirety.

On September 11, 2008, Christopher O. Donnell was promoted to President and Chief Executive Officer. Also on September 11, 2008, and pursuant to the agreement governing Mr. O. Donnell's employment, the Company granted 50,000 restricted stock units having an aggregate grant date fair value of

Table of Contents

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

**(8) Stock Options, Performance Shares, Other Forms of Compensation, and Common Share Repurchases
(continued)**

\$454,000. These restricted stock units will vest in three equal installments on the three, four and five year anniversaries of the grant date provided that Mr. O'Donnell remains employed by the Company through the applicable vesting date, and will vest in its entirety upon a change of control as defined in the employment agreement. In accordance with the FASB Standards Codification for Stock Compensation, the compensation expense for this grant will be recognized in equal quarterly installments as general and administrative expense in our consolidated statements of operations through the applicable service period which expires in the third quarter of fiscal 2013.

In addition, on the same date, the Company made a grant of 25,000 restricted stock units to the Company's Chief Financial Officer, Diana Purcel, for a grant date fair value of \$227,000. This grant is subject to the same terms and conditions as Mr. O'Donnell's grant.

Common Share Repurchases

On August 6, 2008, our Board of Directors authorized a stock repurchase plan that authorized the repurchase of up to 1.0 million shares of our common stock from time-to-time in both the open market or through privately negotiated transactions. As of December 28, 2008 we had repurchased 75,412 shares under this program, for approximately \$680,000 at an average market price per share of \$9.00, excluding commissions. There were no repurchases during the nine months ended September 27, 2009.

Board of Directors Compensation

On March 12, 2009, the chairperson of the Audit Committee of our Board of Directors resigned, and a replacement was named to fill her seat on an interim basis as of such date. At the Company's annual shareholders meeting held May 5, 2009, the interim Audit Committee chairperson was elected along with the other Company directors, to a one-year term on the Board of Directors. Commensurate with her assuming her new position, she was granted 25,000 restricted shares with a grant date fair value of \$168,000 on May 5, 2009, which will vest ratably over a period of five years beginning on March 12, 2009, the date on which she assumed her interim role on the Company's Board of Directors.

In May 2009, we awarded our independent board members shares of common stock for their service on our board for fiscal 2009. These shares were unrestricted upon issuance, but require repayment of the prorated portion, or equivalent value thereof in cash, in the event that a board member fails to fulfill his or her term of service. In total, 66,000 shares were issued on May 5, 2009, on which date the closing price of our common stock was \$6.72. The total compensation cost of approximately \$444,000 will be reflected in general and administrative expenses in our consolidated statements of operations for fiscal 2009, and fiscal 2010, and will be recognized over the term of the director's service from May 2009 to April 2010. In total, compensation expense for the board of directors for the term of their service fulfilled during fiscal 2009 is expected to be \$337,000. On May 29, 2009, F. Lane Cardwell, Jr. resigned from the Board of Directors.

Employee Stock Purchase Plan

The Company maintains an Employee Stock Purchase Plan (ESPP), which gives eligible employees the option to purchase Common Stock (total purchases in a year may not exceed 10 percent of an employee's current year compensation) at 100% of the fair market value of the Common Stock at the end of each calendar quarter. There were approximately 2,234 and 1,867 shares purchased with a fair value of \$5.97 and \$5.96 during the third quarter of 2009 and the third quarter of 2008, respectively. For the fiscal quarters ended September 27, 2009 and September 28,

Table of Contents

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

**(8) Stock Options, Performance Shares, Other Forms of Compensation, and Common Share Repurchases
(continued)**

2008 the Company recognized no expense related to the stock purchase plan due to it being non-compensatory as defined by IRS Section 423.

For the nine months ended September 27, 2009 and September 28, 2008, there were approximately 7,629 shares and 5,239 shares purchased, respectively, with a weighted average fair value of \$4.98 and \$7.19, respectively. For the nine months ended September 27, 2009 and September 28, 2008 the Company recognized no expense related to the stock purchase plan due to it being non-compensatory as defined by IRS Section 423.

(9) 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. During fiscal 2009, we will match 25.0%, and during fiscal 2008, we matched 50.0%, respectively, of the employee s contribution up to 4.0% of their earnings. Employee contributions were approximately \$121,000 and \$139,000 for the third quarter of fiscal years 2009 and 2008, respectively. The employer match was \$19,000 and \$41,000 for the third quarter of fiscal years 2009 and 2008, respectively. For the nine months ended September 27, 2009 and September 28, 2008, eligible participants contributed approximately \$399,000 and \$444,000, respectively, to the plan and the Company provided matching funds of approximately \$61,000 and \$132,000. There were no discretionary contributions to the Plan during the nine months of fiscal years 2009 or 2008.

Non-Qualified Deferred Compensation Plan

We have a Non-Qualified Deferred Compensation Plan effective as of February 25, 2005 (the 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 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 Plan Administrator, and the Regulations promulgated by the IRS. During fiscal 2009, we will match 25%, and in fiscal 2008, we matched 50%, respectively, of the first 4.0% contributed and paid a declared interest rate of 6% in fiscal 2009 and 8% in fiscal 2008, respectively, on balances outstanding. The Board of Directors administers the Plan and could change the interest rate or any other aspects of the Plan at any time.

Deferral periods are capped at 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 the election 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.

The Plan assets are kept in an unsecured account that has no trust fund. In the event of bankruptcy, any future payments would have no greater rights than that of an unsecured general creditor of the Company and they confer no legal rights for interest or claim on any assets of the Company. Benefits provided by the 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 Plan.

Table of Contents

FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(9) Retirement Savings Plans (continued)

For the quarter ended September 27, 2009 and September 28, 2008, eligible participants contributed approximately \$16,000 and \$28,000 to the Plan, respectively, and the Company provided matching funds and interest of approximately \$15,000 and \$22,000, respectively. For the nine months ended September 27, 2009 and September 28, 2008, eligible participants contributed approximately \$49,000 and \$91,000, respectively, to the Plan and the Company provided matching funds and interest of approximately \$46,000 and \$70,000. In accordance with the terms of the Plan, our former Chief Executive Officer took distribution of his balance in the fund during the second quarter of fiscal 2009 in the amount of approximately \$11,000.

(10) Asset Impairment and Estimated Lease Termination and Other Closing Costs

In December 2008, the Company recorded a lease reserve as required under the FASB Standards Codification for Exit or Disposal Cost Obligations of approximately \$2.2 million in connection with the closure of three locations in Atlanta, Georgia. This represented the net present value of all lease obligations, net of estimated sublease income which were estimated to be zero at September 27, 2009 and December 28, 2008.

During the second quarter, we executed two lease termination agreements with the landlords of two of the previously closed restaurants. The termination fees were approximately \$1.0 million, including commissions. This resulted in a gain of approximately \$450,000, which represents the difference between the amount of the termination payments and the remaining lease reserve for these locations. This gain was reflected as a credit to asset impairment and estimated lease termination and other closing costs in our consolidated statement of operations.

During the third quarter, the Company executed the lease termination for a restaurant that closed in fiscal year 2006, and negotiated a lease termination settlement for a restaurant site where construction had never commenced. These charges were approximately \$291,000, including legal fees, which were paid subsequent to the end of the third quarter.

The Company recorded costs for restaurants previously closed of approximately \$26,000 for the period ended September 27, 2009. For the nine months ended September 27, 2009 the costs for restaurants previously closed were approximately \$151,000.

Lease termination reserve activity for the third quarter of 2009 was as follows:

(in thousands)

| | Balance at Beginning of Period | Additions Charged to Costs and Expenses | Deductions Credits to Costs and Other Accounts | Balance at End of Period |
|-------------------------------------|---------------------------------------------------|----------------------------------------------------------------|-----------------------------------------------------------------------|---------------------------------------------|
| Reserve for lease termination costs | \$ 582 | \$ 285 | \$ | \$ 867 |

For the quarters ended September 27, 2009 and September 28, 2008, respectively, the Company recorded asset impairment charges of approximately \$129,000 and \$3.9 million, respectively, as required under FASB Standards Codification for Property, Plant and Equipment. The asset impairment charge, which was recorded in the third quarter of fiscal 2009, was related to a software product that was replaced with an alternative solution prior to implementation.

Table of Contents

FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(11) Supplemental Cash Flow Information

| | Nine Months Ended | |
|-------------------------------------------------------------------------------------------------------|--------------------------|--------------------------|
| | September 27, 2009 | September 28, 2008 |
| <i>(in thousands)</i> | | |
| Cash paid for interest | \$ 1,192 | \$ 1,352 |
| Cash paid for taxes | \$ 321 | \$ 405 |
| Non-cash investing and financing activities: | | |
| Accrued property and equipment purchases | \$ 158 | \$ 346 |
| Reclassification of additional-paid-in-capital to payroll taxes payable for performance shares issued | \$ 28 | \$ 177 |
| Issuance of common stock to independent board members | \$ 322 | \$ 266 |
| Deferred tax asset related to tax benefit of stock options exercised | \$ | \$ 10 |
| Reverse tax shortfall for equity awards issued | \$ (76) | \$ |

(12) Recently Issued Accounting Pronouncements

In June 2009, the FASB issued Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*, which amends the guidance on the consolidation of variable interest entities for determining whether an entity is a variable interest entity and modifies the methods allowed for determining the primary beneficiary of a variable interest entity. In addition, this update requires ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity and enhanced disclosures related to an enterprise's involvement in a variable interest entity. We are required to adopt this amendment in the first quarter of 2010. We are currently in the process of assessing the impact that the amendment may have on our financial statements, however we do not expect the implementation of this amendment to have a material impact on our financial statements.

(13) Subsequent Events

On October 1, 2009, we elected to repay a promissory note prior to its expiration, related to one of our Richmond, Virginia restaurants. A total of approximately \$1.2 million was paid to retire this note early. There was no pre-payment penalty required. We recorded a non-cash charge of approximately \$20,000 to write-off deferred financing fees as a result of the early payoff. The note had an annual interest rate of 8.75% and was originally due August 2022.

On September 29, 2009, the company named Wallace A. Doolin to its Board of Directors. Upon assuming his new position, he was granted 25,000 restricted shares with a grant date fair value of \$150,000, which will vest ratably in annual installments over a period of five years. He was also granted 5,000 shares with a total fair value of \$30,000 which will vest over the term of his service from September 2009 until the annual shareholders' meeting in 2010.

The Company evaluated for the occurrence of subsequent events through November 5, 2009, the issuance date of the Company's financial statements. No recognized or non-recognized subsequent events occurred except as noted above.

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 27, 2009, we had 177 Famous Dave s restaurants operating in 38 states, including 46 company-owned restaurants and 131 franchise-operated restaurants. We had an additional 93 franchise restaurants in various stages of development as of September 27, 2009.

Fiscal Year

Our fiscal year ends on the Sunday closest to December 31st. Our fiscal year is generally 52 weeks; however, it periodically consists of 53 weeks. This fiscal year, which ends on January 3, 2010 (fiscal 2009) consists of 53 weeks while the fiscal year ending December 28, 2008 (fiscal 2008) consisted of 52 weeks.

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 to secure a territory consists of a non-refundable payment equal to \$10,000 per restaurant in consideration for the services we perform in preparation of executing each area development agreement. These services include, but are not limited to, conducting market and trade area analysis, hosting a meeting with the potential franchise partner and the Famous Dave s Executive Team, and performing potential franchise background investigation, all of which 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 franchise fee is typically \$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 \$35,000 is included in deferred franchise fees and is recognized as revenue when a franchisee has secured a site, meaning a lease has been executed or a property purchase agreement has been signed, at which time we have substantially performed all of our obligations. Costs and expenses associated with these services are included in general and administrative expense. 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. During a time when financing is difficult to obtain, we suspended our franchisees development schedule requirements in 2009 and 2010. Additionally, we eliminated the extension fees that were previously required to be paid by a franchisee in order to retain their territory. At the same time, we announced an incentive program to encourage growth where it makes sense. Any of our franchisees who choose to build in 2009 or 2010 will receive a reduced royalty rate for 12 months from date of opening. Our measure of comparable sales represent net sales for restaurants open year-round for at least 24 months.

Costs and Expenses

Restaurant costs and expenses include food and beverage costs, operating payroll and employee benefits, 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 are improved to levels similar to those at our more established restaurants.

Table of Contents**FAMOUS DAVE S 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, Associate 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 27, 2009 | September 28, 2008 | September 27, 2009 | September 28, 2008 |
| Food and beverage costs ⁽¹⁾ | 30.5% | 31.3% | 30.2% | 30.8% |
| Labor and benefits ⁽¹⁾ | 31.9% | 32.3% | 31.1% | 30.8% |
| Operating expenses ⁽¹⁾ | 27.0% | 24.7% | 26.2% | 25.9% |
| Depreciation & amortization (restaurant level) ⁽¹⁾ | 3.9% | 4.2% | 3.8% | 4.0% |
| Depreciation & amortization (corporate level) ⁽²⁾ | 0.4% | 0.4% | 0.4% | 0.3% |
| Asset impairment and estimated lease termination and other closing costs ⁽¹⁾ | 1.6% | 12.8% | 0.1% | 4.2% |
| General and administrative expenses ⁽²⁾ | 11.1% | 9.5% | 11.6% | 11.5% |
| Pre-opening expenses and net loss on disposal of property ⁽¹⁾ | | 1.1% | | 0.7% |
| Total costs and expenses ⁽²⁾ | 93.4% | 102.0% | 91.2% | 95.4% |
| Income (loss) from operations ⁽²⁾ | 6.6% | (2.0%) | 8.8% | 4.6% |

(1) As a percentage of restaurant sales, net

(2) As a percentage of total revenue

(3) Data regarding our restaurant operations as presented in the table, includes sales, costs and expenses associated with our Rib Team, which realized net income of

\$38,000 and \$48,000 for the three months ended September 27, 2009 and September 28, 2008, respectively. The Rib Team realized net income of \$10,000 and \$12,000 for the nine months ended September 27, 2009 and September 28, 2008, respectively. Our Rib Team travels around the country introducing people to our brand of barbeque, 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 December 28, 2008.

Total Revenue

Total revenue of approximately \$33.3 million for the third quarter of fiscal 2009 was an approximate 5.1% decrease from revenue of approximately \$35.1 million for the comparable quarter in fiscal 2008. For the nine months ended September 27, 2009, total revenue of approximately \$103.4 million decreased approximately \$4.2 million, or 3.9%, from revenue of approximately \$107.6 million for the nine months ended September 28, 2008. This decrease reflects a 3.9% decrease in company-owned restaurant sales and a 2.6% decrease in franchise royalty revenue.

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

Restaurant sales for the third quarter of fiscal 2009 were approximately \$28.8 million, which decreased 5.4% compared to net sales of approximately \$30.4 million for the same period in fiscal 2008. Restaurant sales for the nine months ended September 27, 2009 were approximately \$89.6 million, compared to approximately \$93.2 million for the nine months ended September 28, 2008. Comparable sales for the third quarter of 2009 for company-owned restaurants open for 24 months or more declined 6.8%, compared to a decrease of 4.7% for the third quarter of 2008. The sales decline reflects continued pressure related to the general economy in all three of our sales levers: dine-in, to-go, and catering. Of the 6.8% third quarter comparable sales decline, dine-in represented 3.5%, To-Go accounted for 1.7%, and catering comprised 1.6%.

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 \$4.3 million for the third quarter of 2009, compared to \$4.5 million, for the same period in 2008. Franchise royalty revenue was down 2.8% compared to the prior year, reflecting 11 new franchise restaurants, net of 3 closures, since the third quarter of 2008, and a comparable sales decrease of 9.5%. Two new franchise restaurants opened during the third quarter of 2009, Thousand Oaks, California, which was a conversion of an Applebee's, and Amarillo, Texas. Despite the challenging economic environment, these new restaurants had average opening weekly sales of approximately \$88,000. Franchise-related revenue was approximately \$13.0 million for the nine months ended September 27, 2009 compared to approximately \$13.7 million for the nine months ended September 28, 2008, primarily reflecting a year-over-year decrease in royalty revenue of 2.6% for the nine month timeframe. There were 131 franchise-operated restaurants opened at September 27, 2009 compared to 123 franchise-operated restaurants at September 28, 2008.

Licensing and Other Revenue

Licensing revenue includes royalties from a retail line of business, including sauces, rubs, marinades and seasonings. For the third quarter of fiscal 2009, licensing royalty revenue was approximately \$124,000, compared to approximately \$90,000 for the comparable period of fiscal 2008. Licensing royalty revenue was approximately \$439,000 for the nine months ended September 27, 2009, as compared to \$328,000 for the comparable period of fiscal 2008. During fiscal 2009, as a result of continued growth in our restaurant base and expanded markets, we expect to see licensing revenue increase substantially compared to fiscal 2008 levels.

Other revenue includes opening assistance and training we provide to our franchise partners. Other revenue for the fiscal 2009 third quarter was approximately \$96,000 compared to \$115,000 for the comparable prior year quarter. Other revenue for the nine months ended September 27, 2009 was approximately \$372,000 compared to approximately \$379,000 for the comparable period of fiscal 2008. The amount of other revenue is expected to remain essentially flat for fiscal 2009 compared to fiscal 2008, based on the level of opening assistance we provide during the remaining franchised openings for fiscal 2009.

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 2009 decreased 6.8%, which compares to fiscal 2008's third quarter decrease of 4.7%. At the end of the third quarter of fiscal 2009 and the third quarter of fiscal 2008, there were 38 restaurants, respectively, included in this base. Same store net sales for company-owned restaurants open at least 24 months for the nine months ended September 27, 2009 decreased 7.3%, compared to fiscal 2008's nine months ended September 28, 2008 increase of 0.1%. For the nine months ended September 27, 2009 and September 28,

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

2008, there were 38 restaurants and 35 restaurants, respectively, included in the company-owned 24 month comparable sales base. We attribute the sales decline in the third quarter to continued industry-wide pressure related to the general economy, as we suffered declines in all three sales levers: dine-in, to-go, and catering.

Same store net sales for franchise-operated restaurants for the third quarter of fiscal 2009 decreased approximately 9.5%, compared to a decrease of approximately 4.6% for the prior year comparable period. For the third quarter of 2009 and the third quarter of 2008, there were 100 and 86 restaurants, respectively, included in the franchise-operated comparable sales base. The weakening of franchise comparable sales for the third quarter of 2009 reflects the continuation of economic challenges being faced in many of our franchise markets. Of the 9.5% third quarter decline, 6 states, representing 34 franchise-operated restaurants, accounted for approximately 50 percent of the decline.

Same store net sales on a 24 month basis for franchise-operated restaurants for the first nine months of fiscal 2009 and fiscal 2008 decreased 8.8% and 2.8%, respectively. For the first nine months of fiscal 2009 and fiscal 2008, there were 92 and 75 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 2009 and fiscal 2008:

| | Three Months Ended | | Nine Months Ended | |
|----------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| | September 27, 2009 | September 28, 2008 | September 27, 2009 | September 28, 2008 |
| Average Weekly Net Sales: | | | | |
| Company-Owned | \$47,706 | \$ 49,429 | \$49,427 | \$ 52,368 |
| Full-Service | \$48,958 | \$ 51,039 | \$51,121 | \$ 54,465 |
| Counter-Service | \$37,438 | \$ 38,489 | \$36,401 | \$ 38,583 |
| Franchise-Operated | \$53,524 | \$ 58,276 | \$54,870 | \$ 58,449 |
| AWS 2005 and Post 2005: ⁽¹⁾ | | | | |
| Company-Owned | \$55,340 | \$ 62,578 | \$58,909 | \$ 67,918 |
| Franchise-Operated | \$57,683 | \$ 64,600 | \$60,201 | \$ 65,691 |
| AWS Pre-2005: ⁽¹⁾ | | | | |
| Company-Owned | \$45,011 | \$ 46,295 | \$46,112 | \$ 48,608 |
| Franchise-Operated | \$47,472 | \$ 50,355 | \$47,326 | \$ 49,834 |
| Operating Weeks: | | | | |
| Company-Owned | 598 | 608 | 1,807 | 1,772 |
| Franchise-Operated | 1,684 | 1,597 | 4,934 | 4,723 |

⁽¹⁾ Provides further delineation of AWS for restaurants opened during the pre-fiscal 2005, and restaurants opened during

the fiscal 2005
and post-fiscal
2005,
timeframes.

Catering represented 11.9% while To-Go represented 20.9% of our 2009 third quarter off-premise sales, for a total of 32.8%. This compares to catering and to-go percentages of 13.0% and 21.9%, respectively, for the prior year. Although To-Go and catering were down on a comparable basis 8.2% and 15.1% for the third quarter year-to-date timeframe, for comparable restaurants, we saw sequential improvement from the first and second quarter due to a variety of initiatives to build sales. To-Go sales were positively impacted by the various promotional activities, such as Dave's Day, which increased our to-go traffic during the quarter. Although we continue to see consumers being very conscientious, we remain optimistic about the upcoming holiday season for in-restaurant family gatherings and off-premise catering and to-go opportunities, and have

- 19 -

Table of Contents

FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES

planned several initiatives for the fourth quarter to help build sales. As such, to support our sales building efforts during the fourth quarter, we will be offering \$10 off for a \$30 dine-in or to-go occasion in our company markets through direct mail and newspaper advertising. We will also be offering special incentives for booking catering orders.

Food and Beverage Costs

Food and beverage costs for the third quarter of fiscal 2009 were approximately \$8.8 million or 30.5% of net restaurant sales, compared to approximately \$9.5 million or 31.3% of net restaurant sales for the third quarter of fiscal 2008. As a percentage of dine-in sales, our adult beverage sales at our company-owned restaurants were 8.3% and 8.7% for the third quarter of fiscal years 2009 and 2008, respectively.

Food and beverage costs for the first nine months of fiscal 2009 were approximately \$27.0 million or 30.2% of net restaurant sales compared to approximately \$28.8 million or 30.8% of net restaurant sales for the comparable period of fiscal 2008.

As for our core proteins, we continue to benefit from an approximate 2.0% pricing decrease in our pork contract, which extends throughout the balance of fiscal 2009. Our chicken pricing is firm through fiscal 2009 at a continued price decrease of 6.0% from the prior year. Our brisket contract extends through December 2009 at a sustained price decrease of approximately 2.0% compared to the prior year. Our seafood contracts are locked in through December, as well, however at a continued price increase of approximately 7.6% from the prior year, due to a change in industry conditions relating to the salmon harvest. Our hamburger contract is firm through December at a price increase of approximately 8.0% from the prior year, a slight decrease from the prior quarter.

It is still early yet to give firm guidance on our 2010 key products, however, during the third quarter, we locked in our pork contract for all of 2010, at an approximate savings of 3.5% from 2009 pricing. If the futures market for pork begins to look unfavorable beyond 2010, however, we may extend our contract and blend in a price increase during the year in an effort to carry our current savings past 2010. We have recently extended our chicken contract through the first quarter of 2010 at a price decrease of approximately 3.5% from 2009 pricing. We continue to watch the markets closely and believe we are seeing the benefit of being flexible through negotiating certain shorter-term contracts. While not final yet, we anticipate a decrease of 2.0% for brisket, and a 3.0% increase in seafood, for 2010.

Effective in November, we will be changing our food distributor to secure more flexibility for maximizing freight savings and optimizing distribution for our system. We anticipate the transition to our new distributor and optimization of the distribution network to occur over the next six to nine months.

We continue to make progress with identifying secondary suppliers that will result in further protection of our supply chain as well as ensure a more fair and competitive pricing environment. As of today, we have sourced secondary suppliers for 8 of our top 15 most critical items, and anticipate having this initiative completed by the end of fiscal 2010.

Finally, we continue to track our progress on, and measure improvements in, managing within an ideal food cost at the restaurant unit level.

As a result of all of the initiatives mentioned above, for the full fiscal 2009 timeframe, we anticipate an approximate 50 - 60 basis point decrease in our cost of goods sold as a percent of sales year over year.

Labor and Benefits Costs

Labor and benefits costs for the third quarter ended September 27, 2009 were approximately \$9.2

Table of Contents

FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES

million or 31.9% of net restaurant sales, compared to approximately \$9.8 million or 32.3% of net restaurant sales for the third quarter ended September 28, 2008. Labor and benefits for the nine months ended September 27, 2009 were approximately \$27.9 million or 31.1% of net restaurant sales, compared to approximately \$28.7 million or 30.8% of net restaurant sales for the nine months ended September 28, 2008.

We have seen dollar savings in labor and benefits costs year-over-year, predominantly due to the reduction in our labor matrix in early 2009. For the third quarter, labor as a percentage of net restaurant sales was 40 basis points lower than the prior year, primarily reflecting this optimization of labor. Additionally, labor as a percentage of sales for the third quarter reflected a positive impact of approximately 110 basis points, as compared to prior year, due to the acquisition of the Atlanta restaurants in July of 2008, that collectively had a higher labor percentage. This was negatively offset by an approximate 110 basis point impact from the year over year decline in net restaurant sales.

As we look to the balance of 2009, primarily as a result of sales de-leveraging, we expect labor and benefits costs as a percentage of sales, to be 10 – 20 basis points unfavorable to fiscal 2008's percentage.

Operating Expenses

Operating expenses for the third quarter of fiscal 2009 were approximately \$7.8 million or 27.0% of net restaurant sales, compared to operating expenses of approximately \$7.5 million or 24.7% of net restaurant sales for the third quarter of fiscal 2008.

Operating expenses as a percentage of sales for the third quarter of 2009 were 230 basis points higher than prior year, primarily reflecting 100 basis points due to lower sales levels, as well as a year over year shift in the timing of advertising spending. Partially offsetting impacts included a reduction of 0.5 percent for the National Ad Fund, and lower utility costs due to favorable rates and usage stemming from cooler average temperatures. Finally, in 2008, the Company recaptured 160 basis points related to deferred rent credits associated with a change in estimate regarding the lease term of several company owned restaurants. This negatively affects the year-over-year comparison.

Operating expenses for the nine months ended September 27, 2009 were approximately \$23.5 million or 26.2% of net restaurant sales, compared to approximately \$24.2 million or 25.9% of net restaurant sales for the nine months ended September 28, 2008. Restaurant operating expenses as a percent of net restaurant sales increased year over year on a year to date basis due to lower sales volume partially offset by lower utility and advertising costs. Operating expense as a percent of net sales for fiscal 2009 is now expected to be approximately 40 – 50 basis points higher than 2008's percentage.

Due to a more favorable than anticipated advertising environment we expect that our 2009 advertising expense will be approximately 3.3% of net sales, including a 0.5% contribution to the National Ad Fund.

Depreciation and Amortization

Depreciation and amortization expense for the third quarter of 2009 was approximately \$1.3 million or 3.8% of total revenue, compared to approximately \$1.4 million, or 4.0% of total revenue, during the third quarter of 2008. Depreciation and amortization expense in the third quarter was \$144,000 less than 2008, primarily reflecting impairments recorded during the last half of 2008, partially offset by the 3 new restaurants added in the fourth quarter of 2008. Depreciation and amortization expense for the nine months ended September 27, 2009 and September 28, 2008 was approximately \$3.8 million and \$4.1 million, respectively, and was 3.7% and 3.8% respectively, of total revenue. For the full year, we expect depreciation to be essentially flat, as a percentage of total revenue, to fiscal 2008.

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

During the third quarter, the Company executed a lease termination for a restaurant that had previously closed in fiscal year 2006, and negotiated a lease termination settlement. In addition, there was a lease termination for another restaurant site where construction had never commenced. These charges were approximately \$291,000, including legal fees, which were paid subsequent to the end of the third quarter.

For the quarters ended September 27, 2009 and September 28, 2008, the Company recorded asset impairment charges of approximately \$129,000 and \$3.9 million, respectively, as required under Accounting Standards Codification for Property, Plant and Equipment. The asset impairment charge in the third quarter of fiscal 2009 was related to a software product that was replaced with an alternative solution prior to implementation.

The Company recorded costs for restaurants previously closed of approximately \$26,000 for the three month period ended September 27, 2009. For the nine months ended September 27, 2009 the costs for restaurants previously closed were approximately \$151,000.

General and Administrative Expenses

General and administrative expenses for the third quarter of 2009 were approximately \$3.7 million or 11.1% of total revenue, compared to approximately \$3.3 million or 9.5% of total revenue for the third quarter of fiscal 2008. The percentage for 2009 reflects a 210 basis point impact year over year for full accrual of bonus achievement for 2009, compared to 2008, and a 40 basis point impact from reduced revenue year over year partially offset by cost savings initiatives. General and administrative expenses as a percent of total revenue, excluding corporate bonuses and stock-based compensation, were 9.2% for the third quarter of 2009 and 10.2% for the third quarter of 2008.

General and administrative expenses for the first nine months of fiscal 2009 were approximately \$12.0 million or 11.6% of total revenue compared to approximately \$12.4 million or 11.5% of total revenue for the first nine months of fiscal 2008. General and administrative expenses, excluding bonuses and stock-based compensation expense, as a percentage of total revenue was 9.8% and 10.5%, for the year-to-date periods of 2009 and 2008, respectively. Including performance shares for the 2009-2011 program and grants to our board of directors, we are expecting stock-based compensation to be approximately \$861,000 in fiscal 2009, as follows (in thousands):

| Performance Shares | Restricted Stock Units | Board of Directors Shares | Stock Options | Total |
|-----------------------|---------------------------|------------------------------|------------------|-------|
| \$363 | \$136 | \$338 | \$24 | \$861 |

We continue to remain vigilant in our spend of general and administrative expenses. We expect that 2009 general and administrative expenses as a percentage of revenue, with full accrual for bonus achievement, will be approximately flat to 2008's percentage, which included only a \$200,000 bonus payout for associates below the executive level.

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 which will vary based on lease terms. During the third quarter of 2009, we had no pre-opening expenses and had approximately \$333,000 of pre-opening expenses in the third quarter of 2008. We did not have any pre-opening expenses for the nine months ended September 27, 2009 and had \$636,000 for the nine months ended September 28, 2008. We will not be opening any new company owned restaurants in 2009,

Table of Contents

FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES

and thus do not expect to have any pre-opening expenses. As we look to 2010, we will remain watchful and open to any opportunities that make sense for Company-owned locations.

Loss on Early Extinguishment of Debt

During the third quarter of 2009, we elected to retire early two notes for two of our Richmond, Virginia restaurants. Total cash paid for the early extinguishment of debt was \$2.6 million. Additionally, as a result of this transaction, we wrote off approximately \$40,000 of deferred financing fees which are included in loss on early extinguishment of debt.

During the nine months ended September 27, 2009, we elected to retire early four notes related to two Minnesota restaurants in the second quarter of 2009, and two Virginia restaurants in the third quarter of 2009. Total cash paid for the early extinguishment of debt was \$5.9 million, including a prepayment penalty of \$350,000. Additionally, as a result of this transaction, we wrote off approximately \$139,000 of deferred financing fees which are included in loss on early extinguishment of debt.

Interest Expense

Interest expense was approximately \$277,000 or 0.8% of total revenue for the third quarter of fiscal 2009, compared to approximately \$504,000 or 1.4% of total revenue for the comparable time frame of fiscal 2008. This category includes interest expense for notes payable, financing lease obligations, our line of credit, and a company match and interest for deferrals made under our non-qualified deferred compensation plan. We benefited from lower interest rates and lower debt balances year over year. The total pay down of long-term debt in fiscal 2009 should result in approximately \$610,000 of interest savings for fiscal 2010 alone, but approximately \$4.3 million in total over the original term of the debt.

Interest expense was approximately \$1.2 million or 1.1% of total revenue for the first nine months of fiscal 2009 and approximately \$1.5 million or 1.4% of total revenue for the first nine months of fiscal 2008. For fiscal 2009, we expect interest expense to be approximately 30 basis points lower than fiscal 2008 levels due to our early debt repayments and additional savings due to lower revolver balances year over year. We had a balance on our line of credit of \$13.0 million as of September 27, 2009.

Interest Income

Interest income was approximately \$26,000 and \$73,000 for the third quarter of fiscal 2009 and fiscal 2008, respectively. Interest income was approximately \$93,000 and \$172,000 for the first nine months of fiscal 2009 and fiscal 2008, respectively. Interest income reflects interest received on short-term cash and cash equivalent balances. The decrease in interest income is due to lower interest rates on our cash deposits and lower balances in our cash accounts due to paying down debt.

Provision for Income Taxes

For the third quarter of 2009, we recorded an estimated provision for income taxes of approximately \$679,000 or 35.4% of income before income taxes, compared to a tax benefit of approximately \$375,000, or 33.0% of loss before income taxes, for the third quarter of 2008. For the nine months ended September 27, 2009, our tax provision was approximately \$2.6 million, or 34.4% of income before income taxes, compared to the prior year comparable period of approximately \$1.2 million, or 34.3% of income before income taxes. We currently estimate a tax provision of approximately 34.3% for fiscal 2009, due to a change in our income tax reserves during the quarter.

Basic and Diluted Net Income Per Common Share

Net income for the three months ended September 27, 2009 was approximately \$1.2 million or \$0.14

- 23 -

Table of Contents

FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES

per basic and \$0.13 per diluted share on approximately 9,124,000 weighted average basic shares outstanding and 9,254,000 weighted average diluted shares outstanding. Net loss for the three months ended September 28, 2008 was approximately \$763,000 or an \$0.08 loss per basic and diluted share on approximately 9,304,000 weighted average basic and diluted shares outstanding.

Net income for the nine months ended September 28, 2008 was approximately \$4.9 million or \$0.54 per basic and diluted share on approximately 9,104,000 weighted average basic shares outstanding and approximately 9,184,000 weighted average diluted shares outstanding, respectively. Net income for the nine months ended September 28, 2008 was approximately \$2.3 million or \$0.25 per basic share and \$0.24 per diluted share on approximately 9,516,000 weighted average basic shares outstanding and approximately 9,671,000 weighted average diluted shares outstanding, respectively.

Financial Condition, Liquidity and Capital Resources

At the end of the third quarter of 2009, our balance of unrestricted cash and cash equivalents was approximately \$1.6 million, compared to the fiscal 2008 year-end balance of approximately \$1.6 million.

Our quick ratio, which measures our immediate short-term liquidity, was 0.21 at September 27, 2009 and 0.19 at September 28, 2008. The quick ratio is computed by adding unrestricted cash and cash equivalents with accounts receivable, net and dividing by total current liabilities less restricted marketing fund liabilities. The change in our quick ratio was primarily due to a slight increase in our current assets and a lower balance on our line of credit, as compared to the same period of 2008.

Net cash provided by operating activities for the nine months ended September 27, 2009 was approximately \$11.7 million. Cash provided by operating activities was primarily from net income of approximately \$4.9 million, depreciation and amortization of approximately \$3.8 million, a decline in accounts receivable, net of \$521,000, a decline in restricted cash of approximately \$508,000, and an increase in accrued compensation and benefits of \$1.4 million. These net increases to cash flows were partially offset by an approximate \$1.3 million decrease in accounts payable.

Net cash provided by operations for the nine months ended September 28, 2008 was approximately \$10.4 million. Cash provided by operations was primarily from net income of approximately \$2.3 million, depreciation and amortization of approximately \$4.1 million, asset impairment and lease termination and other closing costs of \$3.9 million, and a decline in restricted cash of approximately \$909,000. In addition, there were increases in stock based compensation of approximately \$698,000. These net increases to cash flows were partially offset by an approximate \$733,000 decrease in prepaid expenses and other current assets, a \$529,000 decrease in other current liabilities, an approximate \$331,000 decrease in accrued compensation and benefits, and an approximate \$311,000 decrease in accounts payable.

Net cash used for investing activities was approximately \$1.0 million for the nine months ended September 27, 2009 and \$8.0 million for the nine months ended September 28, 2008. During the nine months of 2009, we used approximately \$1.1 million for capital expenditures for existing restaurants and for other projects. During the nine months ended September 28, 2008, we used approximately \$8.0 million for capital expenditures primarily related to the construction of our new restaurants. In fiscal 2009, we expect capital expenditures to be approximately \$2.6 million, primarily reflecting continued investments in existing restaurants and the investment in a Human Resource Information System (HRIS), which is expected to be implemented in the fourth quarter of fiscal 2009.

Net cash used for financing activities was approximately \$10.7 million during the nine months ended September 27, 2009 and approximately \$2.4 million for the nine months ended September 28, 2008. During the nine months ended September 27, 2009, we had draws of \$6.0 million on our line of credit and had repayments of \$11.0 million. In addition, we repaid \$5.8 million of long-term debt. During the nine months

Table of Contents

FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES

ended September 28, 2008, we had draws of \$19.5 million on our line of credit and had repayments of \$16.5 million. In addition, we repaid approximately \$283,000 of debt and repurchased 592,956 of our shares for approximately \$5.1 million, including commissions.

The Company and certain of its subsidiaries (collectively known as the Borrower) currently have a Credit Agreement with Wells Fargo Bank, National Association, as administrative agent and lender (the Lender). The Credit Agreement, contains a \$30.0 million revolving credit facility (the Facility) with an opportunity, subject to the Company meeting identified covenants and elections, to increase the commitment to \$50.0 million. The maturity date of the Facility is May 1, 2013.

Principal amounts outstanding under the Facility bear interest either at an adjusted Eurodollar rate plus an applicable margin or at a Base Rate plus an applicable margin. The Base Rate is defined in the agreement as the higher of the Federal Funds Rate (0.25% at September 27, 2009) plus 0.5% or Wells Fargo s prime rate (3.25% at September 27, 2009). The applicable margin will depend on the Company s Adjusted Leverage Ratio, as defined, at the end of the previous quarter and will range from 1.00% to 2.00% for Euro Dollar Rate Loans and from -0.50% to +0.50% for Base Rate Loans. Unused portions of the Facility will be subject to an unused Facility fee which will equal to 0.375% of the unused portion, depending on the Company s Adjusted Leverage Ratio. Our rate for the unused portion of the Facility as of September 27, 2009, was 0.375%. An increase option exercise fee will apply to increased amounts between \$30.0 million and \$50.0 million.

The Facility contains customary affirmative and negative covenants for credit facilities of this type, including limitations on the Borrower with respect to indebtedness, liens, investments, distributions, mergers and acquisitions, dispositions of assets and transactions with affiliates of the Borrower, among others. The Facility also includes various financial covenants that have maximum target capital expenditures, cash flow ratios, and adjustment leverage ratios. If the Company s Adjusted Leverage Ratio is greater than 3.00 to 1.00, an additional covenant applies that limits the maximum royalty receivable aged past 30 days. In addition, capital expenditure limits include permitted stock repurchase limits (limited to \$10.0 million in aggregate during any 12 month period, and \$20.0 million in aggregate during the term of the agreement).

The Credit Agreement currently provides for up to \$3.0 million in letters of credit to be used by the Company, with any amounts outstanding reducing our availability for general corporate purchases, and also allows for the termination of the Facility by the Borrower without penalty at any time. At September 27, 2009 we had \$13.0 million in borrowings under this Facility, and had \$150,000 in Letters of Credit as required by our fiscal 2005 self-funded workers compensation insurance policy and \$255,000 in letters of credit for real estate locations.

We obtained a covenant waiver and amendment to our Facility effective December 28, 2008. The amendment changed the definition of EBITDA in our existing Facility and specifically carved out certain franchise receivables from EBITDA and the maximum aged royalties receivable calculation under special circumstances. We paid approximately \$45,000 of fees related to the amendment, which were deferred the first quarter of 2009 and will be amortized over the remaining life of the facility. We were in compliance with all covenants as of September 27, 2009.

We anticipate that all restaurant development and expansion will be funded primarily through currently held cash and cash equivalents, cash flow generated from operations, and from sources such as our credit facility. We expect capital expenditures of approximately \$2.6 million in 2009, which will consist of costs related to normal capital expenditures for existing restaurants and the investment of a HRIS which is expected to be implemented in the fourth quarter of 2009.

Table of Contents

FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Contractual Obligations

See Notes 6, 7, 8, and 9 to our Consolidated Financial Statements in our Fiscal 2008 Annual Report on Form 10-K for the details of our contractual obligations.

Under the agreements governing our long-term debt obligations, we are subject to two main financial covenants. We must maintain a 1.5 to 1.0 fixed charge coverage ratio each fiscal year under one of our covenants.

We are also subject to an Adjusted Leverage Ratio covenant and a franchise royalty covenant under our credit facility. Due to the impairment charges and lease termination fees recorded during the third and fourth quarters of fiscal 2008, we were not in compliance with the Adjusted Leverage Ratio covenant under the Facility. We amended our credit agreement to change the definition of consolidated EBITDA to include a defined amount of impairment charges and lease termination fees in any fiscal 2008 quarter. Additionally, we were also not in compliance with the franchise royalty receivable covenant as of December 28, 2008. After receipt of the waivers, we were in compliance with all covenants under the Facility as of December 28, 2008. We were in compliance with all covenants as of September 27, 2009.

Critical Accounting Policies

Our significant accounting policies are described in Note One to the consolidated financial statements included in our Annual Report for the year ended December 28, 2008. The accounting policies used in preparing our interim 2009 consolidated financial statements are the same as those described in our Annual Report.

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 , es projects , believes , expects , intends , target , goal , plans , objective , should or similar exp forward-looking statements which may appear in documents, reports, filings with the Securities and Exchange Commission, news releases, written or oral presentations made by our officers or other representatives to analysts, shareholders, investors, news organizations, and others, and discussions with our management and other Company representatives. For such statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

Our future results, including results related to forward-looking statements, involve a number of risks and uncertainties. No assurance can be given that the results reflected in any forward-looking statements will be achieved. Any forward-looking statements made by us or on our behalf speak only as of the date on which such statement is made. Our forward-looking statements are based upon 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

Table of Contents

FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES

statement, or (ii) the important factors that could cause our future results to differ materially from historical results or trends, results anticipated or planned by us, or which are reflected from time to time in any forward-looking statement which may be made by us or on our behalf.

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

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. 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.

The Company has adopted a Code of Ethics applicable to all of its Associates and a separate Code of Ethics applicable specifically to its CEO, CFO and Key Financial and Accounting Management. These two Code of Ethics documents are available on our website at www.famousdaves.com and a copy is available free of charge to anyone requesting them.

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 unrestrictive 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 or derivative commodity instruments in our cash and cash equivalents. The total outstanding long-term debt of our Company as of September 27, 2009 was approximately \$5.9 million, including financing lease obligations. All of the outstanding long-term debt, is subject to a fixed interest rate. 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,

Table of Contents

FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES

which helps to control food commodity risks. We have secondary source suppliers for certain items and in 2009 we will 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 have been no changes (including corrective actions with regard to significant deficiencies or material weaknesses) in our internal control over financial reporting or in other factors that could significantly affect our internal control over financial reporting subsequent to the end of the period covered by this report.

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.

- 28 -

Table of Contents

FAMOUS DAVE S OF AMERICA, INC. AND SUBSIDIARIES

Item 6. EXHIBITS

- 10.1 Form of Restricted Stock Agreement dated September 29, 2009, between Famous Dave s of America Inc. and Wallace B. Doolin.

- 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.

- 29 -

Table of Contents

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

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FAMOUS DAVE S OF AMERICA, INC.
(Registrant)

Dated: November 5, 2009

By: /s/ Christopher O Donnell
Christopher O Donnell
President and Chief Executive Officer
Director (Principal Executive Officer)

Dated: November 5, 2009

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