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

FORM 10-K

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

For the Fiscal Year Ended January 1, 2006

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

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

Common Stock, \$0.01 par value

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Act 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

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

The aggregate market value of the Registrant's Common Stock held by non-affiliates on July 1, 2005 (the last business day of the Registrant's most recently completed second quarter), based upon the last sale price of the Common Stock as reported on the NASDAQ National Market SM on July 1, 2005, was \$78,768,109. As of March 13, 2006, 10,606,543 shares of the Registrant's Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of our definitive Proxy Statement for our Annual Meeting of Shareholders to be held on May 10, 2006 (the "2006 Proxy Statement") are incorporated by reference into Part III of this Form 10-K, to the extent described in Part III. The 2006 Proxy Statement will be filed within 120 days after the end of the fiscal year ended January 1, 2006.

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PART I

ITEM 1. BUSINESS

General Development of Business

Famous Dave's of America, Inc. ("Famous Dave's" or the "Company") was incorporated as a Minnesota corporation in March 1994 and opened its first restaurant in Minneapolis, Minnesota in June 1995. As of January 1, 2006, there were 126 Famous Dave's restaurants operating in 32 states, including 38 company-owned restaurants and 88 franchise-operated restaurants. An additional 196 franchise restaurants were committed to be developed through signed area development agreements at January 1, 2006.

Until February 26, 2003, Famous Dave's was a 40% participant in a joint venture to operate themed restaurant concepts based on the entertainment artist Isaac Hayes. Pursuant to an agreement governing the joint venture, the participants formed a Delaware limited liability company named FUMUME, LLC. FUMUME, LLC opened its first location in Chicago, Illinois in June 2001 and opened its second location in Memphis, Tennessee in October 2001. On February 26, 2003, we disposed of our 40% interest in FUMUME, LLC, and as a result, no longer participate in any revenue or expenses of the joint venture, nor do we have any further obligations with regard to the joint venture.

Financial Information about Segments

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

Narrative Description of Business

Famous Dave's restaurants, a majority of which offer full table service, feature hickory smoked off-the-grill meat entrée favorites, served in our restaurants. We seek to differentiate ourselves by providing high-quality food in distinctive and comfortable environments. As of January 1, 2006, 32 of our company-owned restaurants were full-service and 6 were counter-service. In 2006, we plan to open three company-owned restaurants featuring "Smokehouse" prototype design elements including: a designated bar, a signature exterior smokestack, a separate entrance for our category-leading "TO GO" business and a patio. This concept has approximately 6,000 square feet, and has 200 seats with 50 seats in the bar and 50 more seats on the patio. This design will enable us to capitalize on a consistent and readily identifiable look and feel for our future locations.

In fiscal 2005, our franchisees performed several conversions of existing buildings using the "Smokehouse" design theme, including the first free-standing prototypical building in Manhattan, Kansas. In January of 2006, the first company-owned "Smokehouse" was opened in Chantilly, Virginia. We pride ourselves on the following:

High Quality Food – Each restaurant features a distinctive selection of authentic hickory-smoked off-the-grill favorites such as flame-grilled St. Louis-style and Baby-back ribs, Texas beef brisket, Georgia chopped pork, country-roasted chicken, and generous signature sandwiches and salads. Enticing side items such as honey-buttered corn bread, potato salad, coleslaw, Shack Fries™ and Wilbur Beans™ accompany the broad entrée selection. Homemade desserts, including Famous Dave's Bread Pudding and Hot Fudge Kahlua™ Brownies, are a specialty. To complement our smoked meat entrée and appetizer

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items and to suit different customer tastes, our barbeque sauces come in five variations: Rich & Sassy®, Texas Pit™, Georgia Mustard™, Devil's Spit® and Sweet and Zesty™. These sauces, in addition to a variety of seasonings, rubs and marinades are also distributed in retail grocery stores throughout the country under licensing agreements. We believe that our high quality food, scratch cooking and smoking our meats daily at each of our restaurants are principal points of differentiation between us and other casual dining competitors and are a significant contributing factor to repeat business.

Distinctive Environment – Décor and Music – Our original décor theme was a nostalgic roadhouse shack (“Shack”), as defined by the abundant use of rustic antiques and items of Americana. In late 1997, we introduced the “Lodge” format which featured décor reminiscent of a comfortable “Northwoods” hunting lodge with a full-service dining room and bar. In addition, we developed a larger “Blues Club” format that featured authentic Chicago Blues Club décor and live music seven nights a week. We have now evolved our format to that of a full-service “Smokehouse” concept. This design incorporates the best attributes of the past restaurants while providing a consistent brand image. Of our 38 restaurants as of January 1, 2006, 32 were full-service restaurants with 25 having the “Lodge” format, 5 having the “Shack” format, and our Maple Grove, Minnesota restaurant having the new “Smokehouse” concept and one restaurant, located in the Minneapolis market, was a “Blues Club” format. During 2005, we converted our Maple Grove, Minnesota restaurant from a counter-service restaurant to a full-service, “Smokehouse”-concept restaurant. Elements of the “Smokehouse” prototype were added, such as a full bar, a stone fireplace and a more prominent “TO GO” area with improved signage. We also have five counter-service restaurants in the “Shack” format. We will continue to evaluate converting other counter-service restaurants to full-service restaurants where there is determined to be sufficient return on our investment.

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

Operating Strategy

Our journey to achieving sustainable profitable growth requires us to deliver high-quality experiences, in terms of both food and hospitality, to every guest, every day, and to enhance brand awareness, in our markets. Key elements of our strategy include the following:

Operational Excellence – During fiscal 2005, we continued our intense focus on operational excellence and integrity, and on creating a consistently great guest experience, both in terms of food and hospitality, across our system. We define operational excellence as an uncompromising attention to the details of our recipes, preparation and cooking procedures, handling procedures, rotation, sanitation, cleanliness and safety. It also means an unyielding commitment to our guests to provide a “famous” experience with every visit through the execution of precision service. In our restaurants, we strive to emphasize value and speed of service by employing a streamlined operating system based on a focused menu and simplified food preparation techniques.

Our menu focuses on a number of popular smoked, barbeque, meat, entrée items and delicious side dishes which are prepared using easy-to-operate kitchen equipment and processes that use prepared proprietary seasonings, sauces and mixes. This streamlined food preparation system helps lower the cost of operation by requiring fewer staff, lower training costs, and eliminates the need for highly compensated chefs. During 2004, in order to enhance our appeal, expand our audience, and promote our cravable products without discounting, we introduced Limited-Time Offerings (LTO’s) which often provide higher margins than our regular menu items. We believe that constant and exciting new product

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introductions, offered for a limited period of time, encourage trial visits, build repeat traffic and increase exposure to our regular menu. In order to increase customer frequency, we have assembled a research and development pipeline designed to generate four to six product introductions annually. As the menu broadens and food preparation techniques become more focused on meals prepared to order, increased training may be necessary in order to prepare our staff for increased levels of guest service.

In the Spring of 2005, we introduced a limited time offering seafood promotion consisting of a shrimp Po'Boy sandwich, a blackened catfish Po'Boy sandwich and a blackened catfish dinner entrée. Our summer promotion featured the Ultimate BBQ Burger, a grilled burger patty topped with Georgia Chopped Pork, jalapeno bacon, cheddar cheese, and a special bourbon and cola BBQ sauce. During the height of barbeque season, we featured "Getting Your Ribs Naked," which also allowed us to feature our five signature table sauces so that guests could customize their experience. In the fall, our LTO consisted of a Smokin' Rib Eye, which represented our first entry into the steak category. For our Spring promotion during the first quarter of 2006, we featured catfish and crawfish in several entrees, sandwich and salad offerings.

Human Resources and Training – Human Resources and Training decisions are made with consideration to our goals and objectives as well as established values and culture. Success is measured by the ability to "Hire the Fire," "Train to Fame," and "Retain the Flame," while upholding our "Legendary Standards (of operations)." Performance in these key areas is benchmarked through an industry subscription service, the *People Report*, which assists us in monitoring our "People P&L." We are pleased with our progress as management and hourly associate turnover has been maintained at or below industry averages at 25% and 93%, respectively.

We are a performance-based organization committed to recognizing and rewarding performance. Our compensation programs are at or above industry averages for all levels of management. Compensation is very much viewed as part of a total rewards program, and is benchmarked closely against the industry. Our President's Club rewards General Managers for accomplishments in many areas directly related to great restaurant operations, such as sales growth, operating results, safety programs, retention and increased guest satisfaction scores. During fiscal 2005, over half of our General Managers successfully attained the President's Club designation. Other compensation programs include health and welfare coverage, 401(k) and non-qualified deferred compensation plans offering a company match, and base pay and incentive programs developed with matching or exceeding industry standards in mind. Support Center associates enjoy a similar total rewards package to our restaurant managers, including an incentive plan that focuses associates' attention on both company earnings and personal achievement of strategically aligned goals.

In the Training and Development arena, a number of successful training courses were conducted for both restaurant manager and multi-unit manager levels to create defined career paths. Training courses are offered to both corporate management and Franchise partners. During fiscal 2005, our classes focused on core competencies and opportunities for success. The curriculum included food safety and alcohol awareness; food execution and quality; human resource skills and restaurant supervision. In 2005, we partnered with one of our key vendors to roll out a food safety program that identifies critical food safety issues and prioritizes improvement efforts through on-site assessments, training, and suggested corrective action steps.

During fiscal 2005, we emphasized the importance of our risk and safety programs. A new safety program was introduced to all corporate restaurants, focusing on education of Associates to reduce workplace risks. Each restaurant has a safety committee which consists of a safety manager and representatives from all areas of the restaurant. The safety committees meet monthly to discuss progress on safety initiatives and safety focus. We also offer this program to franchise operators. Early results of

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this program reflected a reduction in common incident types, such as lacerations. Our risk management focus for fiscal 2006 includes greater reduction of frequent incident types and a continued concentration on providing the tools and education required for a safe and successful workplace.

In 2005, we initiated a partnership with the organization Share our Strength™. This organization is dedicated to wiping out childhood hunger by 2024. We selected this nation-wide organization because it has a direct connection to the food-service industry and is an organization that can make a difference towards feeding hungry children. We have several charitable events planned for fiscal 2006, including the first ever “National Backyard BBQ,” which is discussed in Marketing and Promotion below.

During fiscal 2006, Human Resources and Training will focus on the selection and retention of top talent through our programs in talent management, succession planning and development, safety and risk-reduction, organizational development and training.

Restaurant Operations

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

All General Managers must complete a seven-week training program, during which they are instructed in areas such as food quality and preparation, customer service, and employee relations. We have prepared operations manuals relating to food and beverage quality and service standards. New associates participate in training under the close supervision of our management. Each General Manager reports up through an Area Director, who manages from four to nine restaurants, depending on the region. Our Area Directors have all been successful General Managers, either for Famous Dave’s or for other restaurants, and are responsible for ensuring that operational standards are consistently applied in our restaurants as well as communication of company focus and priorities. In addition to the training that the General Managers are required to complete, as noted above, our Area Directors receive additional training through Area Director workshops that focus specifically on managing multiple locations, planning and time management.

During fiscal 2005, we eliminated the position of Vice President of Operations, created the position of Director of Operations, and named two individuals to serve in this role. This position allows us to have our operations leadership much closer to the day in and day out business of our restaurants, creating a smaller span of control for each Director of Operations and allows them to apply a much sharper focus to their restaurants’ operations. The Directors of Operations assist in the professional development of our Area Directors and General Managers as we prepare for future corporate growth, while driving our vision of operational integrity and contributing to the improvement of results achieved at our restaurants including building sales, developing people and growing profits.

We strive to instill enthusiasm and dedication in our associates and regularly solicit suggestions concerning our operations and endeavors in order to be responsive to their concerns. In addition, we have numerous programs designed to recognize and reward them for outstanding performance. Staffing levels at each restaurant vary according to the time of day and size of the restaurant. However, in general, each restaurant has approximately 40 to 60 associates.

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“TO GO” and Catering — Focus on Convenience – In addition to our lively and entertaining sit-down experience, we provide our guests with maximum convenience by offering expedient take-out service and catering. We believe that Famous Dave’s entrées and side dishes are viewed by guests as traditional American “picnic foods” that maintain their quality and travel particularly well, making them an attractive choice to replace a home-cooked meal, and the high quality, reasonable cost and avoidance of preparation time make take-out of our product particularly attractive. During fiscal 2005, approximately 32% of our restaurant sales were derived from catering and “TO GO,” and we continue to seek ways to leverage these segments of our business. Our restaurants have been designed specifically to accommodate a significant level of “TO GO” sales, including a separate “TO GO” counter and entrance.

The off-premise portion of our business continues to grow as more consumers and local business people become aware of the portability of our product. The demand for Famous Dave’s catering, which accounted for approximately 9% of our sales for fiscal 2005, continues to increase, as consumers learn just how distinctive, flavorful and easy an event can be when they let Famous Dave’s bring the food. We see catering as an opportunity for new consumers to sample our product who would not otherwise have had the opportunity to visit our restaurants. Each restaurant has a dedicated vehicle to fully support our catering initiatives.

“TO GO,” which accounted for approximately 23% of our restaurant sales for fiscal 2005, also continues to grow as an integral part of our overall business plan, and our new “Smokehouse” restaurants have a separate entrance for “TO GO” customers’ convenience. This program enables Famous Dave’s to capture a greater portion of the growing convenience and flexibility of the “take-out” market and allows consumers to “trade within our brand,” when dining in isn’t always an option. Our efforts are featured in all company-owned and franchise-operated restaurants and feature signage and merchandising both inside and outside the restaurants. From the time a guest drives into the parking lot to the time they leave the restaurant, they will be reminded of Famous Dave’s excellence in delivering the best barbeque “TO GO”.

Customer Satisfaction – We believe that we achieve a significant level of repeat business by providing high-quality food and efficient friendly service, in an entertaining environment at moderate prices. We strive to maintain quality and consistency in each of our restaurants through the training and supervision of personnel and the establishment of, and adherence to, high standards of personnel performance, food preparation and facility maintenance. We have also built family-friendly strategies into each restaurant’s food, service and design by providing children’s menus, smaller-sized entrees at reduced prices and changing tables in restrooms. We diligently monitor the guest experience through the use of mystery shopper programs and an interactive voice response (IVR) system to ensure that our training and incentive investments are producing desired results. During 2005, we saw continued improvement in guest satisfaction scores through these monitoring programs.

Value Proposition and Guest Frequency – We offer high quality food and a distinctive atmosphere at competitive prices to encourage frequent patronage. Lunch and dinner entrees range from \$5 to \$21 resulting in an average check of approximately \$13.92 during fiscal 2005. Lunch checks averaged \$11.71 during 2005 and dinner checks averaged \$15.46 during 2005. We believe that constant and exciting new product introductions, offered for a limited period of time, will help drive new, as well as infrequent guests into our restaurants for additional meal occasions. This has largely been accomplished through the installation of a fully-equipped test kitchen at our new corporate headquarters. This permanent facility allows us to create new menu selections, prepare and test LTO’s and further refine our recipe books and preparation techniques.

Marketing and Promotion

Famous Dave’s is well on its way to becoming the category-defining brand in barbecue. Specializing in a unique and distinctive brand of grilled, smoked, and southern style food, our menu specialty helps to set the brand apart from the rest of the crowded field in casual dining. During fiscal 2006, we will continue to leverage our brand building position. In 2004, we established a system-wide public relations and marketing fund. All company-owned, and those franchise-operated restaurants with

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agreements signed after January 1, 2004, are required to contribute 1.0% of sales to this fund. We also use payments received from certain vendors in the form of rebates as additional funding. During fiscal 2006, we expect to spend approximately 3.5% of net restaurant sales on marketing and advertising, with 1.0% of net restaurant sales dedicated to the development of advertising and promotional materials and programs designed to create brand awareness in the markets within which we operate. BBDO of Minneapolis is our advertising agency of record, and they help drive the concept forward and create a distinctive positioning and consistent creative voice for the brand. In coordination with our marketing department, BBDO is responsible for the advertising, promotion, creative development, branding and media buying for Famous Dave's. In addition to the traditional marketing and publicity methods embraced in the past, Famous Dave's will aggressively use local outreach marketing efforts as appropriate in 2006, including television, cable, radio, and outdoor billboards. An example of this will be the first ever "National Backyard BBQ" to be held on May 20, 2006, during National BBQ Month. All of our corporate restaurants and a majority of our franchise restaurants will participate with Backyard BBQs in their local markets.

We are also creating awareness for the Famous Dave's brand through partnerships that extend our barbeque sauces, seasonings, rubs and marinades in retail outlets across the United States. This retail distribution allows consumers to enrich their at-home barbeque experiences with Famous Dave's bold and zesty flavors.

Advertising isn't the only vehicle we use to build awareness of the Famous Dave's brand. In 2005, our "Rib Team" competed in scores of events and festivals nationwide. This team travels the country, participating in contests and festivals to introduce people to our brand of barbeque and build brand awareness in a segment largely defined by independents. Our "Rib Team's" most notable award in 2005 was the People's Choice Award at the "Best of the West" barbeque festival in Reno, Nevada, an invitation-only competition that we attended for the first time. We have also received various concept awards of which we are very proud, including Menu Masters – Best New Product Roll-out for our Sassy Chicken Salad, and awards for excellence in television and radio advertising from the Multi-unit Foodservice Operators. We also have received exceptional rankings in the JD Power & Associates 2004 Restaurant Satisfaction Survey: #1 in value; #2 in meal satisfaction; and, #3 in overall dining experience satisfaction within casual dining restaurants in our dominant markets.

The strategic focus in 2006 for marketing and promotion remains the same – to be the segment-defining brand in BBQ, strengthen our variety of menu offerings while staying "True to the 'Que," and continue to strengthen the perception of value in the consumer's mind.

Growth Strategy

We believe that the barbeque segment of the casual dining niche of the restaurant industry offers strong growth opportunities, and we see no impediments to our growth on a geographical basis. Our geographical concentration currently consists of 58% Midwest, 22% South, 10% West and 10% Northeast. During fiscal 2006, we plan to open up to three Company-owned restaurants and between 25 to 30 franchise-operated restaurants. The key elements of our long-term growth strategy include the following:

Company-Owned Restaurant Expansion – We intend to build in our existing markets in high profile, heavy traffic retail locations in order to continue to build brand awareness. Our plan is focused on sustainable, controlled growth, primarily in markets where multiple restaurants can be opened, thereby expanding consumer awareness and creating opportunities for operating, distribution and marketing efficiencies. As previously mentioned, we have created a prototype design, called our "Smokehouse" concept, and we will be using this design with all future restaurants to streamline the development and expansion process. We intend to finance development through the use of cash on hand, cash flow generated from operations, and through availability on our \$10.0 million revolving line of credit.

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Franchise-Operated Restaurant Expansion – As of January 1, 2006, we had 196 signed franchise area development commitments that are expected to open over the next six years. We continue to expand our franchisee network throughout the United States. Generally, we find franchise candidates with prior franchise casual-dining restaurant experience in the markets for which they will be granted. The area development agreements generally range from a minimum of five to a maximum of 15 restaurants.

Purchasing

We strive to obtain consistent quality items at competitive prices from reliable sources. In order to maximize operating efficiencies and to provide the freshest ingredients for our food products, each restaurant's management team determines the daily quantities of food items needed and orders such quantities to be delivered to their restaurant. The products, produced by major manufacturers designated by us, are shipped directly to the restaurants through foodservice distributors.

Contract pricing accounts for approximately 86% of all of our total purchases. Contracts for various items are negotiated throughout the year and typically fix prices for twelve months. Of our total purchases, pork is approximately 31.5%, poultry is approximately 10.0% and beef, including hamburger and brisket, is approximately 10.0%. Our pork contract renewal in October resulted in an approximate 4.0% decrease for 2006. In addition, new hamburger contracts negotiated in January 2006 are expected to result in an approximate 3.0% savings in 2006 over 2005 prices. Poultry prices negotiated in December 2005, are expected to remain flat and our brisket contract will be renewed in the Spring. As a result of these newly renewed contracts, we anticipate that food costs, as a percent of net restaurant sales, will be slightly favorable for fiscal 2006 over the prior year.

We believe we have opportunities to partially offset increases, if any, in commodity pricing through menu engineering such as the use of our LTO's, which typically carry more margin than many of our core product offerings. Additionally, we believe we have the opportunity to leverage adult beverage sales, and we will continue to evaluate taking price increases at least annually.

In 2005, our adult beverage sales as a percentage of dine-in sales were approximately 10%, compared to 11% for 2004. Going forward, we will continue to focus on building awareness on adult beverage sales. We have determined that we will have limited ability to grow the bar in the majority of our existing restaurants due to the fact that these restaurants have little to no designated bar, and some only serve beer and wine. We're encouraged by the prospects of growing this business on a go-forward basis; however, as our recent franchise openings have achieved levels in the mid teens.

Our food manufacturers produce our products and our distributors warehouse and ship our products. Our primary broad line distributor accounts for approximately 85% of our total purchases. We believe that our relationships with our food manufacturers and distributors are excellent, and anticipate no interruption in the supply of product delivered by any of these companies. In case of a potential supply disruption, however, we believe we have identified alternative methods to ensure that there is no disruption of product flow. We could obtain competitive products and prices on short notice from a number of alternative suppliers. In addition, in an effort to protect us from product disruption, we have identified secondary suppliers for all of our key offerings.

Management Information Systems

We believe that strong information systems are essential to our current operations and are critical towards enhancing our competitive position in our industry. We have invested significantly in building these capabilities. We have developed restaurant-level management information systems that include a computerized point-of-sale ("POS") system which facilitates the movement of customer orders between

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the customer areas and kitchen operations, processes credit card transactions, processes gift cards, and provides management with revenue and other key operating and financial information. We also use a time management system which tracks the time worked by each employee, allowing management to more effectively manage labor costs through better scheduling of employee work hours. We utilize enterprise management software, which has provided us with centralized control over restaurant database items such as menu changes, tax structure and price changes. We developed reporting that allows us to track the average guest check daily, by restaurant, by server, and by day part. This reporting is utilized by the general managers to determine restaurant-level staffing needs in addition to supporting sales initiatives, intended to increase the average guest check.

Our unit-level POS, time management and inventory management systems provide data for posting to our general ledger and to other accounting subsystems. Such reporting includes: (i) daily reports of revenue and labor, (ii) weekly reports of selected controllable restaurant expenses, and (iii) detailed monthly reports of revenue and expenses.

We continue to develop and implement new enhancements to our systems. In fiscal 2005, we focused on improving our network infrastructure, upgrading all of our restaurant POS systems, and implementing a new budget and forecasting tool. In fiscal 2006, we will begin to implement a new labor-scheduling system and back-of-the-house management system to prepare for our next stage of growth. This project will take 12-18 months to fully implement, and is expected to cost approximately \$2.0 million. This is a key restaurant management solution that will provide functionality to our restaurants, streamline our operations, improve management information, enhance enterprise reporting and reduce labor and operating expenses.

Trademarks

Our Company has registered various trademarks and makes use of various unregistered marks, and intends to vigorously defend these marks. "Famous Dave's" and the Famous Dave's logo are registered trademarks of Famous Dave's of America, Inc. There can be no assurance, however, that we will be granted trademark registration for any new applications or for any or all of the proposed uses in our applications. In the event we are granted registration for additional marks, there can be no assurance that we can protect such marks and designs against prior users in areas where we conduct operations. There is also no assurance that we will be able to prevent competitors from using the same or similar marks, concepts or appearance. Nevertheless, the Company highly values its trademarks, trade names and service marks and will defend against any improper use of its marks to the fullest extent allowable by law.

Franchise Program

We have offered franchises of our concept since June 1995 and currently file our franchise circular in all 50 states. Our growth and success depends in part upon our ability to attract, contract with and retain qualified franchisees. It also depends upon the ability of those franchisees to successfully operate their restaurants with our standards of quality and promote and develop Famous Dave's brand awareness.

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

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At January 1, 2006, we had 36 franchise partners operating 88 Famous Dave's franchise restaurants. Signed area development agreements, representing commitments to open an additional 196 franchise restaurants, were in place as of January 1, 2006. There can be no assurance that these franchisees will fulfill their commitments or fulfill them within the anticipated timeframe. We continue to pursue an aggressive franchise program for our restaurants and anticipate that 25 to 30 additional franchise restaurants will open during fiscal 2006.

As of January 1, 2006, we had franchise-operated restaurants in the following locations:

State	Number of Franchise-Operated Restaurants
Alabama	1
Arizona	3
Colorado	1
Georgia	4
Illinois	4
Indiana	2
Iowa	3
Kansas	4
Kentucky	3
Massachusetts	1
Michigan	8
Minnesota	7
Montana	2
Nebraska	4
Nevada	1
New Hampshire	1
New Jersey	6
New York	2
North Dakota	2
Ohio	3
Pennsylvania	3
South Dakota	1
Tennessee	4
Texas	1
Utah	4
Washington	2
West Virginia	1
Wisconsin	10
Total	88

During 2006, we plan to open restaurants in approximately five additional states including: California, Connecticut, Florida, Maine and Missouri. During January 2006, we opened two restaurants in the state of California.

Our Franchise Business Consultants are a critical asset to us as well as to our franchise community. Our Franchise Business Consultants manage the relationship between the franchisee and the franchisor and provide an understanding of the roles, responsibilities, differences and accountabilities of that relationship. They are active participants towards enhancing performance, as they partner in strategic and operational planning sessions with our franchise partners and review the individual strategies and tactics for obtaining superior performance for the franchisee. The Franchise Business Consultants share best

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practices throughout the system and work to create a one system mentality that benefits everyone. In addition, they ensure compliance with obligations under Uniform Franchise Offering Circulars (UFOC). Franchisees are able to utilize all available assistance but are not required to do so.

We make periodic inspections of our franchise-operated restaurants to ensure that the franchisee is complying with the same quality of service, operational excellence and food specifications that is found at our company-owned restaurants. We generally provide company support as it relates to all aspects of the franchise operations including, store openings, operating performance, and human resource strategic planning.

Our franchise-related revenue consists of area development fees, initial franchise fees, and continuing royalty payments. Our area development fee consists of a non-refundable payment equal to \$10,000 per restaurant upon the signing of the area development agreement. Since the fee to secure the territory is non-refundable, we recognize this fee 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, at which time we have substantially performed all of our services. When a franchisee has secured a site, meaning a lease has been executed or a property purchase agreement has been signed, we have no further obligations related to the site selection. 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%. Currently, new franchises pay us a monthly royalty of 5% of their net sales.

The franchisee's investment depends primarily upon restaurant size. This investment includes the area development fee, initial franchise fee, real estate and leasehold improvements, fixtures and equipment, POS systems, business licenses, deposits, initial food inventory, smallwares, décor and training fees as well as working capital. Beginning in fiscal 2004, all new franchisees were required to contribute 1% of net sales to a national public relations and marketing fund dedicated to building system-wide brand awareness.

Seasonality

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

Government Regulation

Our Company is subject to extensive state and local government regulation by various governmental agencies, including state and local licensing, zoning, land use, construction and environmental regulations and various regulations relating to the sale of food and alcoholic beverages, sanitation, disposal of refuse and waste products, public health, safety and fire standards. Our restaurants are subject to periodic inspections by governmental agencies to ensure conformity with such regulations. Any difficulty or failure to obtain required licensing or other regulatory approvals could delay or prevent the opening of a new restaurant, and the suspension of, or inability to renew a license could interrupt operations at an existing restaurant, any of which would adversely affect our operations. Restaurant operating costs are also affected by other government actions that are beyond our control, including increases in the minimum hourly wage requirements, workers compensation insurance rates, health care insurance costs, property and casualty insurance, and unemployment and other taxes. We are also subject to "dram shop" statutes, which generally provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person.

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

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

Associates

As of January 1, 2006, we employed approximately 2,000 associates, of which approximately 255 were full-time. None of our associates are covered by a collective bargaining agreement. We consider our relationships with our associates to be satisfactory.

ITEM 1A. RISK FACTORS

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

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

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

Our Future Revenue and Profits Are Dependent on Consumer Preference and Our Ability to Successfully Execute Our Plan.

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

It is our plan to open up to three company-owned restaurants and 25-30 franchise-operated restaurants in 2006. There is no guarantee that any of our company-owned or franchise-operated restaurants will open when planned, or at all, due to the risks associated with the development of new restaurants, such as governmental approvals, the availability of sites, and the availability of capital, many of which are beyond our control. There can be no assurance that we will successfully implement our growth plan for our company-owned and franchise-operated restaurants. In addition, we also face all of the risks, expenses and difficulties frequently encountered in the development of an expanding business.

Competition May Reduce Our Revenue and Operating Income.

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

Increased competition by existing or future competitors may reduce our sales. Our restaurants compete with moderately-priced restaurants primarily on the basis of quality of food and service, atmosphere, location and value. In addition to existing barbeque restaurants, we expect to face competition from steakhouses and other restaurants featuring protein-rich foods. We also compete with other restaurants and retail establishments for quality sites. Competition in the restaurant industry is affected by changes in consumer taste, economic and real estate conditions, demographic trends, traffic patterns, the cost and availability of qualified labor, product availability and local competitive factors.

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

In the Past We Have Experienced Losses and May Not be Profitable.

We incurred a net loss of approximately \$2.9 million for fiscal 2003, or \$0.25 per diluted share. Our fiscal 2003 net loss reflects pre-tax charges of approximately \$4.2 million, or \$0.22 per diluted share, related to impairment and restructuring charges on five restaurant locations, two of which were subsequently sold, two of which were subsequently closed and one of which was fully impaired and continues to operate. In addition, fiscal 2003 results include pre-tax charges of approximately \$2.2 million, or \$0.11 per diluted share, which reflects losses and divestiture costs related to the Isaac Hayes Blues Clubs.

Although we reported net income of approximately \$4.4 million for fiscal 2005, or \$0.39 per diluted share and approximately \$3.5 million for fiscal 2004, or \$0.29 per diluted share, we cannot assure you that we will generate sufficient revenue or margins, or control operating expenses, to achieve or sustain profitability in future years. In addition, we cannot assure you that we will not take future impairment or restructuring charges on our restaurants.

Our Failure to Execute Our Franchise Program May Negatively Impact Our Revenue.

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

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

The Restaurant Industry is Subject to Extensive Government Regulation That Could Negatively Impact Our Business.

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

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Any change in the current status of such regulations, including an increase in employee benefits costs, workers' compensation insurance rates, or other costs associated with employees, could substantially increase our compliance and labor costs. Because we pay many of our restaurant-level personnel rates based on either the federal or the state minimum wage, increases in the minimum wage would lead to increased labor costs. In addition, our operating results would be adversely affected in the event we fail to maintain our food and liquor licenses. Furthermore, restaurant operating costs are affected by increases in unemployment tax rates, sales taxes and similar costs over which we have no control.

We Are Subject to the Risks Associated With the Food Services Industry, Including the Risk That Incidents of Food-borne Illnesses or Food Tampering Could Damage Our Reputation and Reduce Our Restaurant Sales.

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

Pursuant to its Authority to Designate and Issue Shares of Our Stock as it Deems Appropriate, Our Board of Directors May Assign Rights and Privileges to Currently Undesignated Shares Which Could Adversely Affect the Rights of Existing Shareholders.

Our authorized capital consists of 100,000,000 shares of capital stock. Our Board of Directors, without any action by the shareholders, may designate and issue shares in such classes or series (including classes or series of preferred stock) as it deems appropriate and establish the rights, preferences and privileges of such shares, including dividends, liquidation and voting rights. As of March 13, 2006, we had 10,606,543 shares of common stock outstanding.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The development cost of our restaurants varies depending primarily on the size and style of the restaurant, whether the property is purchased or leased, and whether it is a conversion of an existing building or a newly constructed restaurant. Since fiscal 2000, most of our restaurants have been converted from existing restaurant properties. Average approximate size and costs of a converted leased property and a converted purchased property have been approximately 5,900 and 5,100 square feet and \$2.1 million and \$1.1 million, respectively. We opened no company-owned restaurants in fiscal 2004 or fiscal 2005. Two of the restaurants opened in fiscal 2003 were ground-up construction and one restaurant was a conversion of a previous restaurant concept. Such development costs included land, building construction, fixtures, furniture and equipment, and pre-opening costs. We have developed a prototype, which is the first-ever standard format for us. The prototype is approximately 6,000 square feet in size and will represent a consistent brand image across all markets while still allowing for new construction and the renovation of pre-existing restaurants. We opened our first company-owned restaurant since fiscal 2003 in Chantilly, Virginia in January 2006 using this new prototype, and will open up to two additional company-owned restaurants with ground-up construction during fiscal 2006.

Our leased restaurant facilities are occupied under agreements with remaining terms ranging from 10 to 35 years, including renewal options. Such leases generally provide for fixed rental payments plus operating expenses associated with the properties. Several leases also require the payment of percentage rent based on net sales. We have three sublease arrangements with franchisees. These leases are our responsibility, but we have offered them to our franchisees on substantially equal terms to the original leases.

Our executive offices are currently located in approximately 26,000 square feet in Minnetonka, Minnesota, under a lease which commenced in August 2005, and which continues for a term of 97 months, plus two five-year renewal options. The minimum annual rent commitment over the lease term is approximately \$4.6 million. We believe that our current restaurant properties will be suitable for our needs and adequate for operations for the foreseeable future. We also believe that our new corporate office leased space is adequate for our operations for the foreseeable future.

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The following table sets forth certain information about our existing company-owned restaurant locations, sorted by opening date, as of January 1, 2006:

	Location	Square Footage	Interior Seats	Owned or Leased	Date Opened
1	Roseville, MN	4,800	105	Leased	June 1996
2	Calhoun Square (Minneapolis, MN)	10,500	380	Leased	September 1996
3	Maple Grove, MN ⁽³⁾	6,100	146	Owned ⁽¹⁾	April 1997
4	Highland Park (St. Paul, MN)	5,200	125	Leased	June 1997
5	Stillwater, MN	5,200	130	Owned ⁽¹⁾	July 1997
6	Apple Valley, MN	3,800	90	Owned ⁽¹⁾	July 1997
7	Forest Lake, MN	4,500	100	Leased	October 1997
8	Minnetonka, MN	5,500	140	Owned ⁽²⁾	December 1997
9	Plymouth, MN	2,100	20	Owned	December 1997
10	West St. Paul, MN	6,800	140	Leased	January 1998
11	West Des Moines, IA	5,500	150	Leased	April 1998
12	Des Moines, IA	5,800	150	Leased	April 1998
13	Naperville, IL	5,500	170	Leased	April 1998
14	Cedar Falls, IA	5,400	130	Leased	September 1998
15	Bloomington, MN	5,400	140	Leased	October 1998
16	Woodbury, MN	5,900	180	Owned ⁽²⁾	October 1998
17	Lincoln, NE	6,300	190	Owned ⁽²⁾	December 1999
18	Columbia, MD	7,200	270	Leased	January 2000
19	Annapolis, MD	7,000	210	Leased	January 2000
20	Frederick, MD	5,600	180	Leased	January 2000
21	Woodbridge, VA	5,600	190	Leased	January 2000
22	Vernon Hills, IL	6,600	230	Leased	February 2000
23	Addison, IL	4,600	140	Owned ⁽²⁾	March 2000
24	Lombard, IL	7,200	250	Leased	July 2000
25	North Riverside, IL	5,000	160	Leased	August 2000
26	Sterling, VA	5,200	200	Leased	December 2000
27	Carpentersville, IL	6,000	227	Leased	February 2001
28	Streamwood, IL	7,200	260	Leased	March 2001
29	Oakton, VA	4,300	150	Leased	May 2001
30	Laurel, MD	5,200	170	Leased	August 2001
31	Palatine, IL	7,200	260	Leased	August 2001
32	Richmond I (Richmond, VA)	5,200	165	Owned ⁽²⁾	December 2001
33	Gaithersburg, MD	4,800	170	Leased	May 2002
34	Richmond II (Richmond, VA)	5,100	165	Owned ⁽²⁾	June 2002
35	Orland Park, IL	5,000	165	Leased	June 2002
36	Tulsa, OK	4,900	180	Owned ⁽²⁾	September 2002
37	Virginia Commons, VA	5,300	190	Owned ⁽²⁾	June 2003
38	Rogers, AR	5,300	190	Owned	June 2003

All seat count and square footage amounts are approximate.

- (1) Restaurant is collateral in a sale-leaseback financing.
- (2) Restaurant is subject to a mortgage.
- (3) Restaurant was converted in October 2005 from counter-service to full-service and its square footage and interior seat counts were increased.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of our security holders during the fourth quarter of the fiscal year ended January 1, 2006.

PART II**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information**

Our common stock has traded on the NASDAQ National Market SM under the symbol DAVE since July 24, 1997. Our common stock traded on the NASDAQ Small Cap Market SM prior to July 24, 1997 and since November 1996 under the same symbol.

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

Period	2005		2004	
	High	Low	High	Low
1st Quarter	\$ 15.00	\$ 9.62	\$ 8.10	\$ 4.51
2nd Quarter	\$ 13.96	\$ 9.43	\$ 8.22	\$ 6.50
3rd Quarter	\$ 13.08	\$ 9.39	\$ 7.79	\$ 6.67
4th Quarter	\$ 12.27	\$ 10.26	\$ 13.28	\$ 6.90

Holders

As of March 14, 2006, we had approximately 407 shareholders of record and an estimated 6,200 beneficial shareholders.

Dividends

Our Board of Directors has not declared any dividends on our common stock since our inception, and does not intend to pay out any cash dividends on our common stock in the foreseeable future. We presently intend to retain all earnings, if any, to provide for our growth. The payment of cash dividends in the future, if any, will be at the discretion of the Board of Directors and will depend upon such factors as earnings levels, capital requirements, loan agreement restrictions, our financial condition and other factors deemed relevant by our Board of Directors.

Securities Authorized for Issuance under Equity Compensation Plans

The Company maintains the 1995 Stock Option and Compensation Plan (the "Management Plan"), the 1997 Employee Stock Option Plan (the "Employee Plan"), the 1998 Director Stock Option Plan (the "Director Plan") and the 2005 Stock Incentive Plan (the "2005 Plan"). We have also granted stock incentives outside of these equity compensation plans in limited situations. The Management Plan is designed to furnish a variety of economic incentives designed to attract, retain and motivate employees (including officers) of, and consultants to, the Company. However, no further grants of incentive may be made under the Management Plan after December 29, 2005 because the terms of the Management Plan prohibit such grants after the tenth anniversary of the date the Management Plan was approved by the Company's Board of Directors. Nonetheless, the Management Plan will remain in effect until all outstanding incentives granted thereunder have either been satisfied or terminated. The purpose of the Employee Plan is to attract, retain and motivate employees of the Company (not including officers and directors of the Company) by furnishing opportunities to purchase or receive shares of the Company's Common Stock. The purpose of the Director Plan is to encourage share ownership by Company directors who are not employees of the Company in order to promote long-term shareholder value through

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continuing ownership of the Company's Common Stock. The purpose of the 2005 Plan, which was approved by the Company's shareholders at the May 2005 annual shareholders meeting, is to increase shareholder value and to advance the interests of the Company by furnishing a variety of economic incentives designed to attract, retain and motivate employees (including officers), certain key consultants and directors of the Company.

The Management Plan, the Director Plan and the 2005 Plan have each been approved by the Company's shareholders. The Employee Plan has not been submitted for approval to the Company's shareholders. The following table sets forth certain information as of January 1, 2006 with respect to the Management Plan, the Employee Plan, the Director Plan and the 2005 Plan.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options (A)	Weighted-Average Exercise Price of Outstanding Options (B)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (A)) (C)
Equity compensation plans approved by security holders:			
1995 Stock Option and Compensation Plan	411,048	\$ 4.88	191,486(1)
1998 Director Stock Option Plan	209,667	\$ 5.90	2,833
2005 Stock Incentive Plan	10,000	\$ 10.98	440,000(1)
TOTAL	630,715	\$ 5.32	634,319
Equity compensation plans not approved by stockholders:			
1997 Employee Stock Option Plan	269,486	\$ 2.07	135,805(1)
TOTAL	900,201	\$ 5.14	770,124

(1) Includes shares reserved for issuance pursuant to the performance shares granted under the Company's Performance Share Programs; 191,486 under the 1995 Plan, 6,400 under the 2005 Plan and 125,527 under the 1997 Plan.

ITEM 6. SELECTED FINANCIAL DATA

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

The selected financial data as of and for the fiscal years ended January 1, 2006 (fiscal year 2005), January 2, 2005 (fiscal year 2004), December 28, 2003 (fiscal year 2003) and December 29, 2002 (fiscal year 2002) have been derived from our consolidated financial statements as audited by Grant Thornton LLP, independent registered public accounting firm. The selected financial data for the fiscal year ended December 30, 2001 (fiscal year 2001) has been derived from our consolidated financial statements as audited by Virchow, Krause & Company, LLP, independent registered public accounting firm.

FINANCIAL HIGHLIGHTS

FISCAL YEAR	2005	2004 (1)	2003	2002	2001
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(\$'s in 000's, except per share data, and average weekly sales)

STATEMENT OF OPERATIONS DATA

Revenue	\$ 102,354	\$ 99,325	\$ 97,740	\$ 90,820	\$ 87,673
Asset impairment and restructuring charges (2)	\$ —	\$ —	\$ (4,238)	\$ —	\$ —
Income (loss) from operations	\$ 8,682	\$ 7,365	\$ (193)	\$ 4,470	\$ 6,209
Equity in loss of unconsolidated affiliate (3)	\$ —	\$ —	\$ (2,155)	\$ (5,994)	\$ (1,029)
Income tax (provision) benefit	\$ (2,700)	\$ (1,900)	\$ 1,778	\$ 1,211	\$ 4,010
Net income (loss)	\$ 4,391	\$ 3,498	\$ (2,898)	\$ (928)	\$ 8,118
Basic net income (loss) per common share	\$ 0.41	\$ 0.29	\$ (0.25)	\$ (0.08)	\$ 0.81
Diluted net income (loss) per common share	\$ 0.39	\$ 0.29	\$ (0.25)	\$ (0.08)	\$ 0.75

BALANCE SHEET DATA (at year end)

Cash and cash equivalents	\$ 4,410	\$ 11,170	\$ 9,964	\$ 9,473	\$ 7,398
Total assets	\$ 67,598	\$ 71,913	\$ 73,767	\$ 74,817	\$ 70,440
Long-term debt less current maturities (4)	\$ 15,930	\$ 16,453	\$ 16,954	\$ 17,354	\$ 14,579
Total shareholders' equity	\$ 37,179	\$ 43,343	\$ 46,872	\$ 47,292	\$ 46,689

OTHER DATA

Number of restaurants open at year end:

Company-owned restaurants	38	38	38	40	37
Franchise-operated restaurants	88	66	54	33	19
Total restaurants	126	104	92	73	56
Comparable store sales increase (decrease) (5)	2.1%	1.1%(6)	(3.0)%	(0.3)%	2.9%

Average weekly sales:

Company-owned restaurants	\$ 45,072	\$ 44,164	\$ 42,491	\$ 45,783	\$ 46,429
Franchise-operated restaurants	\$ 55,011	\$ 51,538	\$ 47,400	\$ 46,642	\$ 45,190

(1) Fiscal 2004 consisted of 53 weeks. Fiscal 2005, 2003, 2002, and 2001 all consisted of 52 weeks.

(2) Fiscal 2003 charges reflect impairment and restructuring costs associated with five restaurants: two of which were subsequently sold, two of which were subsequently closed, and one that was fully impaired, but still operating.

(3) Represents our 40% unconsolidated interest in FUMUME, LLC. Fiscal 2003 expenses represent operating losses and transaction costs related to our divestiture. We have no further obligation regarding this joint venture.

(4) Long-term debt consists of total debt, including capital lease obligations and financing leases, less current maturities.

(5) Our comparable store sales base includes company-owned restaurants that are open year round and have been open more than 18 months.

(6) For purposes of computing comparable store sales, this computation assumes fiscal 2004 was a 52-week year.

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

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

Overview

Famous Dave's of America, Inc. was incorporated as a Minnesota corporation in March 1994 and opened its first restaurant in Minneapolis in June 1995. As of January 1, 2006, there were 126 Famous Dave's restaurants operating in 32 states, including 38 company-owned restaurants and 88 franchise-operated restaurants. An additional 196 franchise restaurants were committed to be developed through signed area development agreements at January 1, 2006.

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. Fiscal 2005, which ended on January 1, 2006, consisted of 52 weeks. Fiscal 2004, which ended on January 2, 2005, consisted of 53 weeks. Fiscal year ended December 28, 2003 (fiscal year 2003) consisted of 52 weeks.

Basis of Presentation – The financial results presented and discussed herein reflect our results and the results of our wholly-owned and majority-owned consolidated subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. Until February 26, 2003, we were a 40% participant in a joint venture to operate themed restaurant concepts based on the entertainment artist Isaac Hayes. On February 26, 2003, we disposed of our 40% interest, and as a result, we are no longer participating in any revenue or expenses of the joint venture and we do not have any further obligations with regard to the joint venture. Our financial results for fiscal 2003 reflect our equity in the losses of this unconsolidated affiliate up until February 26, 2003, in addition to the transaction costs related to the divestiture.

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

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accounting policies reflect its more significant judgments and estimates used in the preparation of the Company's consolidated financial statements. Our Company's significant accounting policies are described in Note One to the consolidated financial statements included herein for the year ended January 1, 2006.

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

Recognition of Franchise-Related Revenue – Initial franchise revenue is recognized when we have performed substantially all of our obligations as franchisor. Franchise royalties are recognized when earned as promulgated by Statement of Financial Accounting Standards (SFAS) No. 45, "*Accounting for Franchise Fee Revenue*".

Our franchise revenue consists of area development fees, initial franchise fees, and continuing royalty payments. Our area development fee consists of a non-refundable payment to secure the territory equal to \$10,000 per restaurant upon the signing of the area development agreement. Since the fee is non-refundable to secure the territory, we recognize this fee 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, as related to the sale of the franchise. 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 services and we have no further obligations related to the site selection. 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%. Currently, new franchises pay us a royalty of 5% of their net sales.

Franchise-related revenue for fiscal 2005 was approximately \$12.0 million, a 28.6% increase compared to franchise-related revenue of approximately \$9.3 million for the same period in fiscal 2004, primarily reflecting increased royalties. Royalties, which are based on a percent of franchise-operated restaurant net sales, increased 41.5%, reflecting the annualization of franchise restaurants that opened in fiscal 2004 in addition to the franchise-operated restaurants that opened during fiscal 2005. During fiscal 2005, 24 franchised-operated restaurants opened, and 2 closed. There were 88 franchise-operated restaurants open at January 1, 2006, compared to 66 at January 2, 2005. An additional 25-30 franchise restaurants are anticipated to open throughout fiscal 2006.

Asset Impairment and Restructuring Charges – In accordance with SFAS No. 144 "*Accounting for the Impairment or Disposal of Long-Lived Assets*", we evaluate restaurant sites and long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of restaurant sites to be held and used is measured by a comparison of the carrying amount of the restaurant site to the undiscounted future net cash flows expected to be generated on a restaurant-by-restaurant basis. If a restaurant is determined to be impaired, the loss is measured by the amount by which the carrying amount of the restaurant site exceeds its fair value. Fair value as determined by the undiscounted future net cash flows, is estimated based on the best information available including estimated future cash flows, expected growth rates in comparable restaurant sales, remaining lease terms and other factors. If these assumptions change in the future, we may be required to take additional impairment charges for the related assets. Considerable management judgment is necessary to estimate future cash flows. Accordingly, actual results could vary significantly from such estimates. Restaurant sites that are operating but have been previously impaired are reported at the lower of their carrying amount or fair value less estimated costs to sell. Our January 1, 2006 and

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January 2, 2005 consolidated balance sheets reflect approximately \$1.3 million of assets held for sale, representing the land and building for a location that was closed in December 2003. We had several offers for this location during fiscal 2005 that were not consummated, but we believe the land and building are properly valued. During fiscal 2005 and fiscal 2004, there were no impairment or restructuring charges recorded. In fiscal 2003, we recorded impairment and restructuring charges of approximately \$4.2 million related to five company-owned restaurants, two of which were subsequently closed, two of which were subsequently sold to franchisees, and one that was fully impaired, but still operating.

Deferred Tax Asset – Deferred taxes recognize the impact of temporary differences between the amounts of assets and liabilities recorded for financial statement purposes and such amounts measured in accordance with tax laws. Realization of net operating loss carry forwards and other deferred tax temporary differences are contingent on future taxable earnings. During fiscal 2005, our deferred tax asset was reviewed for expected utilization using a “more likely than not” approach as required by SFAS No. 109, “*Accounting for Income Taxes*”, by assessing the available positive and negative evidence surrounding its recoverability. We believe that the realization of the deferred tax asset is more likely than not based on the fact that the Company generated taxable income in fiscal 2005 and 2004 and based on the expectation that we will generate the necessary taxable income in future years.

Lease Accounting – In accordance with SFAS No. 13 “*Accounting for Leases*”, we recognize lease expense for our operating leases over the entire lease term including lease renewal options and build-out periods where the renewal is certain and the build-out period takes place prior to the restaurant opening or lease commencement date. We account for construction allowances by recording a receivable when its collectibility is considered certain, depreciating the leasehold improvements over the lesser of their useful lives or the full term of the lease, including renewal options and build-out periods, amortizing the construction allowance as a credit to rent expense over the full term of the lease, including renewal options and build-out periods, and relieving the receivable once the cash is obtained from the landlord for the construction allowance.

Results of Operations

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 the territory consists of a non-refundable payment equal to \$10,000 per restaurant upon the signing of the area development agreement. Since the fee is non-refundable, we recognize this fee 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 the expenses incurred, as related to the sale. The remaining \$35,000 is recognized upon either the signing of a lease or the signing of a property purchase agreement, and at which time we have substantially performed all of our services. Franchise royalties are equal to a percentage of net franchise-operated restaurant sales, currently at 4% to 5%. Licensing revenue includes royalties from a retail line of business, including sauces, seasonings, rubs and marinades. Other revenue includes opening assistance and training we provide to our franchise partners. Costs and expenses associated with these services are included in general and administrative expense. Comparable sales represent net sales for restaurants open year-round for 18 months or more.

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

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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.

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, employee benefits, legal fees, accounting fees, consulting fees, travel, rent and general insurance are major items in this category. We also provide franchise services, the revenue of which are included in other revenue and the expenses of which are included in general and administrative costs.

The following table presents items in our Consolidated Statements of Operations as a percentage of total revenue or net restaurant sales, as indicated, for the following fiscal years (1):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Restaurant sales, net	87.2%	89.8%	93.6%
Other revenue	12.8	10.2	6.4
Total revenue	100.0	100.0	100.0
Restaurant costs and expenses:			
Food and beverage costs (2)	30.6	31.4	30.6
Labor and benefits (2)	29.3	29.7	30.1
Operating expenses (2)	25.0	24.7	25.6
Depreciation and amortization (restaurant level) (2)	4.4	4.7	5.1
Pre-opening expenses (2)	0.1	—	0.6
Asset impairment and restructuring charges (2)	—	—	4.6
Total costs and expenses (2)	89.4	90.5	96.6
Income from restaurant operations (2)	10.6	9.5	3.4
General and administrative (3)	13.1	11.0	9.6
Depreciation and amortization (corporate) (3)	0.4	0.4	0.2
Income (loss) from operations (3)	<u>8.5%</u>	<u>7.4%</u>	<u>(0.2)%</u>

(1) Data regarding our restaurant operations as presented in the table above, include sales, costs and expenses associated with our Rib Team, which netted to a loss of \$48,000, \$147,000 and \$16,000, respectively, in fiscal years 2005, 2004 and 2003. Our Rib Team travels the country introducing people to our brand of barbeque and builds brand awareness.

(2) As a percentage of restaurant sales, net.

(3) As a percentage of total revenue.

Fiscal Year 2005 Compared to Fiscal Year 2004

Total Revenue – Total revenue of approximately \$102.4 million for fiscal 2005 increased approximately \$3.1 million or 3.0% over total revenue of approximately \$99.3 million for fiscal 2004. Fiscal 2005 consisted of 52 weeks as compared to 53 weeks for fiscal 2004. Revenue for the 53rd week in fiscal 2004 was approximately \$1.9 million, including restaurant sales and franchise royalties.

Restaurant Sales – Restaurant sales were approximately \$89.2 million for fiscal year 2005 and fiscal year 2004. The 53rd week of fiscal 2004 contributed approximately \$1.7 million in sales. Fiscal 2005 sales results reflect the two-week closure of our Maple Grove, Minnesota location during the third quarter of 2005 for its conversion from counter-service to full-service, which negatively impacted fiscal 2005 sales by approximately \$100,000. These were offset by increased comparable sales growth, primarily from an increase in our catering and “TO GO” business, and the impact of weighted-average price increases during fiscal 2005 equal to less than 2.0%. Our category leadership in off-premise sales continues to strengthen, as catering and “TO GO” accounted for approximately 32.0% of sales in 2005, compared with approximately 30.0% of sales in fiscal 2004.

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 for fiscal 2005 was approximately \$12.0 million, a 28.6% increase when compared to franchise-related revenue of approximately \$9.3 million for the same period in 2004, primarily reflecting increased royalties. Royalties, which are based on a percent of franchise-operated restaurants net sales, increased 41.5% reflecting the annualization of franchise restaurants that opened in fiscal 2004 in addition to the net 22 new franchise restaurants opened during fiscal 2005. Fiscal 2005 included 3,851 franchise operating weeks, compared to 2,931 franchise operating weeks in 2004, representing an increase of approximately 31.4%. There were 88 franchise-operated restaurants open at January 1, 2006, compared to 66 at January 2, 2005.

Licensing and Other Revenue – Licensing revenue includes royalties from a retail line of business, including sauces, rubs, marinades and seasonings. Other revenue includes opening assistance and training we provide to our franchise partners. For fiscal year 2005, the licensing royalty income was approximately \$285,000 compared to approximately \$248,000 for fiscal year 2004. During fiscal 2006, we expect to see licensing revenue increase moderately compared to 2005 levels. Other revenue for fiscal 2005 was \$820,000, compared to \$571,000 in 2004. The amount of other revenue has grown based on the level of opening assistance we provided during 2005 for the opening of new franchise restaurants. The amount of other revenue is expected to grow based on the level of opening assistance we expect to provide during the 25-30 franchise openings planned for 2006.

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 for at least 18 months. At the end of fiscal 2005 and fiscal 2004, there were 38 restaurants included in this base. Same store net sales for fiscal 2005 increased approximately 2.1%, compared to fiscal 2004's increase of approximately 1.1% as calculated assuming fiscal 2004 was a 52-week year. We believe that the increase in same store net sales reflects the combination of our advertising initiatives, the success of our LTO's, weighted average price increases of less than 2.0% and a focus on operational excellence and execution in our restaurants. Same store net sales for franchise-operated restaurants for fiscal 2005 decreased approximately 1.6%, compared to a decrease of approximately 1.9% for the prior year comparable period. For 2005 and 2004, there were 52 and 34 restaurants, respectively, included in franchise-operated comparable sales.

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Average Weekly Net Sales – The following table shows company-owned and franchise-operated average weekly net sales for fiscal 2005 and fiscal 2004:

	Twelve Months Ended	
	January 1, 2006	January 2, 2005
Company-Owned	\$ 45,072	\$ 44,164
Full-Service	\$ 46,114	\$ 45,253
Counter-Service	\$ 40,431	\$ 39,342
Franchise-Operated	\$ 55,011	\$ 51,538

Food and Beverage Costs – Food and beverage costs for fiscal 2005 were approximately \$27.3 million or 30.6% of net restaurant sales compared to approximately \$28.0 million or 31.4% of net restaurant sales for fiscal 2004. Results reflect the impact of weighted-average price increases of less than 2.0% implemented during fiscal 2005, in addition to our ability to leverage our menu and offset higher food costs through usage of our LTO's. As a percentage of dine-in sales, our adult beverage sales at our company-owned restaurants are approximately 10.0%. Building the bar continues to be a focus for us, however, we have determined that we are limited in our ability to “grow the bar” in the majority of our locations due to the fact that these locations have little to no designated bar, and some restaurants only have beer and wine. We're encouraged by the prospects of growing this business on a go-forward basis, however, because our recent franchise openings have achieved rates in the mid-teens for their adult beverage sales as a percentage of dine-in sales. Approximately 86% of our purchases are on contract. Our annual pork contract renewal in October 2005 resulted in an approximate 4.0% price decrease for 2006, our poultry contract pricing remained relatively flat to prior year and our brisket contract gets renewed in the Spring.

We anticipate that food costs, as a percent of net restaurant sales, will be slightly favorable for 2006 over the prior year. We believe that we have an opportunity to mitigate the negative impact, if any, that any food contract pricing may have on our margin through menu engineering such as with the use of our LTO's which typically carry more margin than many of our core product offerings. We will continue to take price increases as appropriate, and leverage adult beverage sales, which typically have higher margin.

Labor and Benefits – Labor and benefits at the restaurant level were approximately \$26.2 million or 29.3% of net restaurant sales in fiscal 2005 compared to approximately \$26.5 million or 29.7% of net restaurant sales in fiscal 2004. The decrease in labor and benefits reflects favorable medical claims experience and labor productivity, partially off-set by a higher level of bonus payout at the restaurant level. Full-service restaurants that operate in states without a “tip credit” (such as Minnesota) experience a higher wage rate for dining room labor than do restaurants located in states where a tip credit is available to reduce wages paid to food servers. The migration toward full-service dining in the majority of our restaurants is part of our strategy for increasing unit-level revenue, but may result in higher labor costs. During fiscal 2006, we are expecting labor and benefits as a percentage of net restaurant sales to remain relatively flat to fiscal 2005.

Operating Expenses – Operating expenses for fiscal 2005 were approximately \$22.3 million or 25.0% of net restaurant sales, compared to approximately \$22.0 million or 24.7% of net restaurant sales for fiscal 2004. The increase in fiscal 2005 restaurant level operating expenses as a percentage of restaurant sales is primarily due to increased supplies expense from catering and “TO GO” sales, increased utilities costs, as well as increased advertising costs. During fiscal 2006, operating expenses as a percentage of net restaurant sales are expected to increase slightly from the percentage in fiscal 2005, primarily due to higher utility costs, higher advertising costs, and higher supplies' costs related to increases in catering and “TO GO,” partially offset by further leveraging of fixed costs.

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Depreciation and Amortization – Depreciation and amortization for fiscal 2005 was approximately \$4.4 million, or 4.3% of total revenue, compared to approximately \$4.5 million, or 4.6% of total revenue for fiscal 2004. The decrease in depreciation and amortization expense as a percent of total revenue in 2005 compared to 2004 is primarily due to better leveraging of these costs. During fiscal 2006, depreciation and amortization is expected to increase from fiscal 2005 levels due to approximately \$12.0 million in expected capital expenditures for asset additions for new company-owned restaurants and other infrastructure projects.

Asset Impairment and Restructuring Charges – During fiscal 2005 and 2004, we did not record any asset impairment or restructuring charges. As of January 1, 2006 and January 2, 2005, we had approximately \$1.3 million of assets held for sale on our consolidated balance sheets representing the land and building on one of the restaurants in Texas for which an impairment was recorded and the restaurant was subsequently closed.

Pre-opening Expenses – We had approximately \$96,000 in pre-opening expenses for fiscal 2005 related primarily to our Chantilly, Virginia restaurant, which opened January 11, 2006, and our Maple Grove, Minnesota restaurant conversion. We did not incur any pre-opening expenses during fiscal 2004. We plan to open up to three company-owned restaurants during fiscal 2006 with pre-opening costs estimated at approximately \$175,000 per restaurant.

General and Administrative Expenses – General and administrative expenses totaled approximately \$13.4 million or 13.1% of total revenue in fiscal 2005 compared to approximately \$10.9 million or 11.0% of total revenue in fiscal 2004. In fiscal 2005, general and administrative expenses included \$566,000 in stock-based compensation expense and \$820,000 in franchise service expense. In fiscal 2004, general and administrative expenses included \$211,000 in stock-based compensation expense and \$571,000 in franchise service expense. Excluding stock-based compensation expense and the impact of our franchise services, which is offset in other revenue, the percentage was 11.9% for 2005 and 10.3% for the comparable period in 2004. The remaining increase in the percentages primarily reflects planned investments in infrastructure in anticipation of our growth. During 2006, we expect general and administrative expenses to remain relatively flat as a percentage of total revenue, resulting from the increased cost related to a third year in our performance share program, options expense related to the adoption of SFAS No. 123R, *Share-Based Payment*, in the first quarter of fiscal 2006 and the services we expect to provide to the 25-30 expected 2006 franchise-operated restaurant openings.

Interest Expense – Interest expense totaled approximately \$1.9 million or 1.9% of total revenue for fiscal 2005, essentially equal to fiscal 2004's interest expense in terms of dollars and as a percentage of total revenue. This line item represents interest expense from capital lease obligations, notes payable, financing lease obligations and a company match for deferrals made under our non-qualified deferred compensation plan. For fiscal 2006, we expect interest expense to remain relatively flat to fiscal 2005 levels.

Interest Income – Interest income was approximately \$270,000 and \$326,000 for fiscal 2005 and fiscal 2004, respectively. Interest income reflects interest received on short-term cash and cash equivalent balances. Fiscal 2005 interest income was lower than fiscal 2004 due to lower cash balances. We expect fiscal 2006 interest income to remain relatively flat to fiscal 2005 levels.

Other Income (Expense), Net – During fiscal 2005, we realized other income, net, of approximately \$71,000, which compares to other expense, net, of approximately \$392,000 in fiscal 2004. Other income in fiscal 2005 primarily reflects a gain on the condemnation of a small percentage of land at one of our company-owned restaurants. The other expense in 2004 is due to a write-off of a restaurant's remaining assets subsequent to the sale to a franchise.

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(Provision) Benefit from Income Taxes – We recorded a provision for income taxes during fiscal 2005 of approximately \$2.7 million which compares to a provision of approximately \$1.9 million in 2004. We utilized approximately \$8.0 million of federal and state net operating loss carry forwards in fiscal 2005 as compared to approximately \$5.0 million in fiscal 2004. At January 1, 2006, we had a remaining deferred tax asset of approximately \$5.8 million. Realization of the net operating loss carry forwards and other deferred tax timing differences is contingent on future taxable earnings. Our deferred tax asset was reviewed for expected utilization using a “more likely than not” approach as required by SFAS No. 109, “*Accounting for Income Taxes*”, by assessing the available positive and negative evidence surrounding the recoverability of the deferred tax asset. We believe that the realization of the deferred tax asset is more likely than not based on the fact that we generated taxable income in fiscal 2005 and 2004 and based on the expectation that our Company will generate the necessary taxable income in future years. Utilization of federal net operating losses will be achieved through offsetting tax liabilities generated through earnings, increased by payments of current taxes to state authorities. We estimate a tax provision of 37% for fiscal 2006.

Basic and Diluted Net Income Per Common Share – Net income for fiscal 2005 was approximately \$4.4 million or \$0.41 per basic common share on approximately 10,825,000 weighted average basic shares outstanding compared to a net income of approximately \$3.5 million or \$0.29 per basic common share on approximately 11,858,000 weighted average basic shares outstanding for fiscal 2004.

Diluted net income per common share for fiscal 2005 was \$0.39 per common share on approximately 11,173,000 weighted average diluted shares outstanding compared to \$0.29 per common share on approximately 12,222,000 weighted average diluted shares outstanding for fiscal 2004.

Fiscal Year 2004 Compared to Fiscal Year 2003

Total Revenue – Total revenue of approximately \$99.3 million for fiscal 2004 increased approximately \$1.6 million or 1.6% over revenue of approximately \$97.7 million for fiscal 2003. Fiscal 2004 consisted of 53 weeks as compared to 52 weeks for fiscal 2003. Revenue for the 53rd week in fiscal 2004 was approximately \$1.9 million, including restaurant sales and franchise royalties.

Restaurant Sales – Restaurant sales decreased by approximately \$2.3 million or 2.5% to approximately \$89.2 million for fiscal year 2004 from approximately \$91.5 million for fiscal year 2003. The decrease in sales was due primarily to the sale of three Georgia restaurants to a franchisee and the closure of two Texas restaurants that generated approximately \$6.6 million in restaurant sales in fiscal 2003. Without these restaurants in the fiscal 2003 base, sales would have been 7.4% higher in 2004 compared to 2003. The decrease in sales for fiscal 2004, related to these five restaurants, was partially offset by approximately \$1.7 million in sales attributed to the 53rd week.

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 for fiscal 2004 was approximately \$9.3 million, a 63.5% increase when compared to franchise-related revenue of approximately \$5.7 million for the same period in 2003, primarily reflecting increased royalties. Royalties, which are based on a percent of franchise-operated restaurants net sales, increased 61.0% reflecting the annualization of franchise restaurants that opened in fiscal 2003 in addition to the net 12 new franchise restaurants during fiscal 2004. There were 66 franchise-operated restaurants open at January 2, 2005, compared to 54 at December 28, 2003.

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Licensing and Other Revenue – Licensing revenue includes royalties from a retail line of business, including sauces, seasonings, rubs and marinades. Other revenue includes opening assistance and training we provide to our franchise partners. For fiscal year 2004, the licensing royalty income was approximately \$248,000 compared to approximately \$209,000 for fiscal year 2003.

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 for at least 18 months. At the end of fiscal 2004, there were 36 restaurants included in this base. Same store net sales for fiscal 2004 increased approximately 1.1%, compared to fiscal 2003's decrease of approximately 3.0% and were calculated assuming fiscal 2004 was a 52-week year. We believe that the increase in same store net sales reflects the combination of our advertising initiatives, the success of our limited time offerings, a price increase of approximately 2.0% and a focus on operational excellence and execution in our restaurants.

Average Weekly Net Sales – The following table shows company-owned and franchise-operated average weekly net sales for fiscal 2004 and fiscal 2003:

	Twelve Months Ended	
	January 2, 2005	December 28, 2003
Company-Owned	\$ 44,164	\$ 42,491
Full-Service	\$ 45,253	\$ 43,671
Counter-Service	\$ 39,342	\$ 37,060
Franchise-Operated	\$ 51,538	\$ 47,400

Food and Beverage Costs – Food and beverage costs for fiscal 2004 were approximately \$28.0 million or 31.4% of net restaurant sales, essentially flat compared to approximately \$28.0 million or 30.6% of net restaurant sales for fiscal 2003. This is primarily the result of higher commodity costs, basically offset by the menu price increase implemented at the beginning of the third quarter. Approximately 85% of our purchases are on contract and overall, contracts negotiated for 2005 resulted in less favorable pricing. Our pork contract renewal resulted in an 11% contracted price increase, our poultry contract, resulted in an 8% price increase and our brisket contract resulted in a 7% increase.

Labor and Benefits – Labor and benefits at the restaurant level were approximately \$26.5 million or 29.7% of net restaurant sales in fiscal 2004 compared to approximately \$27.6 million or 30.1% of net restaurant sales in fiscal 2003. The decrease in labor and benefits reflects favorable workers compensation claims experience and labor productivity, partially off-set by a higher level of bonus payout at the restaurant level. Full-service restaurants that operate in states without a "tip credit" (such as Minnesota) experience a higher wage rate for dining room labor than do restaurants located in states where a tip credit is available to reduce wages paid to food servers. The migration toward full-service dining in the majority of our restaurants is part of our strategy for increasing unit-level revenue, but may result in higher labor costs.

Operating Expenses – Operating expenses for fiscal 2004 were approximately \$22.0 million or 24.7% of net restaurant sales, compared to approximately \$23.4 million or 25.6% of net restaurant sales for fiscal 2003. The decrease in operating expenses reflects the reduction in company-owned restaurants compared to 2003. In addition, repair and maintenance costs for fiscal year 2004 were \$1.9 million compared to \$2.2 million for fiscal 2003, reflecting a significant investment in the prior year toward neglected restaurants.

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Depreciation and Amortization – Depreciation and amortization for fiscal 2004 was approximately \$4.5 million, or 4.6% of total revenue, compared to approximately \$4.8 million, or 5.0% of total revenue for fiscal 2003. The decrease in depreciation and amortization primarily reflects fewer company-owned restaurants in 2004.

General and Administrative Expenses – General and administrative expenses totaled approximately \$11.0 million or 11.0% of total revenue in fiscal 2004 compared to approximately \$9.3 million or 9.6% of total revenue in fiscal 2003. The increase in general and administrative expenses reflects increased legal, consulting and audit fees related to Sarbanes-Oxley 404 compliance, and higher corporate bonus and expenses related to our compensation programs. It also includes increased payroll as we continue to build our infrastructure.

Pre-opening Expenses – We had no pre-opening expenses for fiscal 2004, compared to approximately \$543,000 or 0.6% of net restaurant sales for fiscal 2003.

Asset Impairment and Restructuring Charges – During fiscal 2004, we recorded no asset impairment and restructuring charges compared to the recording of approximately \$4.2 million of charges on five locations in 2003. As of January 2, 2005, we had approximately \$1.3 million of assets held for sale on our consolidated balance sheet representing the land and building on one of the restaurants in Texas for which an impairment was recorded and the restaurant was subsequently closed.

Interest Expense – Interest expense totaled approximately \$1.9 million or 1.9% of total revenue for fiscal 2004 compared to approximately \$1.9 million or 1.9% of total revenue for fiscal 2003. This line item represents interest expense from capital lease obligations, notes payable and financing lease obligations. The increase in interest expense from fiscal 2003 to fiscal 2004 is primarily the result of no capitalization of interest related to construction costs, due to no restaurant openings during fiscal 2004.

Interest Income – Interest income was approximately \$326,000 and \$215,000 for fiscal 2004 and fiscal 2003, respectively. Interest income reflects interest received on short-term cash and cash equivalent balances.

Other Expense, Net – Other expense, net of approximately \$392,000 primarily reflects the write-off of a restaurant's remaining assets subsequent to the sale to a franchise. This compares to approximately \$667,000 in fiscal 2003 for losses related to expenses on an unopened site and early extinguishments of debt associated with the early payoff of a note, partially offset by gains attributable to the sale of three units in Georgia to a franchisee.

Equity in Loss from Unconsolidated Affiliate – Until February 26, 2003, we were a 40% participant in a joint venture to operate themed restaurant concepts based on the entertainment artist Isaac Hayes. Pursuant to an agreement governing the joint venture, the participants in the joint venture formed a Delaware limited liability company named FUMUME, LLC. On February 26, 2003, we disposed of our 40% interest in FUMUME, LLC. The equity in loss from unconsolidated affiliate was approximately \$2.2 million for fiscal 2003, reflecting losses in the Isaac Hayes Blues Clubs, in addition to transaction costs associated with our divestiture of those clubs. We are no longer participating in any revenue or expenses of the joint venture and we do not have any further obligations with regard to the joint venture.

(Provision) Benefit from Income Taxes – Our Company recorded a provision for income taxes during fiscal 2004 of approximately \$1.9 million which compares to a benefit of approximately \$1.8 million in fiscal 2003. We utilized approximately \$5.0 million of federal and state net operating loss carry forwards in fiscal 2004 as compared to none in fiscal 2003. At January 2, 2005, we had a remaining deferred tax asset of approximately \$7.8 million. Realization of the net operating loss carry forwards and other deferred tax timing differences is contingent on future taxable earnings. Our deferred tax asset was reviewed for expected utilization using a "more likely than not" approach as required by SFAS No. 109,

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“*Accounting for Income Taxes*”, by assessing the available positive and negative evidence surrounding the recoverability of the deferred tax asset. Utilization of federal net operating losses will be achieved through offsetting tax liabilities generated through earnings. This will be offset by payments of current taxes to state authorities.

Basic and Diluted Net Income (Loss) Per Common Share – Net income for fiscal 2004 was approximately \$3.5 million or \$0.29 per basic common share on approximately 11,858,000 weighted average basic shares outstanding compared to a net loss of approximately \$2.9 million or \$0.25 per basic common share on approximately 11,772,000 weighted average basic shares outstanding for fiscal 2003.

Diluted net income per common share for fiscal 2004 was \$0.29 per common share on approximately 12,222,000 weighted average diluted shares outstanding compared to a loss of \$0.25 per common share on approximately 11,772,000 weighted average diluted shares outstanding for fiscal 2003.

Recently Issued Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued statement SFAS No. 123R, *Share-Based Payment, an Amendment of FASB Statements No. 123 and 95*. This statement requires companies to recognize compensation cost for share-based awards, including options, granted to employees based on their fair values at the time of grant and would eliminate the use of accounting for employee options under Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*. On April 14, 2005, the Securities and Exchange Commission announced the adoption of a rule that amends the compliance dates for SFAS No. 123R, and we are required to implement this standard effective with the beginning of our 2006 fiscal year.

SFAS No. 123R permits public companies to adopt its requirements using one of two methods: (1) a “modified prospective” method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS No. 123R for all share-based payments granted after the effective date, and (b) based on the requirements of SFAS No. 123R for all awards granted to employees prior to the effective date of SFAS No. 123R that remain unvested on the effective date; (2) a “modified retrospective” method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS No. 123R for purposes of pro forma disclosures either (a) all prior periods presented, or (b) prior interim periods of the year of adoption. We have determined that we will adopt the “modified prospective” method under SFAS No. 123R. While SFAS No. 123R permits entities to continue use of the Black-Scholes option pricing model, SFAS No. 123R also permits the use of a “binomial model.” We currently expect that we will continue to utilize the Black-Scholes option pricing model upon the adoption of SFAS No. 123R. Had we adopted SFAS No. 123R in prior periods based on our use of the Black-Scholes option pricing model, the impact of that standard would have approximated the impact of SFAS No. 123R as described in footnote 1 in the disclosure of pro forma net income (loss) and pro forma Basic and Diluted EPS.

In October 2005, the FASB issued Staff Position 13-1, *Accounting for Rental Costs Incurred During a Construction Period*. Generally, the staff position requires companies to expense rental costs incurred during a construction period. As permitted under existing Generally Accepted Accounting Principles, we elected to capitalize rental costs during construction of our Chantilly, Virginia corporate restaurant through December 31, 2005. We capitalized approximately \$50,000 in rent expense in the fourth quarter of fiscal 2005 associated with our Chantilly, Virginia company-owned restaurant while it was under construction. The Company is required to adopt FASB Staff Position 13-1 on January 2, 2006. We estimate that the impact of the adoption of the staff position will be approximately \$130,000 in additional pre-opening rent expense during fiscal 2006. The amount may vary

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based on lease terms, restaurant openings and length of construction period. Effective January 2, 2006, in accordance with Staff Position 13-1, "*Accounting for Rental Costs Incurred During a Construction Period*," we will expense rental costs incurred during a construction period.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*. This new standard replaces APB Opinion No. 20, *Accounting Changes*, and FASB No. 3, *Reporting Accounting Changes in Interim Financial Statements*. Among other changes, SFAS No. 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented on the new accounting principle, unless it is impracticable to do so. SFAS No. 154 also requires that (1) a change in method of depreciating or amortizing a long-lived non-financial asset be accounted for as a change in accounting estimate effected by a change in accounting principle, and (2) correction of errors in previously issued financial statements should be termed a "restatement." The new standard is effective for us on January 2, 2006. We do not believe that the adoption of the provision of SFAS No. 154 will have a material impact on our consolidated financial statements.

Financial Condition, Liquidity and Capital Resources

As of January 1, 2006, our Company held cash and cash equivalents of approximately \$4.4 million compared to approximately \$11.2 million as of January 2, 2005. This decrease reflects the use of approximately \$11.5 million for the repurchase of common stock, partially offset by cash generated from operations.

Our quick ratio, which measures our immediate short-term liquidity, was 0.76 at January 1, 2006 compared to 1.56 at January 2, 2005. 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 cash used during the first half of 2005 for the repurchase of common stock.

Net cash provided by operations for each of the last three fiscal years was approximately \$10.4 million in fiscal 2005, \$11.4 million in fiscal 2004 and \$6.2 million in fiscal 2003. Cash generated in fiscal 2005 was primarily from net income of approximately \$4.4 million, the utilization of our deferred tax asset of approximately \$2.0 million, depreciation and amortization of approximately \$4.4 million, an increase in deferred compensation of approximately \$603,000, an increase in deferred rent of approximately \$813,000 due to our new corporate office and Chantilly, Virginia, an increase in other current liabilities of approximately \$771,000, and an increase in accrued compensation and benefits of approximately \$201,000. These increases were partially offset by an approximate \$1.2 million increase in restricted cash, which includes amounts related to our national advertising fund, and approximately \$528,000 related to our self-funded benefit plans, an increase in accounts receivable of approximately \$1.1 million due to a net 22 more franchisees since last year-end, a net increase in prepaids and other current assets of approximately \$444,000, and a decrease in accounts payable of approximately \$328,000.

Cash provided by operations in 2004 was approximately \$11.4 million and is primarily the result of an increase of approximately \$2.1 million in accounts payable, utilization of our deferred tax asset of approximately \$1.4 million, net income from operations of approximately \$3.5 million, depreciation and amortization of approximately \$4.6 million, an increase in deferred compensation of approximately \$235,000, an increase in deferred rent of approximately \$474,000 and an increase in accrued compensation and benefits of approximately \$501,000. These increases were partially offset by a decrease of approximately \$1.1 million in other current liabilities, an approximate \$628,000 increase in accounts receivable due to franchise growth, an increase of approximately \$566,000 in prepaid and other current assets, and an increase of approximately \$39,000 in restricted cash.

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Net cash provided by operations in fiscal 2003 was primarily from asset impairment charges of approximately \$3.7 million, equity in loss of unconsolidated affiliate of approximately \$2.2 million, depreciation and amortization of approximately \$4.9 million, an increase to deferred rent of approximately \$568,000, a decrease in prepaid expenses and other assets of approximately \$547,000, and an increase in other current liabilities of approximately \$1.2 million. This was partially offset by a net loss of approximately \$2.9 million, tax benefit of approximately \$2.2 million, a decrease in accounts payable of approximately \$1.6 million, and an increase in accounts receivable of approximately \$648,000.

Net cash used for investing activities for each of the last three fiscal years was approximately \$5.7 million in fiscal 2005, \$2.2 million in fiscal 2004 and \$5.3 million in fiscal 2003. In fiscal 2005, we used approximately \$6.8 million for capital expenditures related to the construction of our new Chantilly, Virginia restaurant, the purchase of our Plymouth, Minnesota restaurant, the purchase of land for a restaurant in Coon Rapids, Minnesota, a new test kitchen, training center and office space, and POS and other computer equipment for use in the restaurants and at our corporate office. This was partially offset by proceeds for sale of assets of approximately \$636,000 and payments received on notes receivable of approximately \$457,000. In fiscal 2004, we used approximately \$2.4 million for capital expenditures related to new catering vehicles, kitchen equipment, development of our site-model tool, and POS and other computer equipment for use in the restaurants and at our corporate office. This was partially offset by payments received on notes receivable of approximately \$218,000. In fiscal 2003, we used cash of approximately \$4.0 million for capital expenditures on the construction of three new company-owned restaurants and to upgrade existing facilities and approximately \$2.1 million to fund losses and exit from our 40% FUMUME, LLC, joint-venture partnership. The use of cash was partially offset by cash proceeds from the sale of assets of approximately \$685,000 and payments on notes receivable of approximately \$139,000. In fiscal 2006, we expect capital expenditures to be approximately \$12.0 million, which will consist of three new ground-up corporate restaurants, a new labor-scheduling and back-of-the-house management system, potential reimages and remodels of existing restaurants and normal capital expenditures for existing restaurants.

Net cash used for financing activities was approximately \$11.5 million in fiscal 2005, \$7.9 million in fiscal 2004 and \$323,000 in fiscal 2003. During fiscal 2005, we completed our 1.0 million share authorization and bought back the remaining 954,900 shares of our common stock and paid approximately \$11.5 million, excluding commissions. Other uses of cash for fiscal 2005 included payments on long-term debt and capital lease obligations of approximately \$606,000 and payments of approximately \$85,000 for debt issuance costs related to our credit line. This was partially offset by approximately \$730,000 in proceeds from the exercise of stock options. During fiscal 2004, we bought back approximately 1.0 million shares of our common stock and paid approximately \$7.5 million, excluding commissions. In addition, the Board of Directors authorized a second share repurchase program in November 2004, and we bought back 44,100 shares in the last two months of the fiscal year for approximately \$400,000. Other uses of cash for fiscal 2004 included payments of long-term debt and capital leases of approximately \$726,000. Other sources of cash for fiscal 2004 included proceeds received from the exercise of stock options and warrants of approximately \$770,000. During fiscal 2003, payments on long-term debt and capital lease obligations of approximately \$2.3 million were the primary uses of cash partially offset by proceeds from stock option exercises of approximately \$2.0 million.

On January 28, 2005 we entered into a five-year credit agreement with Wells Fargo Bank, National Association, as administrative agent and lender, which provides us with a revolving credit facility of \$10.0 million. Principal amounts outstanding under the facility bear interest either at an adjusted Eurodollar rate plus 3.50% or Wells Fargo's prime rate (7.25% as of January 1, 2006) plus 2.0%. Unused portions of the facility are subject to an unused facility fee equal to 0.5% of the unused portion. We had no borrowings under this agreement as of January 1, 2006.

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The credit agreement is available for general working capital purposes and for the repurchase of shares under a board-approved share repurchase program. Under the credit agreement, we granted Wells Fargo a security interest in all of our current and future personal property.

The credit agreement contains customary affirmative and negative covenants including limitations with respect to indebtedness, liens, investments, distributions, mergers and acquisitions, dispositions of assets and transactions with affiliates of the Company among others. The credit agreement also includes various financial covenants. We were in compliance with all covenants under this credit facility agreement as of January 1, 2006.

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 moved into new corporate office headquarters in Minnetonka, Minnesota on July 25, 2005. Capital expenditures of approximately \$739,000 were spent on the new facility, including the construction of a new state-of-the-art test kitchen and training facility in the lower-level of the office facility. The lease, which commenced in August 2005, is for approximately 26,000 rentable square feet and is for a term of 97 months, plus two five-year renewal options. The minimum rent commitment over the lease term is approximately \$4.6 million. We expect capital expenditures of approximately \$12.0 million in 2006 for the construction of three ground-up new restaurants, corporate infrastructure, and normal capital items for existing restaurants.

In addition to commitments we have related to our lease obligations, we also have required payments on our outstanding debt. The following table provides aggregate information about our contractual payment obligations and the periods in which payments are due:

Payments Due by Period

(in thousands)

Contractual Obligations	Total	2006	2007	2008	2009	2010	Thereafter
Long Term Debt	\$ 11,852	\$ 422	\$ 467	\$ 511	\$ 564	\$ 569	\$ 9,319
Financing Leases	4,500	—	—	—	—	—	4,500
Capital and Operating Leases	64,876	3,643	3,707	3,646	3,653	3,690	46,537
Less: Sublease rental income	(8,812)	(403)	(403)	(440)	(441)	(441)	(6,684)
Total	\$ 72,416	\$ 3,662	\$ 3,771	\$ 3,717	\$ 3,776	\$ 3,818	\$ 53,672

See Notes 8, 9 and 10 to our Consolidated Financial Statements included in this Annual Report on Form 10-K for 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 and a 3.5 to 1.0 leverage ratio during each fiscal year. As of January 1, 2006 and January 2, 2005, we were in compliance with all of its covenants.

Off-Balance Sheet Arrangements

Our Company does not have any off-balance sheet arrangements.

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Income Taxes

At January 1, 2006, we had federal and state net operating loss carry forwards (“NOL’s”) for tax reporting purposes of approximately \$9.2 million and \$8.6 million, respectively, which if not used will begin to expire in 2019. These will be adjusted when we file our 2005 income tax returns in 2006. In addition, we had tax credit carry forwards of approximately \$2.3 million, which if not used, will begin to expire in 2009. Future changes in ownership, if any, may place limitations on the use of these NOL’s.

Inflation

The primary inflationary factors affecting our operations include food, beverage, and labor costs. In addition, our leases require us to pay taxes, maintenance, repairs and utilities and these costs are subject to inflationary increases. We are also subject to interest rate changes based on market conditions.

We believe that relatively low inflation rates have contributed to relatively stable costs. There is no assurance, however, that low inflation rates will continue.

ITEM 7A. 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 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 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 January 1, 2006 was approximately \$16.4 million, including financing lease obligations. Of the outstanding long-term debt, approximately \$1.3 million consists of a variable interest rate while the remainder was subject to a fixed interest rate. On January 28, 2005 we entered into a five-year credit agreement with Wells Fargo Bank, National Association, as administrative agent and lender, which provides us with a revolving credit facility of \$10.0 million. Principal amounts outstanding under the facility will bear interest either at an adjusted Eurodollar rate plus 3.50% or Wells Fargo’s prime rate (7.25% as of January 1, 2006) plus 2.00%. Unused portions of the facility will be subject to an unused facility fee equal to 0.5% of the unused portion. We do not see the variable interest rate long-term debt as a significant interest rate risk. Some of the food products purchased by us are affected by commodity pricing and are, therefore, subject to price volatility caused by weather, production problems, delivery difficulties and other factors that are outside our control. To control this risk in part, we have fixed-priced purchase commitments for food from vendors. In addition, we believe that substantially all of our food is available from several sources, which helps to control food commodity risks. We 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

ITEM 9A. 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.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Our management assessed the effectiveness of our internal control over financial reporting as of January 1, 2006. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework. Our management has concluded that, as of January 1, 2006, our internal control over financial reporting is effective based on these criteria. Our independent registered public accounting firm, Grant Thornton LLP, has issued an audit report on our assessment of our internal control over financial reporting, which is included herein.

There were no changes in our internal controls over financial reporting during our most recently-completed fiscal quarter, and year ended January 1, 2006 that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

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

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information in response to this Item is incorporated herein by reference to our definitive proxy statement to be filed pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this form 10-K. The Company has adopted a Code of Ethics applicable to its CEO, CFO and Controller. The Code of Ethics is available on our website at www.famousdaves.com and a copy is available free of charge to anyone requesting it.

ITEM 11. EXECUTIVE COMPENSATION

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

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

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item appears in our definitive proxy statement for our 2005 annual meeting of shareholders under the captions "Fees Billed to Company by Its Independent Registered Public Accounting Firm" and "Pre-approval Policy," which information is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Documents filed as part of this Form 10-K:

[Reports of Independent Registered Public Accounting Firm](#)

[Consolidated Balance Sheets – January 1, 2006 and January 2, 2005](#)

[Consolidated Statements of Operations – Years ended January 1, 2006, January 2, 2005 and December 28, 2003](#)

[Consolidated Statements of Shareholders' Equity – Years ended January 1, 2006, January 2, 2005 and December 28, 2003](#)

[Consolidated Statements of Cash Flows – Years ended January 1, 2006, January 2, 2005 and December 28, 2003](#)

[Notes to Consolidated Financial Statements](#)

Financial Statement Schedule:

[Schedule II. Schedule of Valuation and Qualifying Accounts](#)

Exhibits:

See “exhibit index” on the page following the consolidated financial statements and related footnotes

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Famous Dave's of America, Inc.

We have audited the accompanying consolidated balance sheets of Famous Dave's of America, Inc. and subsidiaries (the Company) as of January 1, 2006 and January 2, 2005, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended January 1, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Famous Dave's of America, Inc. and subsidiaries as of January 1, 2006 and January 2, 2005 and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended January 1, 2006 in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule II is presented for purposes of additional analysis and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the internal control over financial reporting of Famous Dave's of America, Inc. as of January 1, 2006, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 10, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Grant Thornton LLP

Minneapolis, Minnesota
March 10, 2006

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Famous Dave's of America, Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting appearing under Item 9A, that Famous Dave's of America, Inc. (the "Company") maintained effective internal control over financial reporting as of January 1, 2006, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the internal control over financial reporting of Famous Dave's of America, Inc. based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Famous Dave's of America, Inc. maintained effective internal control over financial reporting as of January 1, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework* issued by COSO. Also, in our opinion, Famous Dave's of America, Inc. maintained, in all material respects, effective internal control over financial reporting as of January 1, 2006, based on the criteria established in *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Famous Dave's of America, Inc. and subsidiaries as of January 1, 2006, and January 2, 2005, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended January 1, 2006 and our report dated March 10, 2006 expressed an unqualified opinion on those consolidated financial statements.

/s/ Grant Thornton LLP

Minneapolis, Minnesota
March 10, 2006

FAMOUS DAVE'S OF AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JANUARY 1, 2006 AND JANUARY 2, 2005
(in thousands, except share and per-share data)

	January 1, 2006	January 2, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,410	\$ 11,170
Restricted cash	1,221	39
Accounts receivable, net	2,843	2,289
Inventories	1,588	1,523
Deferred tax asset	3,120	3,342
Prepaid expenses and other current assets	<u>2,312</u>	<u>1,403</u>
Total current assets	15,494	19,766
Property, equipment and leasehold improvements, net	46,872	44,664
Other assets:		
Notes receivable, less current portion	1,719	2,156
Deferred tax asset, less current portion	2,632	4,458
Other assets	<u>881</u>	<u>869</u>
	<u>\$ 67,598</u>	<u>\$ 71,913</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Line of credit	\$ —	\$ —
Current portion of long-term debt	422	424
Current portion of capital leases	16	97
Accounts payable	3,811	4,138
Accrued compensation and benefits	2,436	1,914
Other current liabilities	<u>3,410</u>	<u>2,244</u>
Total current liabilities	10,095	8,817
Long-term liabilities:		
Long-term debt and capital leases, less current portion	11,430	11,953
Financing leases	4,500	4,500
Other liabilities	<u>4,394</u>	<u>3,300</u>
Total liabilities	30,419	28,570
Shareholders' equity:		
Common stock, \$.01 par value, 100,000,000 shares authorized, 10,599,000 and 11,340,000 shares issued and outstanding at January 1, 2006 and January 2, 2005, respectively	106	113
Additional paid-in capital	39,126	49,674
Accumulated deficit	<u>(2,053)</u>	<u>(6,444)</u>
Total shareholders' equity	37,179	43,343
	<u>\$ 67,598</u>	<u>\$ 71,913</u>

See accompanying notes to consolidated financial statements.

FAMOUS DAVE'S OF AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED
JANUARY 1, 2006, JANUARY 2, 2005 AND DECEMBER 28, 2003
(in thousands, except share and per-share data)

	January 1, 2006 <i>(52 weeks)</i>	January 2, 2005 <i>(53 weeks)</i>	December 28, 2003 <i>(52 weeks)</i>
Revenue:			
Restaurant sales, net	\$ 89,248	\$ 89,176	\$ 91,500
Franchise royalty revenue	10,406	7,353	4,567
Franchise fee revenue	1,595	1,977	1,139
Licensing and other revenue	1,105	819	534
Total revenue	<u>102,354</u>	<u>99,325</u>	<u>97,740</u>
Costs and expenses:			
Food and beverage costs	27,297	27,995	28,014
Labor and benefits	26,151	26,472	27,586
Operating expenses	22,339	22,005	23,376
Depreciation and amortization	4,359	4,549	4,840
General and administrative	13,430	10,939	9,336
Pre-opening expenses	96	—	543
Asset impairment and restructuring charges	—	—	4,238
Total costs and expenses	<u>93,672</u>	<u>91,960</u>	<u>97,933</u>
Income (loss) from operations	<u>8,682</u>	<u>7,365</u>	<u>(193)</u>
Other expense:			
Interest expense	(1,932)	(1,901)	(1,876)
Interest income	270	326	215
Other income (expense), net	71	(392)	(667)
Equity in loss of unconsolidated affiliate	—	—	(2,155)
Total other expense	<u>(1,591)</u>	<u>(1,967)</u>	<u>(4,483)</u>
Income (loss) before income taxes	7,091	5,398	(4,676)
Income tax (provision) benefit	<u>(2,700)</u>	<u>(1,900)</u>	<u>1,778</u>
Net income (loss)	<u>\$ 4,391</u>	<u>\$ 3,498</u>	<u>\$ (2,898)</u>
Basic net income (loss) per common share	<u>\$ 0.41</u>	<u>\$ 0.29</u>	<u>\$ (0.25)</u>
Diluted net income (loss) per common share	<u>\$ 0.39</u>	<u>\$ 0.29</u>	<u>\$ (0.25)</u>
Weighted average common shares outstanding-basic	<u>10,825,000</u>	<u>11,858,000</u>	<u>11,772,000</u>
Weighted average common shares outstanding-diluted	<u>11,173,000</u>	<u>12,222,000</u>	<u>11,772,000</u>

See accompanying notes to consolidated financial statements.

FAMOUS DAVE'S OF AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED
JANUARY 1, 2006, JANUARY 2, 2005 AND DECEMBER 28, 2003
(in thousands)

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
Balance – December 29, 2002	11,388	\$ 114	\$ 54,222	\$ (7,044)	\$ 47,292
Exercise of stock options	770	8	2,027	—	2,035
Tax benefit for stock options exercised	—	—	443	—	443
Net loss	—	—	—	(2,898)	(2,898)
Balance – December 28, 2003	12,158	122	56,692	(9,942)	46,872
Exercise of stock options	217	2	708	—	710
Tax benefit for stock options exercised	—	—	303	—	303
Exercise of warrants	10	—	60	—	60
Purchased rights to exercisable warrants	—	—	(197)	—	(197)
Repurchase of common stock and common stock warrants	(1,045)	(11)	(7,892)	—	(7,903)
Net income	—	—	—	3,498	3,498
Balance – January 2, 2005	11,340	113	49,674	(6,444)	43,343
Exercise of stock options	214	2	728	—	730
Tax benefit for stock options exercised	—	—	244	—	244
Repurchase of common stock	(955)	(9)	(11,520)	—	(11,529)
Net income	—	—	—	4,391	4,391
Balance – January 1, 2006	<u>10,599</u>	<u>\$ 106</u>	<u>\$ 39,126</u>	<u>\$ (2,053)</u>	<u>\$ 37,179</u>

See accompanying notes to consolidated financial statements.

FAMOUS DAVE'S OF AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED
JANUARY 1, 2006, JANUARY 2, 2005 AND DECEMBER 28, 2003
(in thousands)

	January 1, 2006 <i>(52 weeks)</i>	January 2, 2005 <i>(53 weeks)</i>	December 28, 2003 <i>(52 weeks)</i>
Cash flows from operating activities:			
Net income (loss)	\$ 4,391	\$ 3,498	\$ (2,898)
Adjustments to reconcile net income (loss) to cash flows provided by operations:			
Depreciation and amortization	4,359	4,549	4,840
Amortization of deferred financing costs	70	38	67
(Gain) loss on disposal of property	(53)	383	(112)
Deferred income taxes	2,048	1,423	(2,209)
Tax benefit of stock options exercised	244	303	443
Deferred rent	813	474	568
Deferred compensation	603	235	94
Equity in loss of unconsolidated affiliate	—	—	2,155
Asset impairment charges	—	—	3,687
Changes in operating assets and liabilities:			
Restricted cash	(1,182)	(39)	—
Accounts receivable, net	(1,062)	(628)	(648)
Inventories	(65)	76	(42)
Prepaid expenses and other current assets	(444)	(566)	547
Deposits	25	63	60
Accounts payable	(328)	2,103	(1,635)
Accrued compensation and benefits	201	501	68
Other current liabilities	771	(1,056)	1,167
Cash flows provided by operations	<u>10,391</u>	<u>11,357</u>	<u>6,152</u>
Cash flows from investing activities:			
Purchases of property, equipment and leasehold improvements	(6,754)	(2,449)	(4,037)
Proceeds from sale of land and building	636	—	685
Payments received on notes receivable	457	218	139
Investment and repayments of advances in unconsolidated affiliate	—	—	(2,125)
Cash flows used for investing activities	<u>(5,661)</u>	<u>(2,231)</u>	<u>(5,338)</u>
Cash flows from financing activities:			
Payments for debt issuance costs	(85)	(8)	(9)
Payments on long-term debt and capital lease obligations	(606)	(726)	(2,349)
Proceeds from exercise of stock options and warrants	730	770	2,035
Repurchase of common stock and common stock warrants	(11,529)	(7,956)	—
Cash flows used for financing activities	<u>(11,490)</u>	<u>(7,920)</u>	<u>(323)</u>
(Decrease) increase in cash and cash equivalents	(6,760)	1,206	491
Cash and cash equivalents, beginning of year	<u>11,170</u>	<u>9,964</u>	<u>9,473</u>
Cash and cash equivalents, end of year	<u>\$ 4,410</u>	<u>\$ 11,170</u>	<u>\$ 9,964</u>

See accompanying notes to consolidated financial statements.

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

(1) NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of business – 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 January 1, 2006, there were 126 restaurants operating in 32 states, including 38 company-owned restaurants and 88 franchise-operated restaurants. An additional 196 franchise restaurants were committed to be developed through signed area development agreements at January 1, 2006.

Principles of consolidation – The accompanying consolidated financial statements include the accounts of the Company and its wholly owned and majority owned subsidiaries. Any inter-company transactions and balances have been eliminated in consolidation.

Management's use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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

Financial instruments – Due to their short-term nature, the carrying value of our current financial assets and liabilities approximates their fair value. The fair value of long-term debt approximates the carrying amount based upon our expected borrowing rate for debt with similar remaining maturities and comparable risk.

Segment reporting – We have company-owned and franchise-operated restaurants in the United States, and operate within the single industry segment of food service. Because we manage company-owned and franchise-operated restaurants in a similar manner and allocate resources to each based upon their relative size to the company we have aggregated our operating segments into a single reporting segment.

Fiscal year – Our fiscal year ends on the Sunday nearest December 31st of each year. Our fiscal year is generally 52 weeks; however it periodically consists of 53 weeks. The fiscal year ended January 1, 2006 (fiscal 2005) was 52 weeks, while fiscal year ending January 2, 2005 (fiscal 2004) was 53 weeks, and fiscal year ending December 28, 2003 (fiscal 2003) was 52 weeks.

Cash and cash equivalents – Cash equivalents include all investments with original maturities of three months or less or which are readily convertible into known amounts of cash and are not legally restricted. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000, while the remaining balances are uninsured at January 1, 2006. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Accounts receivable – We provide an allowance for uncollectible accounts on accounts receivable. The allowance for uncollectible accounts was approximately \$36,770 and \$9,600 at January 1, 2006 and January 2, 2005, respectively. 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 year that determination is made. Accounts receivable are written off when

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

(1) NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Account receivable balances written off have not exceeded allowances provided.

Inventories – Inventories consist principally of food, beverages, retail goods, smallwares and supplies, and are recorded at the lower of cost (first-in, first-out) or market.

Property, equipment and leasehold improvements – Property, equipment and leasehold improvements are capitalized at a level of \$250 or greater and are recorded at cost. Improvements of \$250 or greater are capitalized while repair and maintenance costs are charged to operations when incurred. Furniture, fixtures, equipment and antiques are depreciated or amortized using the straight-line method over estimated useful lives ranging from 3-7 years, while buildings are depreciated over 30 years. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term, including renewal options, or the estimated useful life of the assets. Décor used in the restaurants is recorded at cost and is not depreciated since it has a perpetual life.

Debt issuance costs – Debt issuance costs are amortized to interest expense over the term of the related financing on a straight-line basis, which approximates the interest method.

Construction overhead and capitalized interest – We capitalize construction overhead costs at the time a building is turned over to operations, which is approximately two weeks prior to opening. We capitalized construction overhead costs of approximately \$45,000 in fiscal 2005. There was no capitalization of construction overhead in fiscal 2004. There was no capitalized interest in 2005 or 2004, respectively. Interest costs capitalized during the construction period of restaurants for fiscal 2003 was approximately \$122,000.

Advertising costs – Advertising costs are charged to expense as incurred. Advertising costs were approximately \$3.0 million, \$2.7 million and \$2.4 million for fiscal years 2005, 2004 and 2003, respectively, and are included in operating expenses in the consolidated statements of operations.

Research and development costs – Research and development costs represent salaries and expenses of personnel engaged in the creation of new menu and Limited-Time Offering (LTO) items, recipe enhancements and documentation activities. Research and development costs were approximately \$265,000, \$210,000 and \$114,000 for fiscal years 2005, 2004 and 2003, respectively.

Pre-opening expenses – All start-up and pre-opening costs are expensed as incurred. We had pre-opening expenses of approximately \$96,000 in fiscal 2005 related to our conversion of a counter-service restaurant to a full-service restaurant and two new corporate restaurants preparing to open in 2006.

Lease Accounting – In accordance with Statement of Financial Accounting Standards (SFAS) No. 13 “*Accounting for Leases*,” we recognize lease expense for our operating leases over the entire lease term including lease renewal options and build-out periods where the renewal is certain and the build-out period takes place prior to the restaurant opening or lease commencement date. We account for construction allowances by recording a receivable when its collectibility is considered certain, depreciating the leasehold improvements over the lesser of their useful lives or the full term of the lease, including renewal options and build-out periods, amortizing the construction allowance as a credit to rent expense over the full term of the lease, including renewal options and build-out periods, and relieving the receivable once the cash is obtained from the landlord for the construction allowance.

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

(1) NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Recoverability of property, equipment and leasehold improvements – In accordance with SFAS No. 144 “*Accounting for the Impairment or Disposal of Long-Lived Assets*,” we evaluate restaurant sites and long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of restaurant sites to be held and used is measured by a comparison of the carrying amount of the restaurant site to the undiscounted future net cash flows expected to be generated on a restaurant-by-restaurant basis. If a restaurant is determined to be impaired the loss is measured as the amount by which the carrying amount of the restaurant exceeds its fair value. Fair value as determined by the discounted future net cash flows, is estimated based on the best information available including estimated future cash flows, expected growth rates in comparable restaurant sales, remaining lease terms and other factors. If these assumptions change in the future, we may be required to take additional impairment charges for the related assets. Considerable management judgment is necessary to estimate future cash flows. Accordingly, actual results could vary significantly from such estimates. Our January 1, 2006 and January 2, 2005 consolidated balance sheets reflect approximately \$1.3 million of assets held for sale, which includes the land and building for one location that was closed during 2003. Based on recent broker activity and a recent offer, we believe the assets held for sale are fairly stated at \$1.3 million as of January 1, 2006. Our intention is to sell this property within the next 12 months. During fiscal 2003, we recorded impairment charges of approximately \$4.2 million on five under-performing restaurants, two of which were subsequently closed, two of which were subsequently sold, and one that was fully impaired, but still operating. There were no impairment charges recorded during fiscal 2005 or 2004.

Restricted Cash – Restricted cash as of January 1, 2006 and January 2, 2005 consists of the remaining balance of cash payments received from franchise-operated and company-owned restaurants for the Public Relations and Marketing Development Fund. In addition, in 2005, restricted cash includes funding related to a letter of credit as required by our self-funded insurance programs. The letter of credit was established as of July 1, 2005, and is funded by a restricted interest-bearing cash account in the amount of approximately \$528,000.

Public Relations and Marketing Development Fund – Beginning in fiscal 2004, we established a system-wide public relations and marketing fund. Company-owned restaurants, in addition to franchise-operated restaurants whose franchise agreements were signed after January 1, 2004, are required to contribute a percentage of net sales, currently 1.0%, to the fund that is used for public relations and marketing development efforts throughout the system. Additionally, certain payments received from various vendors are deposited into the public relations and marketing fund. The assets held by this fund are considered restricted. Accordingly, we reflected the cash related to this fund in restricted cash and the liability is included in accounts payable on our consolidated balance sheets as of January 1, 2006 and January 2, 2005. As of January 1, 2006 and January 2, 2005, we had approximately \$693,000 and \$39,000 in this fund, respectively.

Gift Cards – We record a liability in the period in which a gift card is issued and proceeds are received. As gift cards are redeemed, this liability is reduced and revenue is recognized. We recognize gift card slippage income based on a historical percentage breakage rate when the likelihood of the redemption of the card becomes remote.

Interest income – We recognize interest income as earned.

Net income (loss) per common share – Basic net income (loss) per common share (“EPS”) is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the reporting period. Diluted EPS equals net income (loss) divided by the sum of the weighted

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

(1) NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

average number of shares of common stock outstanding plus all additional common stock equivalents relating to stock options and warrants when dilutive.

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

	Fiscal Year		
	2005	2004	2003
<i>(in thousands, except per share data)</i>			
Net income (loss) per common share – basic:			
Net income (loss)	\$ 4,391	\$ 3,498	\$ (2,898)
Weighted average shares outstanding	10,825	11,858	11,772
Net income (loss) per common share – basic	<u>\$ 0.41</u>	<u>\$ 0.29</u>	<u>\$ (0.25)</u>
Net income (loss) per common share – diluted:			
Net income (loss)	\$ 4,391	\$ 3,498	\$ (2,898)
Weighted average shares outstanding	10,825	11,858	11,772
Dilutive impact of common stock equivalents outstanding	348	364	—
Adjusted weighted average shares outstanding	11,173	12,222	11,772
Net income (loss) per common share – diluted	<u>\$ 0.39</u>	<u>\$ 0.29</u>	<u>\$ (0.25)</u>

All options outstanding as of January 1, 2006 were used in the computation of diluted earnings per common share for fiscal year 2005.

Options to purchase approximately 40,000 shares of common stock with a weighted average exercise price of \$8.02 were excluded from the fiscal 2004 diluted EPS computation because the exercise price exceeded the average market price of the common shares during the period.

Options to purchase approximately 1.2 million shares of common stock with a weighted average exercise price of \$3.94 were excluded from the fiscal 2003 diluted EPS computation because they were anti-dilutive due to a net loss.

Stock-based compensation – In accordance with Accounting Principles Board (APB) Opinion No. 25, we use the intrinsic value-based method for measuring stock-based compensation cost which measures compensation cost as the excess, if any, of the quoted market price of Famous Dave's common stock at the date of grant over the amount the recipient must pay for the stock. Our policy is to grant stock options at the quoted market price at the date of grant. No compensation expense has been recognized for stock options issued in fiscal years 2005, 2004 or 2003. The following table illustrates the effect on net income (loss) and net income (loss) per common share if we had applied the fair value recognition provisions of SFAS No. 123R, "Accounting for Stock-Based Compensation", to employee stock-option compensation.

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

(1) NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

<i>(in thousands, except per share data)</i>	Fiscal Year		
	2005	2004	2003
Net income (loss) as reported	\$ 4,391	\$ 3,498	\$ (2,898)
Less: Compensation expense determined under the fair value method, net of tax	(425)	(816)	(1,057)
Pro forma net income (loss)	\$ 3,966	\$ 2,682	\$ (3,955)
Net income (loss) per common share:			
Basic EPS as reported	\$ 0.41	\$ 0.29	\$ (0.25)
Basic EPS pro forma	\$ 0.37	\$ 0.23	\$ (0.34)
Diluted EPS as reported	\$ 0.39	\$ 0.29	\$ (0.25)
Diluted EPS pro forma	\$ 0.36	\$ 0.22	\$ (0.34)

In determining the compensation cost of the options granted during fiscal years 2005, 2004 and 2003, the fair value of each option grant has been estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Fiscal Year		
	2005	2004	2003
Risk free interest rate	4.1%	4.4%	4.2%
Expected life of options	6.4 years	10 years	10 years
Expected volatility	65.7%	56.7%	102.3%
Dividend yield	0.0%	0.0%	0.0%

In December 2004, the Financial Accounting Standards Board (FASB) issued statement SFAS No. 123R, *Share-Based Payment, an Amendment of FASB Statements No. 123 and 95*. This statement requires companies to recognize compensation cost for share-based awards, including options, granted to employees based on their fair values at the time of grant and would eliminate the use of accounting for employee options under APB Opinion No. 25, *Accounting for Stock Issued to Employees*. On April 14, 2005, the Securities and Exchange Commission announced the adoption of a rule that amends the compliance dates for SFAS No. 123R, and we are required to implement this standard effective with the beginning of our 2006 fiscal year.

SFAS No. 123R permits public companies to adopt its requirements using one of two methods: (1) a "modified prospective" method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS No. 123R for all share-based payments granted after the effective date, and (b) based on the requirements of SFAS No. 123R for all awards granted to employees prior to the effective date of SFAS No. 123R that remain unvested on the effective date; (2) a "modified retrospective" method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS No.

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

(1) NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

123R for purposes of pro forma disclosures either (a) all prior periods presented, or (b) prior interim periods of the year of adoption. We have determined that we will adopt the "modified prospective" method under SFAS No. 123R. While SFAS No. 123R permits entities to continue use of the Black-Scholes option pricing model, SFAS No. 123R also permits the use of a "binomial model." We currently expect that we will continue to utilize the Black-Scholes option pricing model upon the adoption of SFAS No. 123R. Had we adopted SFAS No. 123R in prior periods based on our use of the Black-Scholes option pricing model, the impact of that standard would have approximated the impact of SFAS No. 123R as described above in the disclosure of pro forma net income (loss) and pro forma basic and diluted EPS.

During fiscal 2004, the Compensation Committee determined that all stock incentive awards for employees of the Company, including officers, commencing in 2005, would take the form of performance shares. These performance shares will take the place of the Company's historical practice of issuing stock options as a form of stock incentive.

In accordance with APB Opinion No. 25, we recorded compensation expense related to performance shares each quarter based on the difference between the current market price of our common stock as of period end and the original grant price. This adjustment was recorded each quarter throughout fiscal 2005 and fiscal 2004. Our deferred stock unit plan requires liability treatment and, as such, has been, and will continue to be, accounted for under variable accounting where each period presented will be adjusted based on the current market price of our common stock. Due to the implementation of SFAS No. 123R, beginning in fiscal 2006, all options and performance shares will have fixed accounting treatment based on the market price on the date of grant and will be recorded as compensation expense, and reflected within general and administrative expenses in our consolidated statement of operations.

The table below illustrates the anticipated pre-tax impact for fiscal 2006 as a result of the adoption of SFAS No. 123R, for our current commitment for outstanding stock options and performance shares. These amounts were valued using the Black-Scholes option pricing model.

Pro forma Compensation Expense

<i>(in thousands)</i>	Options	Performance Shares	Total
Q1 2006	\$ 153	\$ 213	\$ 366
Q2 2006	129	213	342
Q3 2006	88	213	301
Q4 2006	74	213	287
	<u>\$ 444</u>	<u>\$ 852</u>	<u>\$1,296</u>

Revenue Recognition – We record restaurant sales at the time food and beverages are served. We record retail sales at the time items are delivered to the customer. We have detailed below our revenue recognition policies for franchise and licensing agreements.

Franchise arrangements – Individual franchise arrangements generally include initial fees, comprised of area development fees and franchise fees, as well as royalty fees based upon a percentage of sales. Our franchisees are granted the right to operate a restaurant using our system for a range of 10 to 20 years. Operating results at franchise-operated restaurants, including restaurant revenue and related expenses, are the responsibility of the franchise owner. Franchisees pay a non-refundable initial fee for each franchised location, and franchise fee which is recognized when we, the franchisor, have performed substantially all of our obligations. The amount of non-refundable initial franchise fee and franchise fee

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

(1) NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

revenue was approximately \$1.6 million, \$2.0 million, and \$1.1 million for fiscal years 2005, 2004, and 2003 respectively. Franchise royalties are recognized when earned as promulgated by SFAS No. 45, "Accounting for Franchise Fee Revenue." Franchisees are required to pay us a continuing royalty equal to a percentage of their net sales on a monthly basis. Franchising royalty revenue was approximately \$10.4 million, \$7.4 million, and \$4.6 million for fiscal 2005, 2004, and 2003, respectively.

Licensing agreements and other income – We have a licensing agreement for our retail products, the initial term of which expires in April 2010 with continual renewal options of five years. Licensing revenue for fiscal years 2005, 2004 and 2003 was approximately \$285,000, \$248,000, and \$209,000, respectively.

Periodically, we provide additional services, beyond the general franchise agreement, to our franchise operations. The cost of these services is billed to the respective franchisee and is generally payable on net 30-day terms. These services include décor and décor installation services. Other income related to these services for fiscal years 2005, 2004 and 2003 was approximately \$820,000, \$571,000, and \$325,000, respectively.

Variable Interest Entities – In January 2003, the FASB issued Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities." This interpretation of Accounting Research Bulletin 51, "Consolidated Financial Statements," addresses consolidation by business enterprises of variable interest entities in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. The interpretation requires that if a business enterprise has a controlling financial interest in a variable interest entity, the assets, liabilities, and results of the activities of the variable interest entity must be included in the consolidated financial statements with those of the business enterprise.

This interpretation applies immediately to variable interest entities created after January 31, 2003 and to variable interest entities in which an enterprise obtains an interest after that date. FIN 46 initially applied to preexisting variable interest entities no later than the beginning of the first interim reporting period beginning after June 15, 2003. However, the implementation deadline was delayed by the FASB to periods ending after March 15, 2004 and the FASB issued a revised "FIN 46R" in December 2003. The Company adopted FIN 46R effective January 1, 2004.

The Company is a franchisor of 88 restaurants as of January 1, 2006, but does not possess any ownership interests in its franchisees and does not provide financial support to franchisees in its typical franchise relationship. Decision-making ability attributed to the franchisee in the typical franchise arrangement relates to controlling day-to-day operations of the franchise. These franchise relationships were not deemed variable interests, and the entities were not consolidated upon adoption of FIN 46.

Recently Issued Accounting Pronouncements – In December 2004, the FASB issued statement SFAS No. 123R, *Share-Based Payment, an Amendment of FASB Statements No. 123 and 95*. This statement requires companies to recognize compensation cost for share-based awards, including options, granted to employees based on their fair values at the time of grant and would eliminate the use of accounting for employee options under APB Opinion No. 25, *Accounting for Stock Issued to Employees*. On April 14, 2005, the Securities and Exchange Commission announced the adoption of a rule that amends the compliance dates for SFAS No. 123R, and we are required to implement this standard effective with the beginning of our 2006 fiscal year.

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

(1) NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

SFAS No. 123R permits public companies to adopt its requirements using one of two methods: (1) a “modified prospective” method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS No. 123R for all share-based payments granted after the effective date, and (b) based on the requirements of SFAS No. 123R for all awards granted to employees prior to the effective date of SFAS No. 123R that remain unvested on the effective date; (2) a “modified retrospective” method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS No. 123R for purposes of pro forma disclosures either (a) all prior periods presented, or (b) prior interim periods of the year of adoption. We have determined that we will adopt the “modified prospective” method under SFAS No. 123R. While SFAS No. 123R permits entities to continue use of the Black-Scholes option pricing model, SFAS No. 123R also permits the use of a “binomial model.” We currently expect that we will continue to utilize the Black-Scholes option pricing model upon the adoption of SFAS No. 123R. Had we adopted SFAS No. 123R in prior periods based on our use of the Black-Scholes option pricing model, the impact of that standard would have approximated the impact of SFAS No. 123R as described above in the disclosure of pro forma net income (loss) and pro forma Basic and Diluted EPS.

In October 2005, the FASB issued Staff Position 13-1, *Accounting for Rental Costs Incurred During a Construction Period*. Generally, the staff position requires companies to expense rental costs incurred during a construction period. As permitted under existing Generally Accepted Accounting Principles, we elected to capitalize rental costs during construction of our Chantilly, Virginia company-owned restaurant through January 1, 2006. We capitalized approximately \$50,000 in rent expense in the fourth quarter of fiscal 2005 associated with our Chantilly, Virginia company-owned restaurant while it was under construction. The Company is required to adopt FASB Staff Position 13-1 on January 2, 2006. We estimate that the impact of the adoption of the staff position will be approximately \$130,000 in additional pre-opening rent expense during fiscal 2006. The amount may vary based on lease terms, restaurant openings and length of construction period. Effective January 2, 2006, in accordance with Staff Position 13-1, “*Accounting for Rental Costs Incurred During a Construction Period*,” we will expense rental costs incurred during a construction period.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*. This new standard replaces APB Opinion No. 20, *Accounting Changes*, and FASB No. 3, *Reporting Accounting Changes in Interim Financial Statements*. Among other changes, SFAS No. 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented on the new accounting principle, unless it is impracticable to do so. SFAS No. 154 also requires that (1) a change in method of depreciating or amortizing a long-lived non-financial asset be accounted for as a change in accounting estimate effected by a change in accounting principle, and (2) correction of errors in previously issued financial statements should be termed a “restatement.” The new standard is effective for us on January 2, 2006. The adoption of the provision of SFAS No. 154 will not have a material impact on our consolidated financial statements.

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

(2) INVENTORIES

Inventories consisted approximately of the following at:

<i>(in thousands)</i>	January 1, 2006	January 2, 2005
Food and beverage	\$ 548	\$ 531
Retail goods	25	63
Smallwares and supplies	1,015	929
	<u>\$ 1,588</u>	<u>\$ 1,523</u>

(3) NOTES RECEIVABLE

Notes receivable consisted approximately of the following at:

<i>(in thousands)</i>	January 1, 2006	January 2, 2005
Famous Ribs of Georgia, LLC Famous Ribs of Snellville, LLC, Famous Ribs of Marietta, LLC, Famous Ribs of Alpharetta, LLC, — \$1,300 amortized over 9 years at 3.27% interest, due November 2012, secured by property and equipment and guaranteed by the franchise owner (our former Chief Executive Officer). Monthly interest only until December 2006.	\$ 1,300	\$ 1,300
Old School BBQ, Inc. – monthly installments of approximately \$5.7 including interest at 9.0%, due November 2012, secured by property and equipment and guaranteed by the franchise owners.	349	384
Michael's First, LLC – monthly installments of approximately \$5.0 including interest at 9.6%, and due May 2010, secured by property and equipment and guaranteed by the franchise owner. This note was repaid in full in 2005.	—	259
Utah BBQ, Inc. – monthly installments of approximately \$0.9 and \$8.6 including interest at 9.5%, due July 2007, secured by property and equipment and guaranteed by the franchise owners.	167	253
Rivervalley BBQ, Inc. – quarterly interest and principal installments of approximately \$22.0 including interest at prime plus 1.50% (8.75% at January 1, 2006 and 6.75% at January 2, 2005), due December 2006, unsecured.	94	169
Rivervalley BBQ, Inc. – Line of credit for up to \$50.0 with monthly interest only through December 2007 with total outstanding balance due December 2007 including interest at prime plus 1.50% (8.75% at January 1, 2006 and 6.75% at January 2, 2005), unsecured.	50	50
Competition BBQ, Inc. – monthly installments of approximately \$0.4 including interest at 7.0% due January 2008, unsecured.	12	14
Total notes receivable	1,972	2,429
Current maturities	(253)	(273)
Long-term portion of notes receivable	<u>\$ 1,719</u>	<u>\$ 2,156</u>

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

(3) NOTES RECEIVABLE (continued)

Future principal payments to be received on notes receivable are approximately as follows:

(in thousands)

<u>Fiscal Year</u>	
2006	\$ 253
2007	305
2008	191
2009	211
2010	199
Thereafter	813
Total	<u>\$1,972</u>

(4) PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consisted approximately of the following at:

<i>(in thousands)</i>	<u>January 1, 2006</u>	<u>January 2, 2005</u>
Prepays	\$ 1,241	\$ 1,107
Interest receivable	33	23
Notes receivable – short-term	253	273
Other	785	—
	<u>\$ 2,312</u>	<u>\$ 1,403</u>

On May 11, 2005, we entered into an asset purchase agreement with a franchisee and its lender pursuant to which we would acquire from the franchisee the assets comprising a franchise-operated location in Florence, Kentucky for a purchase price of approximately \$790,000, payable in part by forgiveness of amounts due to us from the franchisee. Our ultimate basis in the acquired assets would include the purchase price plus the related expenses incurred by us in connection with this acquisition, including bankruptcy-related costs. Because the franchisee had filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code, consummation of the transaction was contingent upon, among other things, approval by the United States Bankruptcy Court. The transaction was scheduled to close subject to the satisfaction of applicable closing conditions upon the issuance of a final and non-appealable approval order from the Court. Subject to consummation of the transaction, we believed the amounts to be recovered from the franchisee could be fully realized and, as a result, as of April 3, 2005 we reclassified \$508,000 from accounts receivable to other current assets on our consolidated balance sheet. Since April 2005, we have realized approximately \$464,000 in additional expenses related to this transaction, and, accordingly, have reflected approximately \$784,000 in other current assets in our consolidated balance sheet as of January 1, 2006. On January 20, 2006 the Court approved the sale of the Florence, Kentucky restaurant to us and on January 23, 2006, we completed our purchase of the restaurant. See Note (19), Subsequent Events.

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

(5) PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS, NET

Property, equipment and leasehold improvements, net, consisted approximately of the following at:

<i>(in thousands)</i>	January 1, 2006	January 2, 2005
Land, buildings and improvements	\$ 46,292	\$ 44,344
Furniture, fixtures and equipment	21,488	19,944
Antiques	2,149	2,228
Construction in progress	2,754	73
Land and building held for sale	1,281	1,281
Accumulated depreciation and amortization	<u>(27,092)</u>	<u>(23,206)</u>
Property, equipment and leasehold improvements, net	<u>\$ 46,872</u>	<u>\$ 44,664</u>

We moved into new corporate office headquarters in Minnetonka, Minnesota on July 25, 2005. Capital expenditures of approximately \$739,000 were spent on the new facility, including the construction of a new test kitchen and training facility in the lower-level of the office facility.

Depreciation and amortization expense on property, equipment and leasehold improvements was approximately \$4.4 million, \$4.5 million and \$4.8 million for fiscal years 2005, 2004 and 2003, respectively.

(6) INVESTMENT IN UNCONSOLIDATED AFFILIATE

Through February 26, 2003, we held an investment in an unconsolidated affiliate which related to our Company's 40% investment in FUMUME, LLC (FUMUME), accounted for on the equity method of accounting. FUMUME operated two Isaac Hayes themed restaurants, one each in Chicago, Illinois and Memphis, Tennessee. In May 2001 our Company contributed (i) \$825,507 in working capital, (ii) the assets comprising Famous Dave's Ribs and Blues Club in Chicago and (iii) certain rights to use Famous Dave's various licensed marks. Although FUMUME was responsible for the payment of the rent for the Chicago club, our Company remained contingently liable under the lease with the landowner. Our Company had an agreement with FUMUME to manage and operate the Chicago club. In addition, FUMUME opened a second club in Memphis in October 2001. Our Company recorded equity in loss of unconsolidated affiliate based on the greater of 40% of the net loss for the years ended December 29, 2002 and December 30, 2001 or 100% of the cash loss our Company was obligated to fund pursuant to the FUMUME operating agreement.

For the year ended December 29, 2002, we recorded 100% of the cash losses of approximately \$1.1 million. We also recorded an impairment reserve of approximately \$4.8 million, of which approximately \$4.6 million was included in Equity in Losses and Impairment Reserve in Unconsolidated Affiliate. The impairment charge reflected our conclusion that we would not be able to recover the carrying value of the investment in the unconsolidated subsidiary.

On February 26, 2003, we disposed of our 40% investment in FUMUME, thereby terminating our obligations to fund cash operating losses. On March 21, 2003, we completed a transaction with the landlord at the Chicago location that terminated our obligations under the lease. Losses of approximately \$2.2 million relating to this equity investment were recorded during the first quarter of fiscal year 2003 and included lease termination fees, rent, property tax and legal fees through April 30, 2003, of approximately \$1.6 million.

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

(7) OTHER CURRENT LIABILITIES

Other current liabilities consist of the following at:

<i>(in thousands)</i>	January 1, 2006	January 2, 2005
Gift cards payable	\$ 1,057	\$ 951
Other liabilities	775	482
Sales tax payable	731	585
Accrued property and equipment purchases	447	—
Deferred franchise fees	245	70
Accrued income taxes	155	156
	<u>\$ 3,410</u>	<u>\$ 2,244</u>

(8) LONG-TERM DEBT

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 and a 3.5 to 1.0 leverage ratio during each fiscal year. As of January 1, 2006 and January 2, 2005, we were in compliance with all of our covenants.

Long-term debt consisted approximately of the following at:

<i>(\$'s in thousands)</i>	January 1, 2006	January 2, 2005
Notes payable – GE Capital Franchise Finance Corporation – monthly installments from approximately \$13 to \$20 including interest between 8.75% and 10.53% due between February 2020 and October 2023, secured by property and equipment.	\$ 10,636	\$ 11,064
Notes payable – GE Capital Franchise Finance Corporation – monthly installments from approximately \$4 to \$10 including interest between 3.80% and 3.89% plus the monthly LIBOR rate (effective rate between 2.59% and 4.39% at January 1, 2006 and 6.39% and 6.48% at January 2, 2005) due between October 2009 and May 2017, secured by property and equipment.	<u>1,216</u>	<u>1,297</u>
Total long-term debt	11,852	12,361
Capital lease obligations	16	113
Less current maturities	<u>(438)</u>	<u>(521)</u>
Long-term debt net of current maturities	<u>\$ 11,430</u>	<u>\$ 11,953</u>

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

(8) LONG-TERM DEBT (continued)

Required principal payments on long-term debt over the next five years, excluding capital lease obligations are as follows:

(in thousands)

<u>Fiscal Year</u>	
2006	\$ 422
2007	467
2008	511
2009	564
2010	569
Thereafter	9,319
Total	<u>\$11,852</u>

(9) FINANCING LEASE OBLIGATION

We have a \$4.5 million financing obligation dated March 31, 1999, involving three existing restaurants as a result of a sale/leaseback transaction. Under this financing, we are obligated to make monthly interest payments of \$42,917 (which increases 4.04% every two years) for a minimum of 20 years. We have the option to purchase the leased restaurants for the greater of \$4.5 million or the fair market value of the properties at the date of purchase at any time or renew the lease for two additional five-year terms. Based upon our continued involvement in the leased property and its purchase option, the transaction has been accounted for as a financing arrangement. Accordingly, the three existing restaurants are included in property, equipment and leasehold improvements and are being depreciated, and a portion of the monthly payments are accounted for as interest expense in the consolidated statements of operations. The principal financing lease obligation payment of \$4.5 million is due in March 2019.

(10) CAPITAL AND OPERATING LEASE OBLIGATIONS

Our assets under capital leases consist of agreements for furniture, equipment and leasehold improvements. Our remaining capital lease outstanding under this agreement bears interest at a rate of 13.0% and expires February 2006. The obligations are secured by the property under lease. Total cost and accumulated amortization of the capital-leased assets were approximately \$4.3 million and \$4.3 million at January 1, 2006 and approximately \$4.3 million and \$4.1 million at January 2, 2005, respectively. We are depreciating the capital lease amounts over their useful life as defined by our capital asset policy.

We have various operating leases for existing and future restaurants and corporate office space with lease terms ranging from 1 to 36 years, including lease options. Eight of the leases require percentage rent of between 3% and 7% of annual gross sales, typically above a natural breakeven point, in addition to the base rent. All of these leases contain provisions for payments of real estate taxes, insurance and common area maintenance costs. Total occupancy lease costs for fiscal years 2005, 2004 and 2003 including rent, common area maintenance costs, real estate taxes and percentage rent, was approximately \$4.9 million, \$4.8 million and \$5.6 million, respectively. Rent expense only (excluding percentage rent) was approximately \$3.2 million, \$3.0 million and \$3.4 million for fiscal years 2005, 2004 and 2003, respectively. Percentage rent was approximately \$102,000, \$138,000 and \$128,000 for fiscal years 2005, 2004 and 2003, respectively.

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

(10) CAPITAL AND OPERATING LEASE OBLIGATIONS (continued)

On December 30, 2004 we signed a lease agreement with Liberty Property Limited Partnership, and moved into new corporate office headquarters in Minnetonka, Minnesota on July 25, 2005. The lease, which commenced in July 2005, is for approximately 26,000 rentable square feet, and is for a term of 97 months, with two-five year renewal options. The minimum rent commitment over the lease term is approximately \$4.6 million.

We have three sublease arrangements with franchisees. These leases are our responsibility, but we have offered them to our franchisees on substantially equal terms to the original leases. These amounts are shown in the table below within the caption "sublease income."

Future minimum lease payments (including renewal options) and capital leases existing at January 1, 2006 were:

<i>(in thousands)</i>	Fiscal Year	Capital and Operating Leases
2006		\$ 3,643
2007		3,707
2008		3,646
2009		3,653
2010		3,690
Thereafter		46,537
Total future minimum lease commitments		\$ 64,876
Less: sublease income		(8,812)
Total operating and capital lease obligations		<u>\$ 56,064</u>

(11) CREDIT FACILITY AND DEBT COVENANTS

On January 28, 2005 we entered into a five-year credit agreement with Wells Fargo Bank, National Association, as administrative agent and lender, which provides us with a revolving credit facility of \$10.0 million. Principal amounts outstanding under the facility will bear interest either at an adjusted Eurodollar rate plus 3.50% or Wells Fargo's prime rate (7.25% at January 1, 2006) plus 2.0%. Unused portions of the facility are subject to an unused facility fee equal to 0.5% of the unused portion. We had no borrowings under this agreement as of January 1, 2006.

The credit agreement is available for general working capital purposes and for the repurchase of shares of Company stock. Under the credit agreement, we granted Wells Fargo a security interest in all of our current and future personal property. The credit agreement contains financial covenants as well as customary affirmative and negative covenants including limitations with respect to indebtedness, liens, investments, distributions, mergers and acquisitions, dispositions of assets and transactions with affiliates of the Company, among others. The credit agreement also includes financial covenants. We were in compliance with all covenants under this credit facility as of January 1, 2006. We anticipate that future 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.

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

(12) RELATED PARTY TRANSACTIONS

Stock Repurchase – In fiscal 2004, we purchased 200,000 shares of stock from our founder and former CEO, Dave Anderson for approximately \$1.6 million at a price equal to fair market value.

Famous Ribs of Georgia, Snellville, Marietta and Alpharetta, LLC – In fiscal 2005 and 2004, we sublet three restaurants to our former President and CEO, Martin O'Dowd, for a total of \$362,000 and \$403,000, respectively, in lease payments for which he reimbursed us an equal amount to offset our rent expense for these three locations. In November 2003, we executed a signed purchase agreement with Mr. O'Dowd to purchase our three Atlanta area restaurants and operate them under franchise agreements. As part of the purchase price, we executed a signed note receivable in the amount of \$1.3 million, with Mr. O'Dowd expected to submit periodic principal and interest payments, to us, over 9 years. This note is interest only until December 2006. In addition, Mr. O'Dowd entered into an area development agreement to develop additional Famous Dave's franchise restaurants in defined areas of Georgia, and transferred his rights to the North Carolina market back to us.

S&D Land Holdings, Inc. – S&D Land Holdings, Inc. (S&D) is a company wholly-owned by our founder and former CEO. Through May 29, 2003, we subleased three real estate units from S&D. On May 30, 2003, we acquired all of S&D's leasehold interest in one of these properties and negotiated a new operating lease directly with the landlord. We paid S&D approximately \$244,000 as full consideration for the assignment of the lease and termination of the sublease. This amount represented the unamortized balance of S&D's original purchase price of the leasehold interest utilizing the 10% interest factor that was assumed by S&D and us on January 1, 1996 at the time the sublease was executed.

On October 28, 2003, S&D assigned its leasehold interest in another one of the properties to one of our franchisees who had previously been subleasing the property from us. As a result of this transaction and pursuant to the terms of the existing agreements, our sub-lease with S&D at that location was also terminated. The third and final real estate lease agreement with S&D terminated on November 5, 2003 when an unrelated party purchased S&D's leasehold interest in the property.

(13) STOCK OPTIONS, PERFORMANCE SHARES, COMMON SHARE REPURCHASES AND WARRANTS

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. We have also granted stock options outside of the Plans in limited situations. Under the Plans, an aggregate of approximately 446,711 shares of our Company's common stock remained available for issuance at January 1, 2006. In general, the stock options we have issued under the Plans vest over a period of 5 years and expire 10 years from the date of grant. The 1995 Stock Option and Compensation Plan expired on December 29, 2005, but will remain in effect until all outstanding incentives granted thereunder have either been satisfied or terminated.

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

(13) STOCK OPTIONS, PERFORMANCE SHARES, COMMON SHARE REPURCHASES AND WARRANTS (continued)

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

<i>(number of options in thousands)</i>	Number of Options	Weighted Average Exercise Price
Options outstanding – December 29, 2002	1,877	\$ 3.56
Granted	450	4.34
Canceled or expired	(357)	5.65
Exercised	(770)	2.64
Options outstanding – December 28, 2003	1,200	3.94
Granted	247	6.32
Canceled or expired	(135)	3.43
Exercised	(217)	3.26
Options previously cancelled	37	6.03
Options outstanding – January 2, 2005	1,132	4.72
Granted	28	10.20
Canceled or expired	(46)	5.79
Exercised	(214)	3.41
Options outstanding – January 1, 2006	<u>900</u>	<u>\$ 5.14</u>
Options exercisable – December 28, 2003	<u>630</u>	<u>\$ 3.28</u>
Options exercisable – January 2, 2005	<u>500</u>	<u>\$ 3.80</u>
Options exercisable – January 1, 2006	<u>539</u>	<u>\$ 4.66</u>
Weighted average fair value of options granted during the year ended December 28, 2003		<u>\$ 1.94</u>
Weighted average fair value of options granted during the year ended January 2, 2005		<u>\$ 4.44</u>
Weighted average fair value of options granted during the year ended January 1, 2006		<u>\$ 10.98</u>

The following table summarizes information about stock options outstanding at January 1, 2006:

(number outstanding and number exercisable in thousands)

Exercise prices	Options				
	Total outstanding		Exercisable		
	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable	Weighted-average exercise price
\$2.00 - \$2.63	70	3.10 years	\$ 2.33	70	\$ 2.33
\$3.09 - \$4.18	353	6.64 years	\$ 3.91	270	\$ 3.91
\$4.82 - \$6.72	397	7.90 years	\$ 5.99	147	\$ 5.99
\$7.54 - \$10.98	80	5.76 years	\$ 8.87	52	\$ 7.92
\$2.00 - \$10.98	<u>900</u>	6.84 years	\$ 5.14	<u>539</u>	\$ 4.66

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

(13) STOCK OPTIONS, PERFORMANCE SHARES, COMMON SHARE REPURCHASES AND WARRANTS (continued)

2005 Stock Incentive Plan

On May 12, 2005, the Company's shareholders approved the adoption of the Famous Dave's of America, Inc. 2005 Stock Incentive Plan (the "2005 Plan"). The purpose of the 2005 Plan is to increase shareholder value and to advance the interests of the Company by furnishing a variety of economic incentives designed to attract, retain and motivate employees, certain key consultants and directors of the Company. The maximum number of shares of common stock which may be issued under the 2005 Plan is 450,000 shares, subject to adjustment. The Compensation Committee of the Company's Board of Directors will administer the 2005 Plan. Awards may be granted to employees (including officers), members of the Board of Directors and consultants or other independent contractors. Awards that may be granted under the 2005 Plan include performance shares, incentive and non-statutory stock options, stock appreciation rights, stock awards, and restricted stock. The 2005 Plan shall remain in effect until all incentives granted under the 2005 Plan have either been satisfied by the issuance of shares of Common Stock, the payment of cash, or have been terminated under the terms of the 2005 Plan and all restrictions imposed on shares of Common Stock in connection with their issuance under the 2005 Plan have lapsed. No incentives may be granted under the 2005 Plan after the tenth anniversary of the date the 2005 Plan was approved by the Shareholders of the Company.

Performance Shares

During fiscal 2004, the Compensation Committee determined that all stock incentive awards for employees of the Company, including officers, commencing in 2005, would take the form of performance shares. These performance shares will take the place of the Company's historical practice of issuing stock options as a form of stock incentive.

We have a program under which management and certain director-level employees may be granted performance shares under the 1995 Stock Option and Compensation Plan, the 1997 Employee Stock Option Plan and the 2005 Stock Incentive Plan, subject to certain contingencies. Issuance of the shares underlying the performance share grants are 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 employee during the entire three-year performance period, the Company will issue the recipient a percentage of the performance shares that is equal to 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 statement of operations throughout the performance period.

We currently have three performance share programs in progress. On February 18, 2004 our Board of Directors awarded 33,500 (subsequently reduced to 31,000 due to an employee's departure) performance share grants to eligible employees for the fiscal 2004-fiscal 2006 timeframe. On February 25, 2005, our Board of Directors awarded 134,920 (subsequently reduced to 126,013 due to an employee's departure) performance share grants to eligible employees for the fiscal 2005-fiscal 2007 timeframe. We recognized approximately \$90,000 and \$142,000, respectively, of compensation expense

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

(13) STOCK OPTIONS, PERFORMANCE SHARES, COMMON SHARE REPURCHASES AND WARRANTS (continued)

in our consolidated statement of operations for fiscal 2005 and fiscal 2004, respectively, related to the fiscal 2004-fiscal 2006 program. We recognized approximately \$473,000 of compensation expense in our consolidated statement of operations for fiscal 2005, related to the fiscal 2005-fiscal 2007 program.

On December 29, 2005, our Board of Directors awarded 83,200 performance share grants to eligible employees for the fiscal 2006-fiscal 2008 timeframe. Because our 2005 fiscal year ended on January 1, 2006, we recognized approximately \$3,000 of compensation expense in our consolidated statement of operations for fiscal 2005, related to the fiscal 2006-fiscal 2008 program.

Deferred Stock Unit Plan

We have an Executive Elective Deferred Stock Unit Plan (Deferred Stock Unit Plan), in which executives can elect to defer all or part of their bonus compensation for a specified period of time. The amount of compensation that is deferred is converted into a number of stock units, as determined by the share price of our common stock on the date of election. Accordingly, we recognize compensation expense throughout the deferral period to the extent that the share price of our common stock increases, and reduce compensation expense throughout the deferral period to the extent that the share price of our common stock decreases.

In accordance with the plan discussed above, on February 18, 2004, David Goronkin, our President and CEO, elected to defer his fiscal 2003 bonus of \$93,750 for a one-year period related to this deferral. For fiscal 2004, we recognized approximately \$68,000 in additional compensation expense. Mr. Goronkin's fiscal 2003 bonus, including the original amount deferred and the appreciation, was paid to him during the first quarter of 2005.

On February 25, 2005, several of our executives elected to defer a portion of their fiscal 2004 bonuses, totaling approximately \$77,000, in accordance with the Deferred Stock Unit Plan discussed above. Two executives deferred for a one-year period and two executives deferred for a two-year period. As a result of our end-of-year stock price being essentially equal to the stock price at the time of the election, we have recognized no expense in our consolidated statement of operations for fiscal 2005, related to this plan. In December 2005, two of our executives elected to defer a portion of their fiscal 2005 bonus, equal to approximately \$56,000, for a one-year timeframe, in accordance with the Deferred Stock Unit Plan discussed above.

Common Share Repurchases

On May 12, 2004, we announced that our Board of Directors approved a program to repurchase up to 1.0 million shares of our common stock. In September 2004, we completed the repurchase of these 1.0 million shares at a total price of approximately \$7.5 million, excluding commissions.

On November 2, 2004, our Board of Directors authorized a second stock repurchase plan that authorized the repurchase of up to 1.0 million shares of our common stock to be repurchased from time-to-time in both the open market or through privately negotiated transactions. As of June 20, 2005 we had completed the repurchase of our 1.0 million share repurchase program. During fiscal 2004, we had purchased 45,100 outstanding shares under this program at an average price of \$9.70, excluding commissions. The remaining 954,900 shares were purchased between January 2005 and June 2005 for approximately \$11.5 million at an average market price of \$11.93, excluding commissions.

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

(13) STOCK OPTIONS, PERFORMANCE SHARES, COMMON SHARE REPURCHASES AND WARRANTS (continued)

Warrants

As part of our acquisition of four restaurants during fiscal year 1999, we issued 200,000 warrants which were set to expire in December 2004. All stock warrants had been exercised or redeemed prior to their expiration. During fiscal 2004, 10,000 of the warrants were exercised at a price of \$6.00 per share and we redeemed the remainder of the warrants for approximately \$197,000 which represents the difference between the original exercise price of the warrants and the closing market price of the Company's stock on the date of the transactions. At December 28, 2003, there were approximately 95,000 of these stock warrants outstanding and exercisable at an average exercise price of \$6.63 per share.

(14) INCOME TAXES

At January 1, 2006, we had cumulative net operating loss carry-forwards of approximately \$9.2 million for federal tax purposes and approximately \$8.6 million for state, which will begin to expire in 2019 if not used. We also had cumulative tax credit carry-forwards of approximately \$2.3 million which, if not used, will begin to expire in 2009.

The following table summarizes the provision (benefit) for income taxes:

<i>(in thousands)</i>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Current:			
Federal	\$ 157	\$ 135	\$ —
State	<u>495</u>	<u>342</u>	<u>—</u>
	<u>652</u>	<u>477</u>	<u>—</u>
Deferred:			
Federal	1,797	1,304	(1,598)
State	<u>251</u>	<u>119</u>	<u>(180)</u>
	<u>2,048</u>	<u>1,423</u>	<u>(1,778)</u>
Total tax provision	<u>\$ 2,700</u>	<u>\$ 1,900</u>	<u>\$ (1,778)</u>

Deferred taxes, detailed below, recognize the impact of temporary differences between the amounts of assets and liabilities recorded for financial statement purposes and such amounts measured in accordance with tax laws. Realization of the net operating loss carry forwards and other deferred tax temporary differences are contingent on future taxable earnings. During fiscal 2005, our deferred tax asset was reviewed for expected utilization using a "more likely than not" approach as required by SFAS No. 109, "Accounting for Income Taxes" by assessing the available positive and negative evidence surrounding its recoverability. We believe that the realization of the deferred tax asset is more likely than not based on our taxable income for fiscal 2005 and fiscal 2004 and based on the expectation that our Company will generate the necessary taxable income in future years.

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

(14) INCOME TAXES (continued)

Our Company's deferred tax assets (liabilities) were as follows at:

<i>(in thousands)</i>	<u>January 1, 2006</u>	<u>January 2, 2005</u>
Current deferred tax assets (liabilities):		
Net operating loss carry-forwards	\$ 3,482	\$ 3,170
Prepays	(459)	(183)
Inventory	(348)	(337)
Other assets	445	692
Total current deferred tax assets	<u>\$ 3,120</u>	<u>\$ 3,342</u>
Long-term deferred tax assets (liabilities):		
Tax credit carryovers	\$ 2,253	\$ 1,772
Net operating loss carry forwards	—	1,488
Property and equipment basis difference	258	1,221
Other	121	(23)
Total Long-term deferred tax assets	<u>\$ 2,632</u>	<u>\$ 4,458</u>

Reconciliation between the statutory rate and the effective tax rate is as follows:

	<u>Fiscal Year</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Federal statutory tax rate	34.0%	34.0%	(34.0)%
State taxes, net of federal benefit	4.3	4.0	(5.0)
Tax effect of permanent differences	2.5	3.4	3.6
Tax effect of tip credit	(5.2)	(6.2)	(6.1)
Other	2.4	—	3.5
Effective tax rate	<u>38.0%</u>	<u>35.2%</u>	<u>(38.0)%</u>

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

(15) SUPPLEMENTAL CASH FLOWS INFORMATION

<i>(in thousands)</i>	Fiscal Year		
	2005	2004	2003
Cash paid for interest	\$ 1,698	\$ 1,727	\$ 1,786
Cash paid for taxes	\$ 409	\$ 14	\$ 6
Non-cash investing and financing activities:			
Reclassification of accounts receivable to other current assets	\$ 508	\$ —	\$ —
Accrued property and equipment purchases	\$ 447	\$ —	\$ 284
Deferred tax asset related to tax benefit of stock options exercised	\$ 244	\$ 303	\$ 443
Property, equipment and leasehold improvements purchased with notes payable	\$ —	\$ —	\$ 1,600
Décor inventory reserve	\$ 34	\$ —	\$ —
Non-cash exercise of warrants	\$ —	\$ 144	\$ —
Reduction of accounts payable related to sale of land and building	\$ 16	\$ —	\$ —

(16) 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 2005, we matched 50.0% of the employee's contribution up to 4.0% of their earnings. Employer matching contributions were approximately \$148,000, \$118,000, and \$96,000 for fiscal years 2005, 2004 and 2003, respectively. There were no discretionary contributions to the plan during fiscal years 2005, 2004 and 2003.

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. The Company matches 50.0% of the first 4.0% contributed and currently pays a declared interest rate of 8.0% on balances outstanding. The Board of Directors administers the plan and could change the rate or any other aspects of the plan at any time.

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

(16) RETIREMENT SAVINGS PLANS (continued)

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.

For the plan year ended December 31, 2005, eligible participants contributed approximately \$120,000 to the Plan and the Company provided matching funds and interest of approximately \$22,000.

(17) SELECTED QUARTERLY DATA-UNAUDITED

The following represents selected quarterly financial information for fiscal years 2005 and 2004 that is unaudited:

(in thousands, except per share data)

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2005	2004	2005	2004	2005	2004	2005	2004
Revenue	\$ 23,496	\$ 22,647	\$ 28,066	\$ 25,404	\$ 26,268	\$ 25,967	\$ 24,524	\$ 25,307
Income from operations	\$ 1,292	\$ 1,284	\$ 3,344	\$ 2,112	\$ 2,481	\$ 2,582	\$ 1,565	\$ 1,387
Net income	\$ 533	\$ 527	\$ 1,905	\$ 996	\$ 1,228	\$ 1,270	\$ 725	\$ 705
Basic net income per common share	\$ 0.05	\$ 0.04	\$ 0.18	\$ 0.08	\$ 0.12	\$ 0.11	\$ 0.07	\$ 0.06
Diluted net income per common share	\$ 0.05	\$ 0.04	\$ 0.17	\$ 0.08	\$ 0.11	\$ 0.11	\$ 0.07	\$ 0.06

(18) LITIGATION

In the normal course of business, the Company is involved in a number of litigation matters that are incidental to the operation of the business. These matters generally include, among other things, collection matters with regard to products distributed by the Company and accounts receivable owed to the Company. The Company currently believes that the resolution of any of these pending matters will not have a material adverse effect on its financial position or liquidity, but an adverse decision in more than one of the matters could be material to its consolidated results of operations.

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

(19) SUBSEQUENT EVENTS

Acquisition of Florence, Kentucky Restaurant – On January 23, 2006, the Company acquired the assets comprising our Florence, Kentucky franchise-operated location from Best Que, LLC, the former franchise operator. The acquisition costs to date for the assets are approximately \$973,000, which were comprised of a cash payment of \$155,000 plus the forgiveness and cancellation of certain debts owed by the Seller to the Company and the expenditure of certain fees and expense including legal and other professional fees in connection with the sale. The acquisition was pursuant to an asset purchase agreement entered into on May 11, 2005, and amended on January 11, 2006. Because the franchisee/seller had previously filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code, the purchase was contingent upon, among other things, the entry of a final and non-appealable order from the United States Bankruptcy Court for the Eastern District of Kentucky approving the sale. On January 20, 2006, a final and non-appealable approval order was entered by the Court authorizing the closing of the transaction. The restaurant is currently being marketed to potential franchisees, and will be operated as a company-owned property until the assets are sold to a new franchise operator. The acquisition costs will be accounted for as assets held for sale within property, equipment and leasehold improvements, net, in our consolidated balance sheet. Because of the potential for additional fees and costs to be incurred related to this transaction, the ultimate cost of acquisition could exceed the costs incurred to date.

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Financial Statement Schedule

SCHEDULE II. VALUATION AND QUALIFYING ACCOUNTS

(In thousands)

	<u>Balance at Beginning of Period</u>	<u>Additions Charged to Costs and Expenses</u>	<u>Deductions Credits to Costs and Expenses and other accounts</u>	<u>Balance at End of Period</u>
Year ended December 28, 2003:				
Allowance for doubtful accounts	\$ 125.0	\$ 90.0	\$ (116.50)	\$ 98.5
Year ended January 2, 2005:				
Allowance for doubtful accounts	\$ 98.5	\$ —	\$ (88.9)	\$ 9.6
Year ended January 1, 2006:				
Allowance for doubtful accounts	\$ 9.6	\$ 65.8	\$ (38.6)	\$ 36.8

EXHIBITS

Exhibit No.	Description
3.1	Articles of Incorporation, incorporated by reference from Exhibit 3.1 to our Registration Statement on Form SB-2 (File No. 333-10675) filed with the Securities and Exchange Commission on August 23, 1996
3.2	Bylaws, incorporated by reference from Exhibit 3.2 to the Registration Statement on Form SB-2 (File No. 333-10675) filed on August 23, 1996
10.1	Trademark License Agreement between Famous Dave's of America, Inc. and Grand Pines Resorts, Inc., incorporated by reference from Exhibit 10.11 to the Registration Statement on Form SB-2 (File No. 333-10675) filed on August 23, 1996
10.2	Loan Agreement, dated as of January 21, 2000, by and between FFCA Acquisition Corporation and MinWood Partners, Inc., incorporated by reference from Exhibit 10.21 to Form 10-Q filed May 16, 2000
10.3	Master Lease, dated as of January 21, 2000, by and between MinWood Partners, Inc. and Famous Dave's of America, Inc., incorporated by reference from Exhibit 10.22 to Form 10-Q filed May 16, 2000
10.4	Loan Agreement, dated as of August 4, 2000, by and between FFCA Funding Corporation and FDA Properties, Inc., incorporated by reference from Exhibit 10.13 to Form 10-K filed March 29, 2001
10.5	Master Lease, dated as of August 4, 2000, by and between FDA Properties, Inc. and Famous Dave's of America, Inc., incorporated by reference from Exhibit 10.5 to Form 10-K filed March 29, 2001
10.6	Amendment No. 1 to Employment Agreement dated September 1, 2001 between Famous Dave's of America, Inc. and Martin J. O'Dowd, incorporated by reference from Exhibit 10.1 to Form 10-Q filed November 14, 2001
10.7	1995 Employee Stock Option Plan (as amended through May 22, 2002), incorporated by reference from Exhibit 10.1 to Form 10-Q filed August 14, 2002
10.8	1997 Stock Option and Compensation Plan (as amended through May 22, 2002), incorporated by reference from Exhibit 10.2 to Form 10-Q filed August 14, 2002
10.9	1998 Director Stock Option Plan (as amended through May 22, 2002), incorporated by reference from Exhibit 10.3 to Form 10-Q filed August 14, 2002
10.10	2005 Stock Incentive Plan
10.11	Executive Elective Deferred Stock Unit Plan, incorporated by reference to Exhibit 10.1 to Form 10-Q filed May 11, 2004

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EXHIBITS (continued)

<u>Exhibit No.</u>	<u>Description</u>
10.12	Credit Agreement by and between Wells Fargo Bank, National Association and Famous Dave's of America, Inc., dated January 28, 2005, incorporated by reference to Exhibit 10.15 to Form 10-K filed March 18, 2005
10.13	Employment Agreement dated February 25, 2005 by and between David Goronkin, incorporated by reference to Exhibit 10.1 to Form 8-K filed March 2, 2005
10.14	Form of Amended and Restated 2004-2006 Performance Share Agreement and schedule of grants under such form, incorporated by reference to Exhibits 10.1 and 10.2 to Form 10-Q filed May 13, 2005
10.15	Form of Amended and Restated 2005-2007 Performance Share Agreement and Schedule of grants under such form, incorporated by reference to Exhibits 10.3 and 10.4 to Form 10-Q filed May 13, 2005
10.16	Famous Dave's of America, Inc. Non-Qualified Deferred Compensation Plan, incorporated by reference to Exhibit 10.4 to Form 8-K filed March 2, 2005
10.17	First Amended and Restated Non-Qualified Deferred Compensation Plan, dated February 25, 2005
10.18	Form of 2006-2008 Performance Share Agreement and schedule of grants under such form, incorporated by reference to Exhibits 10.1 and 10.2 to Form 8-K filed December 29, 2005
21.0	Subsidiaries of Famous Dave's of America, Inc.
23.1	Consent of Grant Thomton LLP
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 pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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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: March 17, 2006

By: /s/ David Goronkin
David Goronkin
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 17, 2006 by the following persons on behalf of the Registrant, in the capacities indicated.

<u>Signature</u>	<u>Title</u>
<u>/s/ David Goronkin</u> David Goronkin	President, Chief Executive Officer, and Director (principal executive officer)
<u>/s/ Diana Garvis Purcel</u> Diana Garvis Purcel	Chief Financial Officer and Secretary (principal financial and accounting officer)
<u>/s/ K. Jeffrey Dahlberg</u> K. Jeffrey Dahlberg	Director
<u>/s/ F. Lane Cardwell, Jr.</u> F. Lane Cardwell, Jr.	Director
<u>/s/ Mary L. Jeffries</u> Mary L. Jeffries	Director
<u>/s/ Richard L. Monfort</u> Richard L. Monfort	Director
<u>/s/ Dean A. Riesen</u> Dean A. Riesen	Director

FAMOUS DAVE'S OF AMERICA, INC.
2005 STOCK INCENTIVE PLAN

1. Purpose. The purpose of the 2005 Stock Incentive Plan (the "Plan") of Famous Dave's of America, Inc. (the "Company") is to increase shareholder value and to advance the interests of the Company by furnishing a variety of economic incentives ("Incentives") designed to attract, retain and motivate employees, certain key consultants and directors of the Company. Incentives may consist of opportunities to purchase or receive shares of Common Stock, \$0.01 par value per share, of the Company ("Common Stock") on terms determined under this Plan.
2. Administration. The Plan shall be administered by the board of directors of the Company (the "Board of Directors") or by a stock option or compensation committee (the "Committee") of the Board of Directors. The Committee shall consist of not less than two directors of the Company and shall be appointed from time to time by the Board of Directors. Each member of the Committee shall be (i) a "non-employee director" within the meaning of Rule 16b-3 of the Securities Exchange Act of 1934 (including the regulations promulgated thereunder, the "1934 Act") (a "Non-Employee Director"), and (ii) shall be an "outside director" within the meaning of Section 162(m) under the Internal Revenue Code of 1986, as amended (the "Code") and the regulations promulgated thereunder. The Committee shall have complete authority to award Incentives under the Plan, to interpret the Plan, and to make any other determination which it believes necessary and advisable for the proper administration of the Plan. The Committee's decisions and matters relating to the Plan shall be final and conclusive on the Company and its participants. If at any time there is no stock option or compensation committee, the term "Committee", as used in the Plan, shall refer to the Board of Directors.
3. Eligible Participants. Officers of the Company, employees of the Company or its subsidiaries, members of the Board of Directors, and consultants or other independent contractors who provide services to the Company or its subsidiaries shall be eligible to receive Incentives under the Plan when designated by the Committee. Participants may be designated individually or by groups or categories (for example, by pay grade) as the Committee deems appropriate. Participation by officers of the Company or its subsidiaries and any performance objectives relating to such officers must be approved by the Committee. Participation by others and any performance objectives relating to others may be approved by groups or categories (for example, by pay grade) and authority to designate participants who are not officers and to set or modify such targets may be delegated.
4. Types of Incentives. Incentives under the Plan may be granted in any one or a combination of the following forms: (a) performance shares (section 6); (b) incentive stock options and non-statutory stock options (section 7); (c) stock appreciation rights ("SARs") (section 8); (d) stock awards (section 9); (e) restricted stock (section 9).
5. Shares Subject to the Plan.
 - 5.1. Number of Shares. Subject to adjustment as provided in Section 10.6, the number of shares of Common Stock which may be issued under the Plan shall not exceed 450,000 shares of Common Stock. Shares of Common Stock that are issued under the Plan or are subject to outstanding Incentives will be applied to reduce the maximum number of shares of Common Stock remaining available for issuance under the Plan.
 - 5.2. Cancellation. To the extent that cash in lieu of shares of Common Stock is delivered upon the exercise of a SAR pursuant to Section 8.4, the Company shall be deemed, for purposes of applying the limitation on the number of shares, to have issued the greater of the number of shares of Common Stock which it was entitled to issue upon such exercise or on the exercise of any related option. In the event that a stock option or SAR granted hereunder expires or is terminated or canceled unexercised as to any shares of Common Stock, such shares may again be issued under the Plan either pursuant to stock options, SARs or otherwise. In the event that shares of Common Stock

are issued as performance shares, restricted stock or pursuant to a stock award and thereafter are forfeited or reacquired by the Company pursuant to rights reserved upon issuance thereof, such forfeited and reacquired shares may again be issued under the Plan, either as performance shares, restricted stock, pursuant to stock awards or otherwise.

- 5.3. Type of Common Stock. Common Stock issued under the Plan in connection with stock options, SARs, performance shares, restricted stock or stock awards, may be authorized and unissued shares or treasury stock, as designated by the Committee.
6. Performance Shares. A performance share consists of an award which shall be paid in shares of Common Stock, as described below. The grant of a performance share shall be subject to such terms and conditions as the Committee deems appropriate, including the following:
- 6.1. Performance Objectives. Each performance share will be subject to performance objectives for the Company or one of its operating units to be achieved by the end of a specified period, which period shall be at least one year in length unless the Committee determines in its discretion that a shorter period is warranted. The number of performance shares granted shall be determined by the Committee and may be subject to such terms and conditions, as the Committee shall determine. If the performance objectives are achieved, each participant will be paid in shares of Common Stock. If such objectives are not met, each grant of performance shares may provide for lesser payments in accordance with formulas established in the award.
- 6.2. Not Shareholder. The grant of performance shares to a participant shall not create any rights in such participant as a shareholder of the Company, until the payment of shares of Common Stock with respect to an award.
- 6.3. No Adjustments. No adjustment shall be made in performance shares granted on account of cash dividends which may be paid or other rights which may be issued to the holders of Common Stock prior to the end of any period for which performance objectives were established.
- 6.4. Expiration of Performance Share. If any participant's employment or consulting engagement with the Company is terminated for any reason other than normal retirement, death or disability prior to the achievement of the participant's stated performance objectives, all of the participant's rights for the performance shares shall expire and terminate unless otherwise determined by the Committee. In the event of termination of employment or consulting by reason of death, disability, or normal retirement, the Committee, in its own discretion may determine which portions, if any, of the performance shares should be paid to the participant.
7. Stock Options. A stock option is a right to purchase shares of Common Stock from the Company. Each stock option granted by the Committee under this Plan shall be subject to the following terms and conditions:
- 7.1. Price. The option price per share shall be determined by the Committee, subject to adjustment under Section 10.6; provided that the option price shall be not less than the Fair Market Value of the Common Stock subject to the option on the date of grant.
- 7.2. Number. The number of shares of Common Stock subject to the option shall be determined by the Committee, subject to adjustment as provided in Section 10.6. The number of shares of Common Stock subject to a stock option shall be reduced in the same proportion that the holder thereof exercises a SAR if any SAR is granted in conjunction with or related to the stock option. Notwithstanding the foregoing, no person shall receive grants of Stock Options under the Plan that exceed 75,000 shares during any one fiscal year of the Company.
- 7.3. Duration and Time for Exercise. Subject to earlier termination as provided in Section 10.4, the term of each stock option shall be determined by the Committee but shall not exceed ten years and one day from the date of grant. Each stock option shall become exercisable at such time or times during its term as shall be determined by the Committee at the time of grant, but shall not become exercisable more quickly than ratably over three years unless the Committee determines in its

discretion that a faster schedule is warranted. The Committee may accelerate the exercisability of any stock option. Subject to the foregoing and with the approval of the Committee, all or any part of the shares of Common Stock with respect to which the right to purchase has accrued may be purchased by the Company at the time of such accrual or at any time or times thereafter during the term of the option at such price and on such terms as the Company and the optionee shall mutually agree; *provided, however*, that any shares so repurchased shall not be available for re-issuance under the Plan.

- 7.4. Manner of Exercise. A stock option may be exercised, in whole or in part, by giving written notice to the Company, specifying the number of shares of Common Stock to be purchased and accompanied by the full purchase price for such shares. The option price shall be payable (a) in United States dollars upon exercise of the option and may be paid by cash, uncertified or certified check or bank draft; (b) at the discretion of the Committee, by delivery of shares of Common Stock in payment of all or any part of the option price, which shares shall be valued for this purpose at the Fair Market Value on the date such option is exercised; or (c) at the discretion of the Committee, by instructing the Company to withhold from the shares of Common Stock issuable upon exercise of the stock option shares of Common Stock in payment of all or any part of the exercise price and/or any related withholding tax obligations, which shares shall be valued for this purpose at the Fair Market Value or in such other manner as may be authorized from time to time by the Committee. The shares of Common Stock delivered by the participant pursuant to Section 6.4(b) must have been held by the participant for a period of not less than six months prior to the exercise of the option, unless otherwise determined by the Committee. Prior to the issuance of shares of Common Stock upon the exercise of a stock option, a participant shall have no rights as a shareholder.
- 7.5. Incentive Stock Options. Notwithstanding anything in the Plan to the contrary, the following additional provisions shall apply to the grant of stock options which are intended to qualify as Incentive Stock Options (as such term is defined in Section 422 of the Code):
- (a) The aggregate Fair Market Value (determined as of the time the option is granted) of the shares of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by any participant during any calendar year (under all of the Company's plans) shall not exceed \$100,000. The determination will be made by taking incentive stock options into account in the order in which they were granted. If such excess only applies to a portion of an Incentive Stock Option, the Committee, in its discretion, will designate which shares will be treated as shares to be acquired upon exercise of an Incentive Stock Option.
 - (b) Any Incentive Stock Option certificate authorized under the Plan shall contain such other provisions as the Committee shall deem advisable, but shall in all events be consistent with and contain all provisions required in order to qualify the options as Incentive Stock Options.
 - (c) All Incentive Stock Options must be granted within ten years from the earlier of the date on which this Plan was adopted by Board of Directors or the date this Plan was approved by the shareholders.
 - (d) Unless sooner exercised, all Incentive Stock Options shall expire no later than 10 years after the date of grant.
 - (e) The option price for Incentive Stock Options shall be not less than the Fair Market Value of the Common Stock subject to the option on the date of grant.
 - (f) If Incentive Stock Options are granted to any participant who, at the time such option is granted, would own (within the meaning of Section 422 of the Code) stock possessing more than 10% of the total combined voting power of all classes of stock of the employer corporation or of its parent or subsidiary corporation, (i) the option price for such Incentive Stock Options shall be not less than 110% of the Fair Market Value of the Common Stock subject to the option on the date of grant and (ii) such Incentive Stock Options shall expire no later than five years after the date of grant.

8. Stock Appreciation Rights. A SAR is a right to receive, without payment to the Company, a number of shares of Common Stock, cash or any combination thereof, the amount of which is determined pursuant to the formula set forth in Section 8.4. A SAR may be granted (a) with respect to any stock option granted under this Plan, either concurrently with the grant of such stock option or at such later time as determined by the Committee (as to all or any portion of the shares of Common Stock subject to the stock option), or (b) alone, without reference to any related stock option. Each SAR granted by the Committee under this Plan shall be subject to the following terms and conditions:
- 8.1. Number. Each SAR granted to any participant shall relate to such number of shares of Common Stock as shall be determined by the Committee, subject to adjustment as provided in Section 10.6. In the case of a SAR granted with respect to a stock option, the number of shares of Common Stock to which the SAR pertains shall be reduced in the same proportion that the holder of the option exercises the related stock option.
- 8.2. Duration. Subject to earlier termination as provided in Section 10.4, the term of each SAR shall be determined by the Committee but shall not exceed ten years and one day from the date of grant. Unless otherwise provided by the Committee, each SAR shall become exercisable at such time or times, to such extent and upon such conditions as the stock option, if any, to which it relates is exercisable. The Committee may in its discretion accelerate the exercisability of any SAR.
- 8.3. Exercise. A SAR may be exercised, in whole or in part, by giving written notice to the Company, specifying the number of SARs which the holder wishes to exercise. Upon receipt of such written notice, the Company shall, within 90 days thereafter, deliver to the exercising holder certificates for the shares of Common Stock or cash or both, as determined by the Committee, to which the holder is entitled pursuant to Section 8.4.
- 8.4. Payment. Subject to the right of the Committee to deliver cash in lieu of shares of Common Stock (which, as it pertains to officers and directors of the Company, shall comply with all requirements of the 1934 Act), the number of shares of Common Stock which shall be issuable upon the exercise of a SAR shall be determined by dividing:
- (a) the number of shares of Common Stock as to which the SAR is exercised multiplied by the amount of the appreciation in such shares (for this purpose, the "appreciation" shall be the amount by which the Fair Market Value of the shares of Common Stock subject to the SAR on the exercise date exceeds (1) in the case of a SAR related to a stock option, the purchase price of the shares of Common Stock under the stock option or (2) in the case of a SAR granted alone, without reference to a related stock option, an amount which shall be determined by the Committee at the time of grant, subject to adjustment under Section 10.6); by
 - (b) the Fair Market Value of a share of Common Stock on the exercise date.
- In lieu of issuing shares of Common Stock upon the exercise of a SAR, the Committee may elect to pay the holder of the SAR cash equal to the Fair Market Value on the exercise date of any or all of the shares which would otherwise be issuable. No fractional shares of Common Stock shall be issued upon the exercise of a SAR; instead, the holder of the SAR shall be entitled to receive a cash adjustment equal to the same fraction of the Fair Market Value of a share of Common Stock on the exercise date or to purchase the portion necessary to make a whole share at its Fair Market Value on the date of exercise.
9. Stock Awards and Restricted Stock. A stock award consists of the transfer by the Company to a participant of shares of Common Stock, without other payment therefor, as additional compensation for services to the Company. A share of restricted stock consists of shares of Common Stock which are sold or transferred by the Company to a participant at a price determined by the Committee (which price shall be at least equal to the minimum price required by applicable law for the issuance of a share of Common Stock) and subject to restrictions on their sale or other transfer by the participant. The transfer of Common

Stock pursuant to stock awards and the transfer and sale of restricted stock shall be subject to the following terms and conditions:

- 9.1. Number of Shares. The number of shares to be transferred or sold by the Company to a participant pursuant to a stock award or as restricted stock shall be determined by the Committee.
- 9.2. Sale Price. The Committee shall determine the price, if any, at which shares of restricted stock shall be sold to a participant, which may vary from time to time and among participants and which may be below the Fair Market Value of such shares of Common Stock at the date of sale.
- 9.3. Restrictions. All shares of restricted stock transferred or sold hereunder shall be subject to such restrictions as the Committee may determine which restrictions shall lapse over a period not less than three years from the date of grant as determined by the Committee, including, without limitation any or all of the following:
 - (a) a prohibition against the sale, transfer, pledge or other encumbrance of the shares of restricted stock, such prohibition to lapse at such time or times as the Committee shall determine (whether in annual or more frequent installments, at the time of the death, disability or retirement of the holder of such shares, or otherwise);
 - (b) a requirement that the holder of shares of restricted stock forfeit, or (in the case of shares sold to a participant) resell back to the Company at his or her cost, all or a part of such shares in the event of termination of his or her employment or consulting engagement during any period in which such shares are subject to restrictions;
 - (c) such other conditions or restrictions as the Committee may deem advisable.
- 9.4. Escrow. In order to enforce the restrictions imposed by the Committee pursuant to Section 9.3, the participant receiving restricted stock shall enter into an agreement with the Company setting forth the conditions of the grant. Shares of restricted stock shall be registered in the name of the participant and deposited, together with a stock power endorsed in blank, with the Company. Each such certificate shall bear a legend in substantially the following form:

The transferability of this certificate and the shares of Common Stock represented by it are subject to the terms and conditions (including conditions of forfeiture) contained in the 2005 Stock Incentive Plan of Famous Dave's of America, Inc. (the "Company"), and an agreement entered into between the registered owner and the Company. A copy of the Plan and the agreement is on file in the office of the secretary of the Company.
- 9.5. End of Restrictions. Subject to Section 10.5, at the end of any time period during which the shares of restricted stock are subject to forfeiture and restrictions on transfer, such shares will be delivered free of all restrictions to the participant or to the participant's legal representative, beneficiary or heir.
- 9.6. Shareholder. Subject to the terms and conditions of the Plan, each participant receiving restricted stock shall have all the rights of a shareholder with respect to shares of stock during any period in which such shares are subject to forfeiture and restrictions on transfer, including without limitation, the right to vote such shares. Dividends paid in cash or property other than Common Stock with respect to shares of restricted stock shall be paid to the participant currently.

10. General.

- 10.1. Effective Date. The Plan will become effective upon its approval by the Company's shareholders. Unless approved by the shareholders within one year after the date of the Plan's adoption by the Board of Directors, the Plan shall not be effective for any purpose.
- 10.2. Duration. The Plan shall remain in effect until all Incentives granted under the Plan have either been satisfied by the issuance of shares of Common Stock or the payment of cash or been terminated under the terms of the Plan and all restrictions imposed on shares of Common Stock in

connection with their issuance under the Plan have lapsed. No Incentives may be granted under the Plan after the tenth anniversary of the date the Plan is approved by the shareholders of the Company.

- 10.3. Non-transferability of Incentives. No stock option, SAR, restricted stock or performance award may be transferred, pledged or assigned by the holder thereof (except, in the event of the holder's death, by will or the laws of descent and distribution to the limited extent provided in the Plan or the Incentive), or pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act, or the rules thereunder, and the Company shall not be required to recognize any attempted assignment of such rights by any participant. Notwithstanding the preceding sentence, stock options may be transferred by the holder thereof to Employee's spouse, children, grandchildren or parents (collectively, the "Family Members"), to trusts for the benefit of Family Members, to partnerships or limited liability companies in which Family Members are the only partners or shareholders, or to entities exempt from federal income taxation pursuant to Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. During a participant's lifetime, a stock option may be exercised only by him or her, by his or her guardian or legal representative or by the transferees permitted by the preceding sentence.
- 10.4. Effect of Termination or Death. In the event that a participant ceases to be an employee of or consultant to the Company for any reason, including death or disability, any Incentives may be exercised or shall expire at such times as may be determined by the Committee.
- 10.5. Additional Condition. Notwithstanding anything in this Plan to the contrary: (a) the Company may, if it shall determine it necessary or desirable for any reason, at the time of award of any Incentive or the issuance of any shares of Common Stock pursuant to any Incentive, require the recipient of the Incentive, as a condition to the receipt thereof or to the receipt of shares of Common Stock issued pursuant thereto, to deliver to the Company a written representation of present intention to acquire the Incentive or the shares of Common Stock issued pursuant thereto for his or her own account for investment and not for distribution; and (b) if at any time the Company further determines, in its sole discretion, that the listing, registration or qualification (or any updating of any such document) of any Incentive or the shares of Common Stock issuable pursuant thereto is necessary on any securities exchange or under any federal or state securities or blue sky law, or that the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with the award of any Incentive, the issuance of shares of Common Stock pursuant thereto, or the removal of any restrictions imposed on such shares, such Incentive shall not be awarded or such shares of Common Stock shall not be issued or such restrictions shall not be removed, as the case may be, in whole or in part, unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company.
- 10.6. Adjustment. In the event of any recapitalization, stock dividend, stock split, combination of shares or other change in the Common Stock, the number of shares of Common Stock then subject to the Plan, including shares subject to restrictions, options or achievements of performance shares, shall be adjusted in proportion to the change in outstanding shares of Common Stock. In the event of any such adjustments, the purchase price of any option, the performance objectives of any Incentive, and the shares of Common Stock issuable pursuant to any Incentive shall be adjusted as and to the extent appropriate, in the discretion of the Committee, to provide participants with the same relative rights before and after such adjustment.
- 10.7. Incentive Plans and Agreements. Except in the case of stock awards, the terms of each Incentive shall be stated in a plan or agreement approved by the Committee. The Committee may also determine to enter into agreements with holders of options to reclassify or convert certain outstanding options, within the terms of the Plan, as Incentive Stock Options or as non-statutory stock options and in order to eliminate SARs with respect to all or part of such options and any other previously issued options.

- 10.8. Withholding.
- (a) The Company shall have the right to withhold from any payments made under the Plan or to collect as a condition of payment, any taxes required by law to be withheld. At any time when a participant is required to pay to the Company an amount required to be withheld under applicable income tax laws in connection with a distribution of Common Stock or upon exercise of an option or SAR, the participant may satisfy this obligation in whole or in part by electing (the "Election") to have the Company withhold from the distribution shares of Common Stock having a value up to the minimum amount of withholding taxes required to be collected on the transaction. The value of the shares to be withheld shall be based on the Fair Market Value of the Common Stock on the date that the amount of tax to be withheld shall be determined ("Tax Date").
 - (b) Each Election must be made prior to the Tax Date. The Committee may disapprove of any Election, may suspend or terminate the right to make Elections, or may provide with respect to any Incentive that the right to make Elections shall not apply to such Incentive. An Election is irrevocable.
- 10.9. No Continued Employment, Engagement or Right to Corporate Assets. No participant under the Plan shall have any right, because of his or her participation, to continue in the employ of the Company for any period of time or to any right to continue his or her present or any other rate of compensation. Nothing contained in the Plan shall be construed as giving an employee, a consultant, such persons' beneficiaries or any other person any equity or interests of any kind in the assets of the Company or creating a trust of any kind or a fiduciary relationship of any kind between the Company and any such person.
- 10.10. Deferral Permitted. Payment of cash or distribution of any shares of Common Stock to which a participant is entitled under any Incentive shall be made as provided in the Incentive. Payment may be deferred at the option of the participant if provided in the Incentive.
- 10.11. Amendment of the Plan. The Board may amend or discontinue the Plan at any time. However, no such amendment or discontinuance shall adversely change or impair, without the consent of the recipient, an Incentive previously granted. Further, no such amendment shall, without approval of the shareholders of the Company, (a) increase the maximum number of shares of Common Stock which may be issued to all participants under the Plan, (b) change or expand the types of Incentives that may be granted under the Plan, (c) change the class of persons eligible to receive Incentives under the Plan, or (d) materially increase the benefits accruing to participants under the Plan.
- 10.12. Sale, Merger, Exchange or Liquidation. Unless otherwise provided in the agreement for an Incentive, in the event of an acquisition of the Company through the sale of substantially all of the Company's assets or through a merger, exchange, reorganization or liquidation of the Company or a similar event as determined by the Committee (collectively a "transaction"), the Committee shall be authorized, in its sole discretion, to take any and all action it deems equitable under the circumstances, including but not limited to any one or more of the following:
- (1) providing that the Plan and all Incentives shall terminate and the holders of (i) all outstanding vested options shall receive, in lieu of any shares of Common Stock they would be entitled to receive under such options, such stock, securities or assets, including cash, as would have been paid to such participants if their options had been exercised and such participant had received Common Stock immediately prior to such transaction (with appropriate adjustment for the exercise price, if any), (ii) performance shares and/or SARs that entitle the participant to receive Common Stock shall receive, in lieu of any shares of Common Stock each participant was entitled to receive as of the date of the transaction pursuant to the terms of such Incentive, if any, such stock, securities or assets, including cash, as would have been paid to such participant if such Common Stock had been issued to and

held by the participant immediately prior to such transaction, and (iii) any Incentive under this Agreement which does not entitle the participant to receive Common Stock shall be equitably treated as determined by the Committee.

- (2) providing that participants holding outstanding vested Common Stock based Incentives shall receive, with respect to each share of Common Stock issuable pursuant to such Incentives as of the effective date of any such transaction, at the determination of the Committee, cash, securities or other property, or any combination thereof, in an amount equal to the excess, if any, of the Fair Market Value of such Common Stock on a date within ten days prior to the effective date of such transaction over the option price or other amount owed by a participant, if any, and that such Incentives shall be cancelled, including the cancellation without consideration of all options that have an exercise price below the per share value of the consideration received by the Company in the transaction.
- (3) providing that the Plan (or replacement plan) shall continue with respect to Incentives not cancelled or terminated as of the effective date of such transaction and provide to participants holding such Incentives the right to earn their respective Incentives on a substantially equivalent basis (taking into account the transaction and the number of shares or other equity issued by such successor entity) with respect to the equity of the entity succeeding the Company by reason of such transaction.
- (4) providing that all unvested, unearned or restricted Incentives, including but not limited to restricted stock for which restrictions have not lapsed as of the effective date of such transaction, shall be void and deemed terminated, or, in the alternative, for the acceleration or waiver of any vesting, earning or restrictions on any Incentive.

The Board may restrict the rights of participants or the applicability of this Section 10.12 to the extent necessary to comply with Section 16(b) of the Securities Exchange Act of 1934, the Internal Revenue Code or any other applicable law or regulation. The grant of an Incentive award pursuant to the Plan shall not limit in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge, exchange or consolidate or to dissolve, liquidate, sell or transfer all or any part of its business or assets.

- 10.13. Definition of Fair Market Value. For purposes of this Plan, the "Fair Market Value" of a share of Common Stock at a specified date shall, unless otherwise expressly provided in this Plan, be the amount which the Committee or the Board of Directors determines in good faith to be 100% of the fair market value of such a share as of the date in question; provided, however, that notwithstanding the foregoing, if such shares are listed on a U.S. securities exchange or are quoted on the Nasdaq National Market or Nasdaq Small-Cap Market ("Nasdaq"), then Fair Market Value shall be determined by reference to the last sale price of a share of Common Stock on such U.S. securities exchange or Nasdaq on the applicable date. If such U.S. securities exchange or Nasdaq is closed for trading on such date, or if the Common Stock does not trade on such date, then the last sale price used shall be the one on the date the Common Stock last traded on such U.S. securities exchange or Nasdaq.

FAMOUS DAVE'S OF AMERICA, INC.
FIRST AMENDED AND RESTATED NON-QUALIFIED DEFERRED
COMPENSATION PLAN

THIS FIRST AMENDED AND RESTATED NON-QUALIFIED DEFERRED COMPENSATION PLAN (the "Plan") is adopted effective as of the 25th day of February 2005, by Famous Dave's of America, Inc., a Minnesota corporation (the "Company"), as follows:

RECITALS

The Company established the Famous Dave's of America, Inc. NON-QUALIFIED DEFERRED COMPENSATION PLAN effective February 25, 2005 to provide additional retirement benefits and income tax deferral opportunities for eligible employees; and

The Company wishes to amend and restate the Famous Dave's of America, Inc. Non-qualified Deferred Compensation Plan as the FIRST AMENDED AND RESTATED NON-QUALIFIED DEFERRED COMPENSATION PLAN in order to comply with the Internal Revenue Code and the Regulations promulgated thereunder; and

The Company intends that the Plan shall at all times be administered and interpreted in such a manner as to constitute an unfunded nonqualified deferred compensation plan for a select group of management or highly compensated employees and to qualify for all available exemptions from the provisions of ERISA.

NOW, THEREFORE, the Company hereby adopts the following Plan.

ARTICLE 1
DEFINITIONS

Certain words and phrases are defined when first used in later sections of this plan. Whenever any words are used herein in the masculine, they shall be construed as though they were in the feminine in all cases where they would so apply; and whenever any words are used herein in the singular or in the plural, they shall be construed as though they were used in the plural or the singular, as the case may be, in all cases where they would so apply. In addition, the following words and phrases when used herein, unless the context clearly requires otherwise, shall have the following respective meanings:

1.1 **Accrued Benefit.** The sum of all of a Participant's Deferral Accounts.

1.2 **Affiliate.** Any corporation, partnership, joint venture, association, or similar organization or entity, which is a member of a controlled group of companies which includes, or which is under common control with, the Company under Section 414 of the Code.

1.3 **Beneficiary.** The persons or entities determined in accordance with the following provisions.

1.3.1 If a Participant files a duly executed Beneficiary Designation Form with the Company or Plan Administrator as provided above, Beneficiary shall mean the Primary Beneficiary designated on such Beneficiary Designation Form if such Primary Beneficiary survives the Participant by at least thirty (30) days, and shall mean the Contingent Beneficiary, if any, designated on such Beneficiary Designation Form if the Primary Beneficiary does not survive the Participant by at least thirty (30) days.

1.3.2 If all of the Primary Beneficiaries are deceased on any payment date provided in the Plan, the Contingent Beneficiaries shall be the Beneficiary and all payments due under this Plan which are payable to a Participant's Beneficiary shall be paid to the Participant's Contingent Beneficiary, if any.

1.3.3 If all of the Primary Beneficiaries and all of the Contingent Beneficiaries are deceased on any payment date provided in the Plan, then the Beneficiary shall be the legal representative of the Participant's estate and all payments due under this Plan which are payable to a Participant's Beneficiary shall be paid to the legal representative of the Participant's estate.

1.3.4 If no such duly executed Beneficiary Designation Form has been received by the Company, the Beneficiary shall be the Participant's surviving Spouse, if any, provided neither the Participant nor the Participant's Spouse has filed for divorce or legal separation. If the Participant is not survived by a Spouse or if the Participant or Participant's Spouse has filed for divorce, the Participant's descendants by right of representation shall be the Beneficiaries. If there are no surviving descendants, the legal representative of the Participant's estate shall be the Beneficiary.

1.4 **Beneficiary Designation Form.** The form attached hereto as Exhibit B or such other substantially similar form as the Plan Administrator acknowledges in writing as an acceptable substitute, which is duly executed by the Participant and received by the Company or the Plan Administrator prior to the Participant's death.

1.5 **Board.** The "Board" means the Board of Directors of the Company.

1.6 **Change in Control Event.** Except as otherwise provided in applicable Regulations, a Change in Control Event is the occurrence of any of the events described in Sections 1.6.1, 1.6.2, or 1.6.3, provided that, such event relate to (i) the corporation for whom the Participant is performing services at the time of the Change in Control Event, (ii) the corporation that is liable for the payment of the deferred compensation (or all corporations liable for the payment if more than one corporation is liable), or (iii) a corporation that is a majority shareholder of a corporation identified in (i) or (ii), or any corporation in a chain of corporations in which each corporation is a majority shareholder of another corporation in the chain, ending in a corporation identified in (i) or (ii).

1.6.1 A Change In The Ownership Of A Corporation.

1.6.1.1 A Change In The Ownership Of A Corporation occurs on the date that any one (1) person, or more than one (1) person acting as a group (as defined in Section 1.6.1.2), acquires ownership of stock of the corporation that, together with stock held by such person or group, constitutes more than fifty percent (50%) of the total fair market value or total voting power of the stock of such corporation. However, if any one (1)

person or more than one (1) person acting as a group, is considered to own more than fifty percent (50%) of the total fair market value or total voting power of the stock of a corporation, the acquisition of additional stock by the same person or persons is not considered to cause a change in the ownership of the corporation (or to cause a change in the effective control of the corporation (within the meaning of Section 1.6.2)). An increase in the percentage of stock owned by any one (1) person, or persons acting as a group, as a result of a transaction in which the corporation acquires its stock in exchange for property will be treated as an acquisition of stock for purposes of this section. This Section 1.6.1 applies only when there is a transfer of stock of a corporation (or issuance of stock of a corporation) and stock in such corporation remains outstanding after the transaction (see Section 1.6.3 for rules regarding the transfer of assets of a corporation).

1.6.1.2 For purposes of this Section 1.6.1, persons will not be considered to be acting as a group solely because they purchase or own stock of the same corporation at the same time, or as a result of the same public offering. However, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the corporation. If a person, including an entity, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock, or similar transaction, such shareholder is considered to be acting as a group with other shareholders in a corporation prior to the transaction giving rise to the change and not with respect to the ownership interest in the other corporation.

1.6.2 A Change In Effective Control Of The Corporation.

1.6.2.1 Definition. A Change In The Effective Control Of A Corporation occurs on the date that either -

(a) Any one (1) person, or more than one (1) person acting as a group (as determined under Section 1.6.2.4), acquires (or has acquired during the twelve (12)-month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the corporation possessing thirty-five percent (35%) or more of the total voting power of the stock of such corporation; or

(b) A majority of members of the corporation's board of directors is replaced during any twelve (12)-month period by directors whose appointment or election is not endorsed by a majority of the members of the corporation's board of directors prior to the date of the appointment or election, provided that for purposes of this Section the term corporation refers solely to the relevant corporation identified in Section 1.6 for which no other corporation is a majority shareholder for purposes of that Section.

1.6.2.2 Multiple Change in Control Events. A Change In Effective Control also may occur in any transaction in which either of the two (2) corporations involved in the transaction has a Change in Control Event.

1.6.2.3 Acquisition Of Additional Control. If any one (1) person, or more than one (1) person acting as a group, is considered to effectively control a corporation, the acquisition of additional control of the corporation by the same person or persons is not

considered to cause a change in the effective control of the corporation (or to cause a change in the ownership of the corporation).

1.6.2.4 Persons Acting As A Group. Persons will not be considered to be acting as a group solely because they purchase or own stock of the same corporation at the same time, or as a result of the same public offering. However, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the corporation. If a person, including an entity, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock, or similar transaction, such shareholder is considered to be acting as a group with other shareholders in a corporation only with respect to the ownership in that corporation prior to the transaction giving rise to the change and not with respect to the ownership interest in the other corporation.

1.6.3 A Change In The Ownership Of A Substantial Portion Of The Assets Of The Corporation. A Change In The Ownership Of A Substantial Portion Of A Corporation's Assets occurs on the date that any one (1) person, or more than one (1) person acting as a group (as determined in Section 1.6.3.3), acquires (or has acquired during the twelve (12)-month period ending on the date of the most recent acquisition by such person or persons) assets from the corporation that have a total gross fair market value equal to or more than forty percent (40%) of the total gross fair market value of all of the assets of the corporation immediately prior to such acquisition or acquisitions. For this purpose, gross fair market value means the value of the assets of the corporation, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

1.6.3.1 Transfers to a Related Person. There is no Change in Control Event when there is a transfer to an entity that is controlled by the shareholders of the transferring corporation immediately after the transfer, as provided in this Section 1.6.3.1. A transfer of assets by a corporation is not treated as a change in the ownership of such assets if the assets are transferred to -

- (a) a shareholder of the corporation (immediately before the asset transfer) in exchange for or with respect to its stock;
- (b) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by the corporation;
- (c) a person, or more than one (1) person acting as a group, that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power of all the outstanding stock of the corporation; or
- (d) an entity, at least fifty percent (50%) of the total value or voting power of which is owned, directly or indirectly, by a person described in paragraph (c) above.

1.6.3.2 Status. For purposes of Section 1.6.3.1 and except as otherwise provided, a person's status is determined immediately after the transfer of the assets.

1.6.3.3 Persons Acting As A Group. Persons will not be considered to be acting as a group solely because they purchase assets of the same corporation at the same time. However, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of assets, or similar business transaction with the corporation. If a person, including an entity

shareholder, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of assets, or similar transaction, such shareholder is considered to be acting as a group with other shareholders in a corporation only to the extent of the ownership in that corporation prior to the transaction giving rise to the change and not with respect to the ownership interest in the other corporation.

1.6.4 **Stock Attribution Rules.** Code §318(a) shall apply for purposes of determining stock ownership. Stock underlying a vested option is considered owned by the individual who holds the vested option (and the stock underlying an unvested option is not considered owned by the individual who holds the unvested option). For purposes of the preceding sentence, however, if a vested option is exercisable for stock that is not substantially vested (as defined by Code Sections 1.83-3(b) and (j)), the stock underlying the option is not treated as owned by the individual who holds the option. In addition, mutual and cooperative corporations are treated as having stock for purposes of this section.

1.7 **Code.** The Internal Revenue Code of 1986, as amended from time to time.

1.8 **Commencement Date.** The first day of the third month beginning after the earliest of:

1.8.1 if the Participant is not a Key Employee, the Participant's Termination of Employment,

1.8.2 if the Participant is a Key Employee, the earliest date after the Participant's Termination of Employment, which makes the Commencement Date six (6) months and one day after the Participant's Termination of Employment

1.8.3 the Participant's Disability,

1.8.4 the occurrence of a Change in Control Event,

1.8.5 January 1st of the first year beginning after the end of the Deferral Period selected by the Participant with respect to each of the Participant's Deferral Accounts, or

1.8.6 such earlier date as determined by the Company in its sole discretion, provided such determination is permitted under any applicable Regulations.

1.9 **Compensation.** The salary, bonuses, and commissions payable by the Company to a Participant for a Plan Year.

1.10 **Contingent Beneficiary.** The Contingent Beneficiary, if any, designated on a Participant's Beneficiary Designation Form.

1.11 **Declared Rate.** The percentage rate established from time to time by the Company, which rate may be determined by reference to a rate established by an unrelated third party.

1.12 **Deferral Account.** Book entries maintained by the Company reflecting the amount of the Participant's Accrued Benefit attributable to the Participant's Deferral Elections, the Investment Adjustments with respect to the balance of the Deferral Account, the Plan Expenses allocated thereto (if any), and the Discretionary Contributions allocated thereto, provided, however, that the existence of such book entries and the Deferral Account shall not create, and shall not be deemed to create, a trust of any kind, or a fiduciary relationship between the

Company and the Participant, the Participant's designated beneficiaries, or other beneficiaries under this Plan. The Plan Administrator shall maintain a separate Deferral Account for each Participant for each Plan Year in which the Participant makes a Deferral Election.

1.13 **Deferral Contribution.** The amount of Compensation a Participant elects to defer under this Plan for a specific Plan Year.

1.14 **Deferral Election.** A written notice filed by the Participant with the Plan Administrator in accordance with Section 3.1 and in substantially the form attached hereto as Exhibit A, or such other form as is acceptable to the Plan Administrator, specifying the amount (if any) of Compensation to be deferred, the Deferral Period and the Payout Period of the Compensation which is deferred under the election. Such Deferral Election shall be effective for the Plan Years indicated on the Deferral Election.

1.15 **Deferral Election Deadline.**

1.15.1 Except with respect to a new Participant making an Initial Deferral, the Deferral Election Deadline is the earlier of (a) December 31 of the year prior to the year in which the Services giving rise to the Compensation to be deferred under the Deferral Election or (b) the date set by the Plan Administrator as the last day that a Participant can file a Deferral Election with respect to Compensation to be paid for Services to be rendered by the Participant in a calendar year after the calendar year in which the Deferral Election is filed.

1.15.2 With respect to an Initial Deferral Election, the Deferral Election Deadline is the earlier of (a) the date which is thirty (30) days after the date the Participant first becomes a Participant in any plan of the Company providing for the deferral of compensation of the same type as this Plan determined in accordance with the Regulations or (b) the date set by the Plan Administrator as the last day that a Participant can file a Deferral Election with respect to Compensation to be paid for Services to be rendered by the Participant after the Deferral Election is filed.

1.16 **Deferral Period.** The period elected by the Participant on the Participant's Deferral Election and approved by the Company, during which the Participant is not entitled to receive the Compensation the Participant has elected to defer for a Plan Year. Each Deferral Period begins on the date determined by the Company and shall end on the last day of the Deferral Period as determined by the Company.

1.17 **Determination Date.** The last day of the last month ending on or before the date of the Participant's Termination of Employment, the occurrence of a Change in Control, the last day of the Deferral Period, or the first day of the Participant's Disability, as applicable.

1.18 **Disability.** Disability shall mean that a Participant is:

1.18.1 unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months;

1.18.2 by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than

twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of Company;

1.18.3 determined to be totally disabled by the Social Security Administration; or

1.18.4 determined to be disabled in accordance with a disability insurance program, provided that the definition of disability applied under such disability insurance program complies with the requirements of this Section.

1.19 **Discretionary Contributions.** Contributions made to the Plan by the Company as it may determine from time to time, and allocated pursuant to Section 3.2 at the Company's discretion.

1.20 **Effective Date.** February 25, 2005.

1.21 **Eligible Employee.** Any employee of the Company or an Affiliate who is a "director level" and above employee (as defined by the Company from time to time) and one of a select group of management or highly compensated employees, as defined by ERISA, and who is selected to participate herein in accordance with the provisions of Section 2.1 hereof.

1.22 **ERISA.** The Employee Retirement Income Security Act of 1974, as amended from time to time.

1.23 **Hardship Withdrawals.** Withdrawals made by a Participant from the Participant's Deferral Account pursuant to Section 5.6.

1.24 **Investment Adjustments.** The amount to be added to the Participant's Accounts based upon the Declared Rate established by the Company from time to time.

1.25 **IRS.** The Internal Revenue Service of the Department of the Treasury.

1.26 **Key Employee.**

1.26.1 A Participant is a Key Employee if (a) the Company's stock is publicly tradable on an established stock exchange or otherwise, and (b) the Participant is a "key employee" as defined in Section 416(i) of the Code (without regard to paragraph (5) thereof) if the stock of the Corporation is publicly traded on an established securities market or otherwise. Generally, the term "key employee" for purposes of Section 416(i) of the Code means an employee who, at any time during the plan year, is (i) an officer of the Company having an annual compensation greater than \$130,000 (as adjusted under the Code), (ii) a five percent (5%) owner of the Company, or (iii) a one percent (1%) owner of the Company having an annual compensation from the employer of more than \$150,000 (as adjusted under the Code).

1.26.2 The determination shall be based upon the twelve (12)-month period ending on December 31 of each year. Participants who meet the definition of key employee on such date shall be considered key employees for the twelve (12)-month period commencing on the first day of the 4th month following the end of the twelve (12)-month period.

1.27 **Participant.** An Eligible Employee who satisfies the conditions of Section 2.1.

1.28 **Payment.** In general, except as provided in Sections 1.28.1 and 1.28.2 of this section, the term payment refers to each separately identified amount to which a service provider is entitled

to payment under a plan on a determinable date, and includes amounts applied for the benefit of the service provider. An amount is separately identified only if the amount may be objectively determined. For example, an amount identified as ten percent (10%) of the account balance as of a specified payment date would be a separately identified amount. A payment includes the provision of any taxable benefit, including payment in cash or in kind. In addition, a payment includes, but is not limited to, the transfer, cancellation or reduction of an amount of deferred compensation in exchange for benefits under a welfare benefit plan, fringe benefit excludible under Code §§119 or 132, or any other benefit that is excluded from gross income.

1.28.1 Life annuities. The entitlement to a life annuity is treated as the entitlement to a single payment. For purposes of this paragraph, the term life annuity means a series of substantially equal periodic payments, payable not less frequently than annually, for the life (or life expectancy) of the service provider or the joint lives (or life expectancies) of the service provider and the service provider's designated beneficiary. A change in the form of a payment from one type of life annuity to another type of life annuity before any annuity payment has been made is not considered a change in the time and form of a payment, provided that the annuities are actuarially equivalent applying reasonable actuarial assumptions.

1.28.2 Installment payments. The entitlement to a series of installment payments that is not a life annuity is treated as the entitlement to a single payment, unless the arrangement provides at all times with respect to the amount deferred that the right to the series of installment payments is to be treated as a right to a series of separate payments. For purposes of this paragraph (b)(2)(iii), a series of installment payments refers to an entitlement to the payment of a series of substantially equal periodic amounts to be paid over a predetermined period of years, except to the extent any increase in the amount reflects reasonable earnings through the date the amount is paid.

1.28.3 Transition rule. For purposes of this section, an arrangement that was adopted and effective before December 31, 2006, whether written or unwritten, that fails to make a designation as to whether the entitlement to a series of payments is to be treated as an entitlement to a series of separate payments under Section 1.28.2 is treated as having made such designation as of the later of the date on which the arrangement was adopted or became effective, provided that such designation is set forth in writing before December 31, 2006.

1.29 **Payout Period**. The period of time chosen by the Participant on the Participant's Deferral Election or such other period over which the Participant's Accrued Benefit will be paid in accordance with the provisions of the Plan.

1.30 **Plan**. The Famous Dave's of America, Inc. FIRST AMENDED AND RESTATED NON-QUALIFIED DEFERRED COMPENSATION PLAN, as herein stated, together with any and all amendments or supplements thereto.

1.31 **Plan Administrator**. The Board of Directors of the Company or their designee. A Participant in the Plan shall not serve alone as Plan Administrator. If a Participant is part of a group or committee designated as Plan Administrator, then the Participant may not participate in any activity or decision relating solely to the Participant's individual benefits under the Plan. Matters solely affecting the applicable Participant will be resolved by the remaining committee members or by the Board of Directors.

1.32 **Plan Expenses.** Any expense incurred in connection with the formation and/or operation of the Plan.

1.33 **Plan Year.** The calendar year.

1.34 **Regulations.** Regulations issued by the Department of the Treasury or rulings and guidance issued by the IRS concerning Section 409A of the Code and the deferral of taxation of the Accrued Benefit until actual receipt of such Accrued Benefits by the Participant or the Participant's Beneficiary.

1.35 **Spouse.** An individual who is married, for Federal income tax law purposes, to another individual of the opposite sex. The Plan Administrator may, from time to time, require documentary evidence that any individual covered as the Spouse of a Participant under the Plan satisfies this definition.

1.36 Termination of Employment.

1.36.1 The Participant's ceasing to be employed by the Company and any Affiliate for any reason whatsoever, voluntary or involuntary, other than by reason of an approved leave of absence, military leave, sick leave, or other bona fide leave of absence (such as temporary employment by the government) if the period of such leave does not exceed six (6) months, or if longer, so long as the Participant's right to reemployment with the Company is provided either by statute or by contract. If the period of leave exceeds six (6) months and the Participant's right to reemployment is not provided either by statute or by contract, the employment relationship is deemed to terminate on the first date immediately following such six (6)-month period.

1.36.2 Whether a termination of employment has occurred is determined based on the facts and circumstances. Where a Participant either actually or purportedly continues in the capacity as an employee, such as through the execution of an employment agreement under which the Participant agrees to be available to perform services if requested, but the facts and circumstances indicate that the employer and the employee did not intend for the employee to provide more than insignificant services for the employer, an employee will be treated as having a termination of employment for purposes of this Section. For purposes of the preceding sentence, a Participant and the Company will not be treated as having intended for the Participant to provide insignificant services where the Participant continues to provide services as a Participant at an annual rate that is at least equal to twenty percent (20%) of the services rendered, on average, during the immediately preceding three (3) full calendar years of employment (or, if employed less than three (3) years, such lesser period) and the annual remuneration for such services is at least equal to twenty percent (20%) of the average annual remuneration earned during the final three (3) full calendar years of employment (or, if less, such lesser period). Where the Participant continues to provide services to the Company in a capacity other than as an employee, a termination of employment will not be deemed to have occurred for purposes of this paragraph Section 1.36 if the Participant is providing services at an annual rate that is fifty percent (50%) or more of the services rendered, on average, during the immediately preceding three (3) full calendar years of employment (or if employed less than three (3) years, such lesser period) and the annual remuneration for such services is fifty percent (50%) or more of the annual remuneration earned during the final three (3) full calendar years of employment (or if less, such lesser period). For purposes of this Section 1.36 the annual rate of providing services is determined based upon the measurement used to determine the service provider's base

compensation (for example, amounts of time required to earn salary, hourly wages, or payments for specific projects).

1.37 Unforeseeable Emergency.

1.37.1 An Unforeseeable Emergency means a severe financial hardship of the Participant resulting from an illness or accident of the Participant, the Participant's spouse, or the Participant's dependent (as defined in Code §152(a)); loss of the Participant's property due to casualty (including the need to rebuild a home following damage to a home not otherwise covered by insurance, for example, not as a result of a natural disaster); or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant.

1.37.2 The imminent foreclosure of or eviction from the Participant's primary residence; the need to pay for medical expenses, including non-refundable deductibles, as well as for the costs of prescription drug medication, or the need to pay for the funeral expenses of a spouse or a dependent (as defined in Code §152(a)) may, depending on the facts and circumstances, also constitute an unforeseeable emergency.

1.37.3 Except as otherwise provided in this Section, the purchase of a home and the payment of college tuition are not Unforeseeable Emergencies.

1.38 Valuation Date. The last day of each quarter of the calendar year, each Determination Date, and such other dates as may be specified by the Plan Administrator from time to time.

ARTICLE 2
ELIGIBILITY AND PARTICIPATION

2.1 Eligibility. An Eligible Employee shall become a Participant in the Plan immediately upon their becoming an Eligible Employee unless otherwise excluded from being a Participant by the Company in writing. Once an employee becomes a Participant, the employee shall remain a Participant until the employee's Termination of Employment, and thereafter until all benefits to which Participant (or the Participant's Beneficiary) is entitled under the Plan have been paid.

ARTICLE 3
DEFERRALS AND CONTRIBUTIONS

3.1 Deferral Election.

3.1.1 Initial Election. A Participant who become a Participant during a Plan Year may make a Deferral Election with respect to Compensation earned during the Plan Year in which the Participant becomes a Participant provided that such Deferral Election is filed with the Plan Administrator within thirty (30) days after the Participant first becomes eligible to be a Participant in the Plan. Such Deferral Election shall be effective beginning on the payroll date that is at least two (2) weeks after the delivery of the Deferral Election to the Plan Administrator, or such other date as specified by the Plan Administrator. Such a Deferral Election shall apply only to Compensation earned with respect to services performed after the date of the Deferral Election and prior to the end of the Plan Year in which the Participant first becomes eligible to

be a Participant in the Plan. If a Participant fails to file a Deferral Election within thirty (30) days after the Participant first becomes eligible to be a Participant in the Plan, no part of the Participant's Compensation earned with respect to services performed during the Plan Year in which the Participant first becomes a Participant in the Plan may be deferred. All other Deferral Elections must comply with Section 3.1.2. No Deferral Election shall be effective until accepted by the Plan Administrator.

3.1.2 Subsequent Deferrals. Except for a Deferral Election for the Plan Year in which a Participant first becomes a Participant pursuant to Section 3.1.1 or as otherwise permitted in the Regulations and approved by the Plan Administrator, each Deferral Election for Compensation earned with respect to services performed in a Plan Year must be made not later than the earlier of (a) the day before the first day of the Plan Year, or (b) the date specified by the Plan Administrator or Company. Each such Deferral Election shall apply only to Compensation earned with respect to services rendered during the Plan Year. No Deferral Election shall be effective until accepted in writing by the Plan Administrator.

3.1.3 Payroll Adjustment. Upon receipt of a Deferral Election, the Plan Administrator shall notify the Company to adjust the Participant's Compensation otherwise payable to the Participant as necessary to take into account the amount of the Participant's Compensation that the Participant has elected to defer pursuant to a Deferral Election. In the Deferral Election, the Participant shall specify the amount of the Participant's Compensation to be deferred, which specification may be separate and distinct for the individual components of Compensation, and may be expressed as percentages or fixed dollar amounts.

3.1.4 Revocation or Change of Deferral Election.

3.1.4.1 Except as otherwise permitted in Regulations and by the Plan Administrator, this Section 3.1.4 and Section 3.1.5, each such Deferral Election shall be irrevocable.

3.1.4.2 No revocation or change of any Deferral Election shall be effective unless and until it complies with Section 409A of the Code and the Regulations and it is accepted by the Plan Administrator in writing.

3.1.4.3 Notwithstanding the foregoing, a Deferral Election, which is filed with the Plan Administrator prior to the Deferral Election Deadline, may be revoked or changed at anytime prior to the Deferral Election Deadline.

3.1.4.4 Further, to the extent permitted under the Regulations, a Deferral Election may be revoked in whole or in part on or before December 31, 2005.

3.1.5 Changes to the Deferral Period, Payout Period, or Time and Form of Payment.

3.1.5.1 Reduction of Deferral Period/Acceleration of Time of Payment. Except as provided below or as otherwise permitted in the Regulations and by the Plan Administrator, neither the Deferral Period nor the Payout Period may be reduced nor may the time of any payment be otherwise accelerated.

3.1.5.2 Extensions/Delays. With the consent of the Plan Administrator and to the extent permitted under the Regulations, the Deferral Period may be extended, the Payout Period increased and the time for any payment delayed at the written election of the Participant, provided that

(a) such election may not take effect until at least twelve (12) months after the date on which the election is made;

(b) the Payment with respect to which such election is made is deferred for a period of not less than five (5) years from the date such Payment would otherwise have been paid (or in the case of a life annuity or installment payments treated as a single Payment, five (5) years from the date the first amount was scheduled to be paid),

(c) any election related to a payment described in §1.409a-3(a)(4) (Payment at a specified time or pursuant to a fixed schedule) may not be made less than twelve (12) months prior to the date the Payment is scheduled to be paid (or in the case of a life annuity or installment payments treated as a single Payment, twelve (12) months prior to the date the first amount was scheduled to be paid); and

(d) such extension of the Deferral Period or the Payout Period or delay in the time of any Payment is in accordance with the applicable Regulations.

3.1.5.3 Separate Payments. To the extent provided under the Regulations the Participant may treat each payment to be made to the Participant as a "Separate Payment." Consistent with the Regulations and with the consent of the Plan Administrator, the Participant may extend the Deferral Period or the date of payment separately with respect each Separate Payment.

3.1.5.4 Conflict of Interest Payments. Notwithstanding the foregoing, the time or schedule of a payment under the Plan may be modified as may be necessary to comply with a certificate of divestiture (as defined in Code § 1043(b)(2)) as and to the extent permitted under the Regulations.

3.2 Discretionary Contributions.

3.2.1 The Company may allocate Discretionary Contributions to the Plan and may direct that such contributions be allocated among the Deferral Accounts of those Participants that it may select in the manner specified by the Company. In the event of Disability or death, a Participant shall be entitled to the Participant's share of the Discretionary Contributions (if any) for the Plan Year in which the Participant incurs a Disability or dies.

3.2.2 A Participant's share of the Discretionary Contributions for a Plan Year shall be deferred for the Deferral Period applicable to Deferral Elections made by the Participant for the Plan Year.

3.2.3 A Participant's share of Discretionary Contributions shall be added to the Participant's Deferral Account for the Plan Year for which the Discretionary Contribution is made.

3.2.4 No Participant shall have a right to compel the Company to make a contribution under this Section 3.2 and no Participant shall have the right to share in the allocation of any such contribution for any Plan Year unless selected by the Company, in its sole discretion.

ARTICLE 4
DEFERRAL ACCOUNTS AND ALLOCATIONS TO DEFERRAL ACCOUNTS

4.1 Deferral Accounts. The Plan Administrator shall establish a Deferral Account for each Participant for each Plan Year for which the Participant makes a Deferral Election and elects to defer all or a portion of his Compensation earned with respect to Services performed by the Participant during such Plan Year or receives a Discretionary Contribution from the Company.

4.2 Allocations and Adjustments to Deferral Accounts.

4.2.1 The Deferral Account of each Participant shall be increased by the amount of Compensation that the Participant would have received but for the Deferral Election, which amount shall be added to the Deferral Account on the date and in the amount that the Compensation which is deferred would otherwise have been paid to the Participant but for the Deferral Election. The Plan Administrator shall establish a separate Deferral Account for each Participant for each Plan Year for which the Participant makes a Deferral Election.

4.2.2 Company Discretionary Contributions (if any) shall be added to the Participant's Deferral Account at such time as directed by the Plan Administrator.

4.2.3 Each Deferral Account shall be reduced by the amount of all payments from such Deferral Account made to the Participant. All amounts paid from a Deferral Account are assumed to be paid on the first day of the month or such other time as specified by the Plan Administrator.

4.2.4 The Participant's Deferral Account shall be increased by the Investment Adjustments at such times as may be specified by the Company, but not less often than quarterly.

4.2.5 The Company may, at any time, change the timing or methods for adding Investment Adjustments, Deferral Contributions and Discretionary Contributions to the Deferral Accounts, and reduce such Deferral Accounts by payments of benefits and Hardship Withdrawals under this Plan; provided, however, that the times and methods for increasing or decreasing the Deferral Accounts for such items in effect at any particular time shall be uniform among all similarly situated Participants and Beneficiaries as determined by the Company in its sole discretion, and provided further than any such change shall be permitted under the Regulations.

4.3 Determination of Accounts. A Participant's Accrued Benefit as of each Valuation Date shall consist of the balance of the Participant's Deferral Accounts, adjusted as provided in Section 4.2 through such date.

4.4 Statement of Accounts. The Company shall provide to each Participant, within one hundred twenty (120) days after the close of each Plan Year, a statement in such form as the Company selects setting forth the amount of each of the Participant's Deferral Accounts as of the last day of the Plan Year just ended.

4.5 Accounting Device Only. A Participant's Deferral Accounts shall be utilized solely as a device for the measurement and determination of the amounts to be paid to the Participating Executive under this Plan. A Participant's Deferral Account shall not constitute or be treated as a

trust fund of any kind or give any Participating Executive any right to any of the assets of the Company other than as a general creditor of the Company.

ARTICLE 5
PAYMENT OF BENEFITS

5.1 Payment of Accrued Benefit. Except as otherwise provided in this ARTICLE 5 and Sections 7.2 and 8.2, on the Commencement Date of any Deferral Account, the Company shall pay to the Participant the value of the Participant's Deferral Account determined as of the applicable Determination Date as provided herein and in accordance with the Participant's Deferral Election. Except as provided below, in the case of a Deferral Account that is to be paid over the Payout Period, the principal amount of such Deferral Account shall be paid in substantially equal payments over such Payout Period elected by the Participant in the Participant's Deferral Election.

5.2 Cash-out of De Minimus Accrued Benefit. Notwithstanding the foregoing, if the Participant's entire Accrued Benefit under the Plan is less than \$10,000.00, or such lesser amount specified by the Company, then notwithstanding the Payout Periods elected by the Participant or the other terms of this Plan, the Company, may in its sole discretion, pay to the Participant the Participant's entire Accrued Benefit in a lump sum or over a shorter period than the Payout Periods elected by the Participant provided that the payment is made on or before the later of (a) December 31 of the calendar year in which occurs the Participant's Termination of Employment or (b) the date two and one-half (2 1/2) months after the Participant's Termination of Employment.

5.3 Interest on Deferral Account. After the applicable Determination Date, the unpaid balance of a Participant's Deferral Account shall be increased by an amount equal to the product of the principal balance of the Deferral Account multiplied by the Declared Rate then in effect for the applicable period since the time of the last payment or such other rate at the Company may specify. Such accrued interest shall be paid with the next payment then due.

5.4 Change in Control. Notwithstanding the foregoing, upon the occurrence of a Change in Control Event, the Participant's Accrued Benefit shall be paid to the Participant in a lump sum; provided, however, that, notwithstanding the foregoing, to the extent permitted under applicable Regulations, the Participant may, with the consent of the Company, and prior to the Commencement Date resulting from the Change in Control, (a) defer the payment of the Participant's Accrued Benefit until the occurrence of another later Commencement Date, or (b) require the payments to be made over the Payout Periods applicable to the Accrued Benefit or other period acceptable to the Company.

5.5 Death of Participant.

5.5.1 Payment of Accrued Benefit.

5.5.1.1 In the event of the Participant's death prior to the commencement of Payments to the Participant of the Participant's entire Accrued Benefit as provided for herein, the Company shall pay the Participant's unpaid Accrued Benefit to the Participant's Beneficiary in a single lump sum Payment notwithstanding any Deferral Period or Payout Period specified in a Deferral Election.

5.5.1.2 In the event of the Participant's death after the commencement of Payments of the Participant's Accrued Benefit, but prior to the completion of such Payments due to and owing to the Participant under the Plan, the Participant's death shall be treated as if it were the event for purposes of determining the Commencement Date and the Participant's unpaid Accrued Benefit shall be paid to the Participant's Beneficiary in a lump sum on the Commencement Date determined using the Participant's death.

5.5.1.3 Unless otherwise provided by the Participant on a Beneficiary Designation Form, if more than one (1) Beneficiary is named within the same class (i.e., Primary or Contingent), then the Payments shall be made equally to such Beneficiaries unless otherwise provided hereinabove. Unless otherwise provided by the Participant on a Beneficiary Designation Form, if any such Beneficiary dies while receiving payments under the Plan, any and all remaining Payments shall continue to be made to the surviving Beneficiaries of such class and to the legal heirs of the deceased Beneficiary, which legal heirs shall receive the amount which was being received by said deceased Beneficiary unless otherwise stipulated. Unless otherwise provided by the Participant on a Beneficiary Designation Form, if all of the Beneficiaries of a class shall die, any and all remaining Payments shall be made to the next class of Beneficiaries.

5.5.1.4 Unless otherwise provided by the Participant on a Beneficiary Designation Form, if none of the Beneficiaries named hereinabove are living on any payment date, any and all remaining Payments shall be made to the executors or administrators of the Participant's estate.

5.5.1.5 If any Payments shall be payable to any trust, the Company shall not be liable to see to the application by the Trustee of any Payment hereunder at any time, and may rely upon the sole signature of the Trustee to any receipt, release or waiver, or to any transfer or other instrument to whomsoever made purporting to affect this nomination or any right hereunder.

5.5.2 Beneficiary Designation.

5.5.2.1 General. The Participant shall have the right, at any time, to submit a Beneficiary Designation Form specifying one (1) or more written designations of Primary and Contingent Beneficiaries to whom Payments under this Plan shall be made in the event of the Participant's death prior to complete distribution of the benefits payable to the Participant. Each Beneficiary Designation Form shall become effective only when accepted in writing by the Company. The Company shall have the right, in its sole discretion, to reject any Beneficiary Designation Form, which is not in substantially the form attached hereto as Exhibit B. Any attempt to designate a beneficiary, otherwise than as provided in this Section shall be ineffective. For purposes of any Beneficiary Designation Form, no person shall be deemed to have survived the Participant if that person dies within thirty (30) days of the Participant's death. The Participant may change the Beneficiary named in any Beneficiary Designation Form at any time by filing a new duly executed Beneficiary Designation Form with the Company or the Plan Administrator without the consent of any person or entity then designated as a Beneficiary.

5.5.2.2 Spouse's Interest. A Participant's designation of the Participant's Spouse as a beneficiary shall be deemed automatically revoked if the Participant or the Spouse subsequently files for divorce or legal separation or if the Spouse dies prior to the

Participant. Without limiting the generality of the foregoing, the interest in the benefits hereunder of a Spouse of a Participant who has predeceased the Participant or where either have filed for divorce or a legal separation shall automatically pass to the Participant and shall not be transferable by such Spouse in any manner, including, but not limited to, such Spouse's will.

5.6 Hardship Withdrawals.

5.6.1 Amount of Hardship Withdrawal. In the event that the Plan Administrator, upon written request of a Participant, determines, in its sole discretion in compliance with any applicable Regulations, that the Participant has suffered an Unforeseeable Emergency, the Plan Administrator shall pay to the Participant from the Participant's Deferral Accounts as soon as practicable following such determination, an amount equal to the lesser of (a) the amount requested by the Participant, (b) the balance of such Participant's Deferral Accounts as of the date of such Payment, or (c) the amount, as determined under the Regulations, necessary to satisfy such Unforeseeable Emergency plus amounts necessary to pay any Federal, state, or local income taxes or penalties reasonably anticipated to result from the distribution, determined after taking into account the extent to which such Unforeseeable Emergency is or may be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the Participant's assets (to the extent the liquidation of such assets would not itself cause severe financial hardship). Distributions because of an Unforeseeable Emergency must be limited to the amount necessary to satisfy the emergency need (which may include amounts necessary to pay any Federal, state, or local income taxes or penalties reasonably anticipated to result from the distribution). Determinations of amounts reasonably necessary to satisfy the emergency need must take into account any additional compensation that is available if the Plan provides for cancellation of a Deferral Election upon a Payment due to an Unforeseeable Emergency. A distribution on account of Unforeseeable Emergency may not be made to the extent that such emergency is or may be relieved through reimbursement or compensation from insurance or otherwise, by liquidation of the Participant's assets, to the extent the liquidation of such assets would not cause severe financial hardship, or by cessation of deferrals under the arrangement.

5.6.2 Determination of Unforeseeable Emergency. Whether a Participant is faced with an unforeseeable emergency permitting a distribution under this Section is to be determined based on the relevant facts and circumstances of each case.

5.6.3 Rules Adopted by Plan Administrator. The Plan Administrator shall have the authority to adopt additional rules relating to Hardship Withdrawals provided such rules are consistent with the Regulations. In administering these rules, the Plan Administrator shall act in accordance with any applicable Regulations, the principle being that the primary purpose of this Plan is to provide additional retirement income, not additional funds for current consumption. Such rules may limit the ability of a Participant receiving a distribution as a result of a Hardship Withdrawal to make Deferral Elections.

5.7 Adverse Action on Participant or Plan.

5.7.1 Notwithstanding any other provision hereof, in the event there is a determination by the Internal Revenue Service, or in the event of a final determination by a court of competent jurisdiction, that all or any part of a Participant's Accrued Benefit hereunder is includable in the gross income of the Participant or the Participant's Beneficiary, the Plan Administrator shall

distribute so much of the Participant's Accrued Benefit to the Participant or Beneficiary as is includible in gross income of the Participant or Beneficiary and in its sole discretion cause the termination of future Deferral Contributions by the Participant, provided this provision does not in and of itself cause the Accrued Benefit of the Participant to be includible in income for United States income tax purposes prior to the actual receipt of such Accrued Benefit in cash by the Participant.

5.7.2 In the event that there is a determination by the Department of Labor, or a final determination of a court of competent jurisdiction, that the Plan is subject to Part 2, 3 or 4 of Title I of ERISA, the Plan Administrator may, in its sole discretion, distribute each Participant's Accrued Benefit to the Participant, or, in the case of a deceased Participant, to the Participant's Beneficiary, and cause the termination of future Deferral Contributions by Participants.

5.8 **Facility of Payment.** If a distribution is to be made to a minor, or to a person who is otherwise incompetent, then the Plan Administrator may, in its discretion, make such distribution (i) to the legal guardian or, if none, to a parent of a minor payee with whom the payee maintains the Participant's residence, or (ii) to the conservator or committee or, if none, to the person having custody of an incompetent payee. Any such distribution shall fully discharge the Plan Administrator, the Company, and the Plan from further liability on account thereof.

5.9 **Payment of Employment Taxes.** Notwithstanding the foregoing, as and to the extent permitted under the Regulations, the Plan Administrator or Company may permit the acceleration of the time or schedule of a Payment under the Plan to pay the Federal Insurance Contributions Act (FICA) tax imposed under Code Sections 3101 and 3121(v)(2) on Compensation deferred under the Plan (the "FICA Amount"). Additionally, the Plan Administrator or Company may permit the acceleration of the time or schedule of a Payment to pay the income tax at source on wages imposed under Code Section 3401 on the FICA Amount, and to pay the additional income tax at source on wages attributable to the pyramiding Code Section 3401 wages and taxes. However, the total Payment under this Section shall not exceed the aggregate of the FICA Amount, and the income tax withholding related to such FICA Amount.

5.10 **Withholding.** Any and all Payments to be made to a Participant or a Participant's beneficiaries pursuant to this Plan shall be subject to all federal, state and local income and employment taxes and such taxes will be withheld accordingly by the Company from benefits under this Plan or from salary, bonuses or other amounts due to the Participant as determined by the Plan Administrator as and to the extent required by applicable law and Regulations.

ARTICLE 6

PLAN ADMINISTRATION

6.1 Responsibility for Administration of the Plan.

6.1.1 The Plan Administrator shall be responsible for the management, operation, and administration of the Plan. The Plan Administrator may employ others to render advice with regard to its responsibilities under this Plan. It may also allocate its responsibilities to others and may exercise any other powers necessary for the discharge of its duties. The Plan Administrator shall be entitled to rely conclusively upon all tables, valuations, certifications, opinions and

reports furnished by any actuary, accountant, controller, counsel or other person employed or engaged by the Plan Administrator with respect to the Plan.

6.1.2 The primary responsibility of the Plan Administrator is to administer the Plan for the benefit of the Participants and their beneficiaries, subject to the specific terms of the Plan. The Plan Administrator shall administer the Plan in accordance with its terms and shall have the power to determine all questions arising in connection with the administration, interpretation, and application of the Plan. Any such determination shall be conclusive and binding upon all persons and their heirs, executors, beneficiaries, successors and assigns. The Plan Administrator shall have all powers necessary or appropriate to accomplish its duties under the Plan. The Plan Administrator shall also have the discretion and authority to make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Plan and decide or resolve any and all questions, including, but not limited to, interpretations of this Plan and entitlement to or amount of benefits under this Plan, as may arise in connection with the Plan.

6.2 Claims Procedure.

6.2.1 Claim. A person who believes that the Participant is being denied a benefit to which the Participant is entitled under the Plan (hereinafter referred to as a "Claimant") may file a written request for such benefit with the Plan Administrator, setting forth the Participant's claim. The request must be addressed to the Plan Administrator at its then principal place of business.

6.2.2 Claim Decision. Upon receipt of a claim, the Plan Administrator shall advise the Claimant that a reply will be forthcoming within ninety (90) days and that the Plan Administrator shall, in fact, deliver such reply within such period. The Plan Administrator may, however, extend the reply period for an additional ninety (90) days for reasonable cause. If the claim is denied in whole or in part, the Plan Administrator shall adopt a written opinion, using language calculated to be understood by the Claimant, setting forth to the extent applicable:

6.2.2.1 The specific reasons for such denial;

6.2.2.2 Specific reference to pertinent provisions of this Plan on which such denial is based;

6.2.2.3 A description of any additional material or information necessary for the Claimant to perfect the Participant's claim and an explanation why such material or such information is necessary;

6.2.2.4 Appropriate information as to the steps to be taken if the Claimant wishes to submit the claim for review; and

6.2.2.5 The time limits for requesting a review.

6.2.3 Request for Review. Within sixty (60) days after receipt by the Claimant of the written opinion described above, the Claimant may request in writing that the Company, through its Board of Directors, review the Plan Administrator's determination. Such request must be addressed to the Company at its then principal place of business. The Claimant or the Claimant's duly authorized representative may, but need not, review the pertinent documents and

submit issues and comments in writing for consideration by the Company. If the Claimant does not request a review of the determination within such sixty (60)-day period, the Participant shall be barred and estopped from challenging the determination.

6.2.4 Review of Decision. Within sixty (60) days after the Company's receipt of a request for review, it will review the Plan Administrator's determination. After considering all materials presented by the Claimant, the Company will render a written opinion, written in a manner calculated to be understood by the Claimant, setting forth the specific reasons for the decision and containing specific references to the pertinent provisions of this Plan on which the decision is based. If special circumstances require that the sixty (60)-day time period be extended, the Company will so notify the Claimant and will render the decision as soon as possible, but no later than one hundred twenty (120) days after receipt of the request for review. The decision of the Board of Directors shall be final and binding on all parties and may not be further appealed by any party.

6.2.5 Notice. Any notice, consent or demand required or permitted to be given under the provisions of this Plan shall be in writing and shall be signed by the party giving or making the same. If such notice, consent or demand is mailed, it shall be sent by United States certified mail, postage prepaid, addressed to the addressee's last known address as shown on the records of the Company. The date of such mailing shall be deemed the date of notice consent or demand. Any person may change the address to which notice is to be sent by giving notice of the change of address in the manner aforesaid.

ARTICLE 7

AMENDMENT OR TERMINATION

7.1 Amendment.

7.1.1 Any other provision of this Plan to the contrary notwithstanding, the Plan may be amended by the Company at any time, to the extent that, in the sole opinion of the Company, such amendment shall be necessary in order to ensure that (a) the Plan will be characterized as a plan maintained for a select group of management or highly compensated employees, as described in sections 201(2), 301(a)(3) and 401(a)(1) of ERISA, (b) the Plan conforms to the requirements of any applicable law, including but not limited to ERISA and the Code, (c) the Accrued Benefit of any Participant is not taxable to the Participant or his/her Beneficiary earlier than the date it is actually received by the Participant or the Beneficiary as the case may be, and (d) no excise tax, penalty or additional tax is imposed on the Participant or the Company under pursuant to Section 409A and the Regulations or any other applicable provision of the Code. No such amendment shall be considered prejudicial to any interest of a Participant or Beneficiary hereunder even if it reduces the Accrued Benefit of any Participant or the amount, date or form of any payment to the Participant.

7.1.2 In addition, this Plan may be amended at any time as and to the extent permitted under the Regulations provided that no such amendment shall reduce the Accrued Benefit of any Participant without the consent of the Participant unless such reduction is required under the Regulations.

7.2 Termination

7.2.1 This Plan may be terminated at any time provided such termination satisfies the requirements of the Regulations. To the extent permitted in the Regulations:

7.2.1.1 This Plan may be terminated provided that all deferred compensation arrangements of the same type (account balance plans, nonaccount balance plans, separation pay plans or other arrangements) of the Company are terminated with respect to all participants, no Payments other than those otherwise payable under the terms of the plan absent a termination of the plan are made within twelve (12) months of the termination of the arrangement, all Payments are made within twenty-four (24) months of the termination of the arrangement, and the Company does not adopt a new deferred compensation arrangement that would be aggregated with any terminated arrangement under the Regulation's plan aggregation rules at any time for a period of five (5) years following the date of termination of this Plan.

7.2.1.2 This Plan may be terminated during the twelve (12) months following a Change In Control of the Company, and in such event the Plan may distribute all of the Accrued Benefits to the Participants in a lump sum as and to the extent permitted under the Regulations.

7.2.1.3 This Plan may be terminated upon the dissolution of the Company taxed under section 331, or with the approval of a bankruptcy court pursuant to 11 U.S.C. §503(b)(1)(A), provided that the amounts deferred under this Plan are included in the Participants' gross incomes by the latest of (i) the calendar year in which the Plan termination occurs, (ii) the calendar year in which the amount is no longer subject to a substantial risk of forfeiture, or (iii) the first calendar year in which the Payment is administratively practicable.

7.2.1.4 This Plan may be terminated by the Company at any time, without notice to or consent of any person, pursuant to resolutions adopted by its Board of Directors to the extent otherwise permitted under the Regulations. Except as provided in the Regulations, if the Plan is terminated, the Accrued Benefit of the Participants shall be distributed as soon as administratively possible in one lump sum at the discretion of the Company to the extent permitted in applicable Regulations

7.2.2 No such termination shall reduce the amount then credited to a Participant's Accounts except as and to the extent required by law.

7.2.3 Upon the termination of the Plan as provided for herein, the Plan Administrator may, consistent with the Regulations, pay the Participant's Accrued Benefits to the Participant, or in the case of the Participant's death, the Participant's Beneficiary, in any form and in any manner (including but not limited to a lump sum payment) notwithstanding the terms of the Participant's Deferral Election, provided that, unless otherwise required by law, the Plan shall pay to the Participant or the Participant's Beneficiary, as the case may be, the Participant's Accrued Benefit not later than times and not less than the amounts specified in the Participant's Deferral Election.

ARTICLE 8
MISCELLANEOUS

8.1 **Purpose.** The purpose of this Plan is to allow a Participant to defer the receipt of part of the Participant's Compensation until a later date without having to pay taxes on the amount of such Compensation until the Participant actually receives the amount of such Compensation at which time it will be subject to taxation as ordinary gain. The Company makes no guaranties that such Compensation will not be taxed until it is received and the Company shall not be liable for any damages because such Compensation is taxed to the Participant before it is received by the Participant.

8.2 **Benefits Not Transferable.** No benefit payable at any time under this Plan shall be subject in any manner to alienation, sale, transfer, pledge, attachment or encumbrance of any kind; provided, however, that:

8.2.1 in the event that, at the time of a Participant's Commencement Date, the Participant is indebted to the Company or any Affiliate, the Company shall have the right to offset any such indebtedness (including any interest thereon) against any benefits otherwise due under this Plan with respect to the Participant, by applying such indebtedness (including any interest thereon) pro-rata to each successive benefit Payment due thereafter, until the full amount of the debt and any interest owed has been paid; and

8.2.2 all or any portion of a Participant's unpaid benefits under this Plan may be assigned by court order to the Participant's former spouse in connection with a dissolution of their marriage, but only if the Plan Administrator determines, in its sole discretion, that the order satisfies the requirements of a "domestic relations order" as defined in Code Section 414(p)(1)(B)). The federal income taxation of any Plan benefits assigned as provided in the preceding sentence shall be governed by Revenue Ruling 2002-22, or any applicable guidance subsequently published by the Internal Revenue Service or the Department of the Treasury.

8.3 **No Trust Created.** Nothing contained in this Plan, and no action taken pursuant to its provisions by any person, shall create, or be construed to create, a trust of any kind, or a fiduciary relationship between the Company and any other person.

8.4 **Benefits Payable Only From General Corporate Assets; Unsecured General Creditor Status of Participant.** Payment to the Participant or any Beneficiary hereunder shall be made from assets that shall continue, for all purposes, to be part of the general, unrestricted assets of the Company. No person shall have any interest in any such asset by virtue of any provision of this Plan. The Company's obligation hereunder shall be an unfunded and unsecured promise to pay money in the future. To the extent that any person acquires a right to receive Payments from the Company under the provisions hereof, such right shall be no greater than the right of any unsecured general creditor of the Company; no such person shall have or acquire any legal or equitable right, interest or claim in or to any property or assets of the Company.

8.5 **Plan Expenses.** The Plan Participants shall bear all of the Plan Expenses except for those Plan Expenses that the Company elects to pay. Any such expenses that are not paid by the Company shall be promptly paid by the Participant or the Participant's Beneficiary, as applicable, or the Plan Administrator shall deduct such expenses from the Participant's Accrued Benefit.

8.6 **Entire Agreement.** The Plan, Deferral Election, Beneficiary Designation, and other administrative forms shall constitute the total agreement between the Company and the Participant. No oral statement regarding the Plan may be relied upon by the Participant. In the event that there is a discrepancy between the Plan and the administrative forms and summary descriptions, the Plan will control.

8.7 **Invalidity of Provisions.** If any provision of this Plan shall be for any reason invalid or unenforceable, the remaining provisions shall nevertheless be carried into effect.

8.8 **Unclaimed Benefits.** In the case of a benefit payable on behalf of such Participant, if the Plan Administrator is unable to locate the Participant or Beneficiary by the earlier of the date that is (a) ten (10) years following the Termination of Employment of the Participant, or (b) five (5) years following the date the Participant's last benefit Payment was scheduled to be made, such Plan benefit may be forfeited to the Company upon the Plan Administrator's determination. Notwithstanding the foregoing, if, subsequent to any such forfeiture, the Participant or Beneficiary to whom such Plan benefit is payable makes a valid claim for such Plan benefit, such forfeited Plan benefit shall be paid by the Plan Administrator to the Participant or Beneficiary, without interest from the date it would have otherwise been paid.

8.9 **Governing Law/Interpretation.** The Plan and the rights and obligations of all persons hereunder shall be governed by and construed in accordance with the laws of the State of Minnesota, other than its laws regarding choice of law, to the extent that such state law is not preempted by federal law. The Plan shall be interpreted so as to comply to the fullest extent possible with the Code and the Regulations (including, but not limited to, Section 409A) such that the Accrued Benefit of any Participant is not includible in income for United States income tax purposes prior to the actual receipt of such Accrued Benefit in cash by the Participant or the Beneficiary, as the case may be.

IN WITNESS WHEREOF, the Company has executed this Plan as of the day and year first written above.

FAMOUS DAVE'S OF AMERICA, INC.

By: /s/ David Goronkin
Title: President & CEO

EXHIBIT A

**FAMOUS DAVE'S OF AMERICA, INC.
FIRST AMENDED AND RESTATED NON-QUALIFIED DEFERRED COMPENSATION PLAN
Participant Deferral Election Form**

Declared Rate: Eight Percent (8%) (the "Declared Rate")
Matching Contribution Rate: Two Percent (2%) (the "Matching Contribution Rate")

This Agreement is entered into this ___ day of ___, 20___ between **FAMOUS DAVE'S OF AMERICA, INC.**, hereinafter referred to as the "Company," and ___, hereinafter referred to as the "Participant."

I acknowledge that as an Eligible Employee of the Company I have been offered an opportunity to participate in the Famous Dave's of America, Inc. **FIRST AMENDED AND RESTATED NON-QUALIFIED DEFERRED COMPENSATION PLAN** (the "Plan") **for the Plan Year beginning January 1, 20___ and those subsequent Plan Years indicated below.** I am electing the alternatives set forth below:

This Deferral Election shall be effective only for the Plan Year beginning January 1, 2006.

DEFERRAL ELECTION *[Please complete one or more of the following choices.]*

I hereby elect to defer receipt of that portion of my Compensation which is earned by me with respect to services rendered by me to the Company after the date this Deferral Election is filed with the Company as set forth below.

- [___%] or [\$___] or [that portion of my **salary** in excess of \$___] which is earned by me with respect to services rendered by me to the Company during the Plan Year and after the date of this Deferral Election is filed with the Company even if payable after the end of the Plan Year.
- [___%] or [\$___] or [that portion of my **bonus(es)** in excess of \$___] which are earned by me with respect to services rendered by me to the Company during the Plan Year and after the date of this Deferral Election is filed with the Company even if payable after the end of the Plan Year.
- [___%] or [\$___] or [that portion of my **commissions** in excess of \$___] which are earned by me with respect to services rendered by me to the Company during the Plan Year and after the date of this Deferral Election is filed with the Company even if payable after the end of the Plan Year.

NOTE: This Deferral Election is irrevocable except to the extent permitted by the Plan Administrator, and the Regulations promulgated by the IRS.

Investment Return; Declared Rate: I understand that each quarter during the Deferral Period I select below, my Deferral Account for the above Plan Years will be increased with an investment return equal to the product of the Declared Rate for the Plan Year and the balance of my Deferral Account as of the end of the quarter.

Matching Contribution: I understand that my Deferral Account for the above Plan Years will also be increased one time by an additional Matching Contribution equal to the product of the Matching Contribution Rate specified above and the amount of my Compensation which I elected to defer for the above Plan Year. For example if the Matching Contribution Rate were 50% and I elected to defer 2% of my Compensation I will have an amount equal to 1% of my Compensation (50% x 2%) added to my Deferral Account. If I defer 4% of my Compensation I will have an amount equal to 2% of my Compensation (50% x 4%) added to my Deferral Account.

DISTRIBUTION OF BENEFITS ELECTION

A. Deferral Period. I hereby elect to have my Deferral Account for the Plan Years specified above distributed to me beginning on the first day of the third month beginning after the end of the following Deferral Period (the "Commencement Date"), unless the Plan provides for an earlier Commencement Date [Select one of the following]:

___ calendar years following the end of the applicable Plan Year (December 31) (May not be less than three (3) calendar years and must be whole number of years; example if the Plan Year ends December 31, 2005, and you elect a Deferral Period of four (4) calendar years, your Deferral Account will be paid beginning March 1, 2010, unless you terminate employment prior to such date in which event it will be paid beginning on the first day of the third month beginning after your termination of employment.), or

the date that is the date of my Termination of Employment.

NOTE: This election may be changed to extend the Deferral Period to a later date, provided (a) you make the election to so extend such Period at least one (1) year before the first payment affected by the change, (b) the extension must be for a period of not less than five (5) years and (c) such extension is in accordance with the applicable Regulations promulgated by the Internal Revenue Service. Such Deferral Period may be shortened only with the consent of the Plan Administrator and then only as permitted by and in accordance with the Regulations promulgated by the Internal Revenue Service. Any such change must be made by written notice to the Plan Administrator and shall not be effective until accepted in writing by the Plan Administrator.

B. Payout Period. I hereby elect to have my Deferral Account for the Plan Years specified above distributed to me in the following manner (check one):

Lump Sum

In substantially equal payments plus interest as provided in the Plan over a period of two (2) years plus interest at the Declared Rate from the Commencement Date.

In substantially equal payments plus interest as provided in the Plan over a period of five (5) years plus interest at the Declared Rate from the Commencement Date.

- In substantially equal payments plus interest as provided in the Plan over a period of ten (10) years plus interest at the Declared Rate from the Commencement Date.

NOTE: If the payments during the Payout Period are less than \$10,000.00 per year, your Accrued Benefit, at the Company's discretion may be paid in a lump sum or a over a shorter period as and to the extent permitted under Regulations promulgated by the Internal Revenue Service.

Unavailability of Deferred Compensation. I understand that except in the case of a Hardship as defined in the Plan or as permitted by the IRS regulations and the Company, in its sole discretion, none of the Deferred Compensation is payable prior to the Commencement Date as defined in the Plan.

Amount Payable. I understand that the amount payable to me will be based upon the value of my Deferral Account that will depend on the amount of my Deferral Elections and the Declared Rate in effect at the time of this Deferral Election.

Date: _____

Participant's Name _____

Participant's Signature: _____

Date Received: _____

Date Accepted: _____

Famous Dave's of America, Inc.

By: _____

Its: _____

EXHIBIT B

**FAMOUS DAVE'S OF AMERICA, INC.
FIRST AMENDED AND RESTATED NON-QUALIFIED DEFERRED COMPENSATION PLAN
Beneficiary Designation Form**

TO: Famous Dave's of America, Inc. (hereinafter referred to as the "Company"),

In accordance with the rights granted to me in the Famous Dave's of America, Inc. FIRST AMENDED AND RESTATED NON-QUALIFIED DEFERRED COMPENSATION PLAN (the "Plan") and subject to the terms and conditions specified below in this Designation, I hereby designate the following persons and/or entities as my Primary and Contingent Beneficiaries under the Plan to receive, in the event of my death, in accordance with the terms of the Plan, the payments that would otherwise be paid to me absent my death:

Primary Beneficiaries

Name	Relationship	Percentage
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Contingent Beneficiaries:

Name	Relationship	Percentage
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

I understand that this Designation of Beneficiary shall not be effective unless received by the Plan Administrator prior to my death. This designation cancels and supersedes any Designation of Beneficiary heretofore made by me with respect to the Plan and the right to receive payments hereunder.

Date: _____

Participant's Name _____

Participant's Signature: _____

Date Received: _____

Received and accepted this ___ day of ___, 20 ___. Famous Dave's of America, Inc.

By: _____

Its: _____

**SUMMARY PLAN DESCRIPTION OF
FAMOUS DAVE'S OF AMERICA, INC.
FIRST AMENDED AND RESTATED NON-QUALIFIED DEFERRED COMPENSATION PLAN**

INTRODUCTION

Famous Dave's of America, Inc. (the "Company") established the Famous Dave's of America, Inc. FIRST AMENDED AND RESTATED NON-QUALIFIED DEFERRED COMPENSATION PLAN effective as of February 25, 2005 (the "Plan").

THIS SUMMARY IS INTENDED TO SUMMARIZE THE PRINCIPLE TERMS OF THE PLAN. IN THE EVENT OF A CONFLICT BETWEEN THIS SUMMARY AND THE TERMS OF THE PLAN, THE TERMS OF THE PLAN SHALL CONTROL. A COPY OF THE PLAN IS AVAILABLE UPON REQUEST.

WHAT DOES THE PLAN MEAN TO ME?

The Plan was established to provide retirement and other benefits to eligible employees of the Company to assist them in saving for retirement and encourage their continued interest in the success of the Company. The Plan is intended to allow you to defer the receipt of some of your salary, bonuses, and commissions ("Compensation") until a later date. The Company will pay for all of the Plan's benefits and administration costs. The Plan records are kept on a calendar year basis.

WHO IS ELIGIBLE TO PARTICIPATE IN THE PLAN

Any employee of the Company or an Affiliate who is: a "director level" and above employee (as defined by the Company from time to time); one of a select group of management or highly compensated employees, as defined by ERISA; and who is selected by the Company to participate in the Plan is eligible to participate in the Plan.

HOW CAN I PARTICIPATE IN THE PLAN?

You can participate in the Plan by making a Deferral Election to defer the receipt of all or some part of your Compensation to a later date. As discussed below you will receive interest on the amount you defer until it is paid to you or your beneficiary.

HOW DO I MAKE A DEFERRAL ELECTION AND WHEN DO I MAKE AN ELECTION?

Making an Election. You can make a Deferral Election by completing and delivering to the Plan Administrator, a Deferral Election form that you can obtain from the Plan Administrator.

Initial Election. If you become a Participant during a Plan Year you may make a Deferral Election with respect to your Compensation earned during the Plan Year in which you become a Participant provided that such Deferral Election is filed with the Plan Administrator within thirty (30) days after you first become eligible to be a Participant in the Plan. The Deferral Election will be effective beginning on the payroll date that is at least two (2) weeks after the delivery of

the Deferral Election to the Plan Administrator, or such other date as specified by the Plan Administrator. The Deferral Election will apply only to Compensation earned with respect to services you perform after the date of the Deferral Election and prior to the end of the Plan Year in which you first become eligible to be a Participant in the Plan. If you fail to file a Deferral Election within thirty (30) days after you first become eligible to be a Participant in the Plan, no part of your Compensation earned with respect to services performed during the Plan Year in which you first become a Participant in the Plan may be deferred. No Deferral Election will be effective until accepted by the Plan Administrator.

Subsequent Deferrals. Except for a Deferral Election for the Plan Year in which you first becomes a Participant, each Deferral Election for Compensation earned with respect to services performed in a Plan Year must be made not later than the earlier of (a) the day before the first day of the Plan Year, or (b) the date specified by the Plan Administrator or Company. Each such Deferral Election will apply only to Compensation earned with respect to services rendered during the Plan Year. No Deferral Election will be effective until accepted in writing by the Plan Administrator. For example, to defer Compensation earned in 2006, your Deferral Election must be filed with the Plan Administrators not later than December 31, 2005, or such earlier date as is specified by the Plan Administrator.

Revocation or Change of Deferral Election. Except as otherwise permitted in IRS Regulations and by the Plan Administrator, each Deferral Election is irrevocable. No change of any Deferral Election will be effective until accepted by the Plan Administrator in writing.

DOES THE COMPANY MAKE CONTRIBUTIONS TO THE PLAN FOR ME?

The Company may, but is not required to make contributions to our Deferral Account. The Company anticipates making "matching" contributions each year for those Participants who make Deferral Elections in much the same way that the Company makes or can make matching contributions to the Company's 401(k) Plan.

HOW ARE MY BENEFITS UNDER THE PLAN DETERMINED?

Accounts. The Plan Administrator will establish a Deferral Account for you for each Plan Year for which you make a Deferral Election and elect to defer all or a portion of your Compensation earned with respect to Services performed by you during such Plan Year.

Allocations. Your Deferral Accounts will be increased by the amount of Compensation that you elect to defer under your Deferral Election. The amount deferred will be added to the Deferral Account on the date and in the amount that the Compensation that is deferred would otherwise have been paid to you but for the Deferral Election.

Company Discretionary Contributions (if any) will be added to your Deferral Account at such time as directed by the Plan Administrator or the Company.

Each Deferral Account will be reduced by the amount of all payments made to you or your Beneficiary from your Deferral Account.

Your Deferral Account will be increased by the Investment Adjustments at such times as may be specified by the Company, but not less often than quarterly. The Investment Adjustments are like interest and are based upon the Declared Rate established by the Company from time to time

and communicated to you from time to time. The Declared Rate will be set by the Company for each year's Deferral Election and will be set forth in the Deferral Election for each Plan Year.

WHEN AND HOW WILL MY ACCRUED BENEFITS BE PAID?

Commencement of Benefits. The balance of each of your Deferral Accounts (your "Accrued Benefit") will be paid to you beginning on the "Commencement Date." The Commencement Date is the first day of the third month beginning after the earliest of:

- ◆ your Termination of Employment if you are not a Key Employee (see the definition below),
- ◆ the date which is three (3) months after your Termination of Employment if you are a Key Employee,
- ◆ your Disability,
- ◆ the occurrence of a Change in Control Event,
- ◆ January 1st of the first year beginning after the end of the Deferral Period selected by you with respect to each of your Deferral Accounts, or
- ◆ such earlier date as determined by the Company in its sole discretion, provided such determination is permitted under any applicable IRS Regulations.

Generally, "**Termination of Employment**" means your ceasing to be employed by the Company and any Affiliate for any reason whatsoever, voluntary or involuntary, other than by reason of an approved leave of absence.

You are a "**Key Employee**" if (a) the Company's stock is publicly tradable on an established stock exchange or otherwise, and (b) you are a "key employee" as defined in Section 416(i) of the Code (without regard to paragraph (5) thereof). Generally, the term "key employee" for purposes of Section 416(i) of the Code means an employee who, at any time during the plan year, is (i) an officer of the Company having an annual compensation greater than \$130,000 (as adjusted under the Code), (ii) a five percent (5%) owner of the Company, or (iii) a one percent (1%) owner of the Company having an annual compensation from the employer of more than \$150,000 (as adjusted under the Code).

"**Disability**" means that you are:

- . unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, or
- . by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Company.

A “**Change in Control Event**” is generally either the sale of the Company’s assets or the acquisition of the majority of the voting rights in the Company’s stock by a person or group of people acting in concert.

The “**Deferral Period**” is the time period you specify in each Deferral Election and is the time period during which you will not be entitled to receive the Compensation you elect to defer unless you die, suffer from a Disability, incur a Termination of Employment, suffer from a Unforeseeable Emergency (discussed below) or the Company has a Change in Control (discussed below).

Form of Payment. The balance of a Deferral Account will generally be paid to you in either a lump sum or in substantially equal payments over the Payout Period you chose on your Deferral Election.

Death. However, in the event of your death, any of your Accrued Benefit remaining unpaid will be paid in a lump sum to your Beneficiary. (See **WHAT HAPPENS TO MY ACCRUED BENEFIT IF I DIE?** below).

Change In Control Event. In addition, upon a Change of Control Event, the balance of your Deferral Account will be paid to you in a lump sum.

Cash Out for Small Accounts. Further, if your entire Accrued Benefit under the Plan is less than \$10,000.00, or such lesser amount specified by the Company, the Company, may, in its sole discretion, pay you your entire Accrued Benefit in a lump sum or over a shorter period than the Payout Periods you elected provided that the payment is made on or before the later of (a) December 31 of the calendar year in which you have a Termination of Employment or (b) the date two and one-half (2^{1/2}) months after your Termination of Employment.

Payout Period. In your Deferral Election you will specify the Payout Period over which your Accrued Benefit attributable to that Deferral Election will be paid to you.

Changes to the Deferral Period or Payout Period or the Time or Form of Payment of Your Accrued Benefit.

Reductions in Deferral Period/Acceleration of Payments. Except as provided below, or as otherwise permitted in the IRS Regulations and by the Plan Administrator, neither the Deferral Period nor the Payout Period may be reduced, nor may the date of any payment be accelerated.

Extensions/Delays. With the consent of the Plan Administrator and to the extent permitted under the Regulations, the Deferral Period may be extended, the Payout Period increased and the time for any Payment delayed at the written election of the Participant, provided that :

- such election may not take effect until at least twelve (12) months after the date on which the election is made;
- the Payment with respect to which such election is made is deferred for a period of not less than five (5) years from the date such Payment would otherwise have been paid (or in the case of a life annuity or installment

payments treated as a single Payment, five (5) years from the date the first amount was scheduled to be paid);

- any election related to a payment described in §1.409a-3(a)(4) (Payment at a specified time or pursuant to a fixed schedule) may not be made less than twelve (12) months prior to the date the Payment is scheduled to be paid (or in the case of a life annuity or installment payments treated as a single Payment, twelve (12) months prior to the date the first amount was scheduled to be paid); and
- such extension of the Deferral Period or the Payout Period or delay in the time of any Payment is in accordance with the applicable Regulations.

For example, if the Deferral Period ends in 2010, you could extend the Deferral Period so it will end in 2015 provided that you make the request in 2008 or 2016 if you make your request in 2009.

Separate Payments. To the extent provided under the Regulations you may treat each payment to be made to you as a "Separate Payment." Consistent with the Regulations and with the consent of the Plan Administrator, you may extend the Deferral Period or the date of payment separately with respect each Separate Payment.

WHAT HAPPENS TO MY ACCRUED BENEFIT IF I DIE?

Payment of Accrued Benefit. In the event you die prior to receipt of your entire Accrued Benefit, the Company will pay your unpaid Accrued Benefit in a lump sum to your Beneficiary designated on a Beneficiary Designation Form provided to the Company and accepted by the Company.

Unless otherwise specified by you on a Beneficiary Designation Form, if more than one (1) Beneficiary is named within the same class (i.e., Primary or Contingent), then the payments of your Accrued Benefit will be made equally to such Beneficiaries. Unless otherwise specified by you on a Beneficiary Designation Form, if any such Beneficiary dies while receiving payments under the Plan, any and all remaining payments shall continue to be made to the surviving Beneficiaries of such class and to the legal heirs of the deceased Beneficiary, which legal heirs shall receive the amount which was being received by said deceased Beneficiary unless otherwise stipulated in your Beneficiary Designation Form. Unless otherwise specified by you on a Beneficiary Designation Form, if all of the Beneficiaries of a class die, any and all remaining payments will be made to the next class of Beneficiaries.

Unless otherwise provided by you on a Beneficiary Designation Form, if none of the Beneficiaries named are living on any payment date, any and all remaining payments shall be made to the executors or administrators of your estate.

Beneficiary Designation.

General. You may, at any time, submit a Beneficiary Designation Form specifying one (1) or more written designations of Primary and Contingent Beneficiaries to whom payments under this Plan shall be made in the event of your death prior to complete

distribution of the benefits payable to the Participant. Each Beneficiary Designation Form shall become effective only when accepted in writing by the Company. The Company has the right, in its sole discretion, to reject any Beneficiary Designation Form, which is not in substantially the form provided by the Plan Administrator. For purposes of any Beneficiary Designation Form, no person shall be deemed to have survived you if that person dies within thirty (30) days of your death. You may change the Beneficiary named in any Beneficiary Designation Form at any time by filing a new duly executed Beneficiary Designation Form with the Company or the Plan Administrator without the consent of any person or entity then designated as a Beneficiary.

Spouse's Interest. Your designation of your spouse as a beneficiary will be deemed automatically revoked if you or your spouse subsequently file for divorce or legal separation or if your spouse dies prior to you.

WHAT IF I SUFFER A FINANCIAL HARDSHIP.

Hardship Withdrawals. If you suffer an Unforeseeable Emergency, the Plan Administrator will, upon receipt of your written request, pay to you from your Deferral Accounts an amount equal to the lesser of (a) the amount you requested, (b) the balance of your Deferral Accounts as of the date of such payment, or (c) the amount, as determined under the IRS Regulations, necessary to satisfy such Unforeseeable Emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution, determined after taking into account the extent to which such Unforeseeable Emergency is or may be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of your assets (to the extent the liquidation of such assets would not itself cause severe financial hardship).

Unforeseeable Emergency. An Unforeseeable Emergency is a severe financial hardship to you resulting from a sudden and unexpected illness or accident of you, your spouse, or one of your dependents (as defined in section 152(a) of the Code), your loss of property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond your control of the Participant and meeting such other requirements as may be set forth in any applicable IRS Regulations.

Rules Adopted by Plan Administrator. The Plan Administrator may adopt additional rules relating to Hardship Withdrawals provided such rules are consistent with the IRS Regulations. In administering these rules, the Plan Administrator shall act in accordance with any applicable IRS Regulations, the principle being that the primary purpose of this Plan is to provide additional retirement income, not additional funds for current consumption.

ARE THERE OTHER SITUATIONS WHERE THE COMPANY CAN DISTRIBUTE MY ACCRUED BENEFIT?

Yes. In the event there is a determination by the Internal Revenue Service, or in the event of a final determination by a court of competent jurisdiction, that all or any part of your Accrued Benefit hereunder is includable in your gross income, the Plan Administrator shall distribute so much of your Accrued Benefit to you as is includable in your gross income or your Beneficiary and in its sole discretion cause the termination of future Deferral Contributions by you, provided

this provision does not in and of itself cause your Accrued Benefit to be includible in income for United States income tax purposes prior to your actual receipt of such Accrued Benefit in cash.

In the event that there is a determination by the Department of Labor, or a final determination of a court of competent jurisdiction, that the Plan is subject to Part 2, 3 or 4 of Title I of ERISA, the Plan Administrator may in its sole discretion distribute each Participant's Accrued Benefit to the Participant, or, in the case of a deceased Participant, to the Participant's Beneficiary, and cause the termination of future Deferral Contributions by Participants.

CAN MY BENEFITS BE PAID TO SOMEONE OTHER THAN ME?

Payment of Employment Taxes. Yes. To the extent permitted under the IRS Regulations, the Plan Administrator or the Company may permit the acceleration of the time or schedule of a payment under the Plan to pay the Federal Insurance Contributions Act (FICA) tax imposed under Code Sections 3101 and 3121(v)(2) on Compensation deferred under the Plan (the "FICA Amount"). Additionally, the Plan Administrator or the Company may permit the acceleration of the time or schedule of a payment to pay the income tax at source on wages imposed under Code Section 3401 on the FICA Amount, and to pay the additional income tax at source on wages attributable to the pyramiding Code Section 3401 wages and taxes. However, the total payment under this Section shall not exceed the aggregate of the FICA Amount, and the income tax withholding related to such FICA Amount.

Withholding. In addition, any and all payments to be made to you or your beneficiaries pursuant to this Plan shall be subject to all federal, state and local income and employment taxes and such taxes will be withheld accordingly by the Company from your Accrued Benefits under this Plan or from salary, bonuses or other amounts due to you as determined by the Plan Administrator as and to the extent required by applicable law and IRS Regulations.

WILL I EARN INTEREST ON MY DEFERRAL ACCOUNT WHILE ITS IS BEING PAID TO ME?

Yes. Once you are entitled to receive payment of a Deferral Account, the unpaid balance of your Deferral Account will earn interest at the Declared Rate then in effect on the unpaid balance of the Deferral Account. The accrued interest shall be paid with the next payment then due. The Declared Rate on other deferrals may be changed at the discretion of the Company.

CAN BENEFITS BE FORFEITED?

No. Your Benefits under the Plan are fully vested and cannot be forfeited.

CAN THE PLAN BE AMENDED OR TERMINATED?

The Plan may be amended at any time provided that no such amendment may reduce the Deferral Account then credited to you without your consent. The Plan and/or your Deferral Elections may be terminated at any time; provided, that no such termination will reduce your Deferral Account without your consent.

ARE MY ACCRUED BENEFITS ASSIGNABLE?

Benefits Not Transferable. None of the benefits payable at any time under this Plan can be assigned or transferred or subjected in any manner to alienation, pledge, attachment or encumbrance of any kind; except that:

- if a you are indebted to the Company or any Affiliate, the Company and the Affiliate will have the right to offset such indebtedness (including any interest thereon) against any benefits otherwise due to you or your Beneficiary under the Plan, by applying such indebtedness (including any interest thereon) pro-rata to each successive benefit payment due thereafter, until the full amount of the debt and any interest owed has been paid; and
- all or any portion of your unpaid benefits under this Plan may be assigned by court order to your former spouse in connection with a dissolution of your marriage, but only if the Plan Administrator determines, in its sole discretion, that the order satisfies the requirements of a “domestic relations order” as defined in Code Section 414(p)(1)(B)).

ARE MY ACCRUED BENEFITS AT RISK?

Only if the Company is unable to pay its obligation when due. Your Accrued Benefits are payable only out of the assets of the Company and are, for all purposes, an unfunded and unsecured promise to pay money in the future. Your Accrued Benefit is not held in any trust and no provisions of the Plan shall create, or be construed to create, a trust of any kind, or a fiduciary relationship between the Company and any other person. To the extent that you have a right to receive payments from the Company under the provisions hereof, such right shall be no greater than the right of any unsecured general creditor of the Company; you will not have or acquire any legal or equitable right, interest or claim in or to any property or assets of the Company.

WHAT CAN I DO IF I AM DENIED PLAN BENEFITS?

You or your Beneficiary (“Claimant”) may file a written claim for benefits with the Company. The Company must rule on the claim within ninety (90) days of the Claimant’s written claim for benefits. The Company must provide written notice setting forth the specific reason for denial, the pertinent Plan provisions that form the basis of denial, and a description of any additional material that the Claimant needs to provide to perfect his or her claim. In addition, the notice must explain that if the Claimant wishes to appeal the denial of benefits, the Claimant must do so in writing to the Board within ninety (90) days after receiving the Company’s notice of denial of benefits.

WHAT RIGHTS DO I HAVE UNDER ERISA?

A Participant in this Plan is entitled to certain rights and protections under the Employee Retirement Income Security Act of 1974, also called ERISA. ERISA provides that all Plan participants shall be entitled to:

- examine, without charge, at the Plan Administrator’s office and at other specified locations, such as work sites, all Plan documents, including copies of all documents filed by the Plan with the U.S. Department of Labor, such as Plan descriptions;
- obtain copies of all Plan documents and other Plan information upon written request to the Plan Administrator. The Plan Administrator may make a reasonable charge for the copies;
- obtain, once a year, a statement of the total benefits accrued for you and your nonforfeitable (vested) benefits (if any), or the earliest date on which benefits will become nonforfeitable (vested). The Plan may require a written request for this statement, but it must provide the statement free of charge.

In addition to creating rights for Plan participants, ERISA imposes duties upon the people who are responsible for the operation of the Plan. The people who operate your Plan, called “fiduciaries,” have a duty to do so prudently and in the interest of you and other Plan participants and beneficiaries. No one, including your Company or any other person, may fire you or otherwise discriminate against you in any way to prevent you from obtaining a pension benefit or exercising your rights under ERISA.

If a your claim for a Plan benefits is denied in whole or in part, you must receive a written explanation of the reason for the denial. You have the right to have the Plan Administrator review and reconsider your claim. (See “WHAT CAN I DO IF I AM DENIED PLAN BENEFITS?”)

Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request materials from the Plan and do not receive them within thirty (30) days, you may file suit in a federal court. In such a case, the court may require the Plan Administrator to provide the materials and pay you up to \$100.00 a day until you receives the materials, unless the materials were not sent because of reasons beyond the control of the Plan Administrator.

If you have a claim for benefits that is denied or ignored, in whole or in part, you may file suit in a state or federal court.

If the Plan’s fiduciaries misuse the Plan’s money, or if you are discriminated against for asserting your rights, you may seek assistance from the U.S. Department of Labor, or you may file suit in a federal court. The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees if, for example, it finds your claim is frivolous.

If you have any questions about the Plan, you should contact the Plan Administrator. If you have any questions about this statement, or about your rights under ERISA, you should contact the nearest Area Office of the U.S. Labor-Management Services Administration, Department of Labor.

WHO ADMINISTERS THE PLAN?

The Plan Administrator for the Plan is the Company, Famous Dave’s of America, Inc. Service of

legal process, or any request for information concerning eligibility, participation, contributions, or other aspects of the operation of the Plan should be in writing and directed to the Plan Administrator, Famous Dave's of America, Inc. FIRST AMENDED AND RESTATED NON-QUALIFIED DEFERRED COMPENSATION PLAN, c/o Famous Dave's of America, Inc., 12701 Whitewater Drive, Suite 200, Minnetonka, MN 55343.

ARE THE BENEFITS INSURED BY THE PENSION BENEFIT GUARANTY CORPORATION?

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.

This Summary Plan Description has outlined only some of the terms of the Famous Dave's of America, Inc. FIRST AMENDED AND RESTATED NON-QUALIFIED DEFERRED COMPENSATION PLAN. In the event of a conflict between this Summary and the Plan, the terms of the Plan shall control. We will be happy to answer any questions you might have. We are proud to be able to contribute toward your security and well being through the adoption of this Plan.

Yours truly,
FAMOUS DAVE'S OF AMERICA, INC.

Company Identification Number:
Plan No. ____

SUBSIDIARIES OF FAMOUS DAVE'S OF AMERICA, INC.

Entity	FEIN	% of Ownership
Famous Dave's of America, Inc.	41-1782300	100%
D&D of Minnesota, Inc.	41-1856702	100%
Famous Dave's Properties of Texas, Inc.	61-1412539	100%
Famous Dave's Ribs of Maryland, Inc.	41-1958496	97%
Famous Dave's Ribs of Texas, Inc.	30-0070809	100%
Famous Dave's Ribs of Texas, LP	37-1428481	100%
Famous Dave's Ribs, Inc.	41-1884517	100%
Famous Dave's Ribs-U, Inc.	41-1884548	100%
FDA Properties of Texas, LP	30-0070820	100%
FDA Properties, Inc.	36-4379010	100%
Lake & Hennepin BBQ and Blues, Inc.	41-1834594	100%
Minwood Partners, Inc.	51-0396229	100%

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports dated March 10, 2006 accompanying the consolidated financial statements and Schedule II, and management's assessment of the effectiveness of Famous Dave's of America, Inc.'s internal control over financial reporting. Both reports are included in the annual report of Famous Dave's of America, Inc. and its subsidiaries on Form 10-K for the year ended January 1, 2006. We hereby consent to the incorporation by reference of said reports in the Registration Statements of Famous Dave's of America, Inc. on Forms S-3 (File No.'s 333-86358, 333-48492, 333-95311, 333-54562, 333-65428, and 333-73504) and Forms S-8 (File No.'s 333-88928, 333-88930, 333-88932, 333-16299, 333-49939, and 333-49965).

/s/ GRANT THORNTON LLP

Minneapolis, Minnesota
March 10, 2006

CERTIFICATIONS

I, David Goronkin, certify that:

1. I have reviewed this annual report on Form 10-K of Famous Dave's of America, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e and 15d-14) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and we have:
 - a. designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designated under our system to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared; and
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
 - d. disclosed in this annual report changes in the registrant's internal control over financial reporting that occurred during the registrant's fourth quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 17, 2006

By: /s/ David Goronkin

David Goronkin
President, Chief Executive Officer, and Director

I, Diana Garvis Purcel, certify that:

1. I have reviewed this annual report on Form 10-K of Famous Dave's of America, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e and 15d-14) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and we have:
 - a. designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designated under our system to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared; and
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
 - d. disclosed in this annual report changes in the registrant's internal control over financial reporting that occurred during the registrant's fourth quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 17, 2006

By: /s/ Diana Garvis Purcel

Diana Garvis Purcel
Chief Financial Officer and Secretary

**Certification Pursuant to Rule 13a-14(b) of the
Securities Exchange Act of 1934 and 18 U.S.C. Section 1350**

In connection with the Annual Report of Famous Dave's of America, Inc (the "Registrant") on Form 10-K for the annual period ended January 1, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David Goronkin, Chief Executive Officer of the Registrant, certify, in accordance with Rule 13a-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, that to the best of my knowledge:

1. The Report, to which this certification is attached as Exhibit 32.1, fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: March 17, 2006

By: /s/ David Goronkin

David Goronkin
President, Chief Executive Officer, and Director

**Certification Pursuant to Rule 13a-14(b) of the
Securities Exchange Act of 1934 and 18 U.S.C. Section 1350**

In connection with the Annual Report of Famous Dave's of America, Inc (the "Registrant") on Form 10-K for the annual period ended January 1, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Diana Garvis Purcel, Chief Financial Officer of the Registrant, certify, in accordance with Rule 13a-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, that to the best of my knowledge:

1. The Report, to which this certification is attached as Exhibit 32.2, fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: March 17, 2006

By: /s/ Diana Garvis Purcel
Diana Garvis Purcel
Chief Financial Officer and Secretary