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 December 29, 2019
or
☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 001-39053

BBQ HOLDINGS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Minnesota	**83-4222776**
State or Other Jurisdiction of Incorporation or Organization	I.R.S. Employer Identification No.
12701 Whitewater Drive, Suite 290 Minnetonka, MN	**55343**
Address of Principal Executive Offices	Zip Code

Registrant's Telephone Number, Including Area Code **(952) 294-1300**

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value	**BBQ**	**The Nasdaq Global Market**

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

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

Large Accelerated Filer ☐	Accelerated Filer ☐
Non-accelerated Filer ☐	Smaller Reporting Company ☑
Emerging Growth Company ☐	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The aggregate market value of common stock held by non-affiliates of the registrant was approximately $17.3 million as of June 30, 2019, (the last business day of the registrant's most recently completed second quarter), assuming solely for the purpose of this calculation that all directors, officers, and more than 10% shareholders of the registrant are affiliates. The determination of affiliate status for this purpose is not necessarily conclusive for any other purpose. As of March 27, 2020, 9,272,105 shares of the registrant's Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the definitive Proxy Statement for our 2020 Annual Meeting of Shareholders which is to be filed within 120 days after the end of the fiscal year ended December 29, 2019, are incorporated by reference into Part III of this Form 10-K, to the extent described in Part III.

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

PART I

ITEM 1. BUSINESS

Summary of Business Results and Plans

On September 17, 2019 a holding company reorganization was completed in which Famous Dave's of America, Inc. ("FDA") became a wholly owned subsidiary of the new parent holding company named BBQ Holdings, Inc. ("BBQ Holdings"). As used in this Form 10-K, "Company", "we" and "our" refer to BBQ Holdings and its wholly owned subsidiaries. BBQ Holdings was incorporated on March 29, 2019 under the laws of the State of Minnesota, while FDA was incorporated in Minnesota on March 14, 1994. The Company develops, owns, operates and franchises restaurants under the name "Famous Dave's", "Clark Crew BBQ", "Granite City Food & Brewery" and "Real Urban Barbecue." As of December 29, 2019, there were 128 Famous Dave's restaurants operating in 32 states, Canada, and the United Arab Emirates, including 32 Company-owned restaurants and 96 franchise-operated restaurants. The first Clark Crew BBQ restaurant opened in December 2019 in Oklahoma City, Oklahoma. On March 16, 2020, we purchased one Real Urban Barbecue restaurant located in Vernon Hills, Illinois. On March 9, 2020, we purchased 18 Granite City Food & Brewery restaurants in connection with a Chapter 11 bankruptcy filing.

Unless otherwise designated, the following description of our business relates to the Famous Dave's restaurant operation. The following table summarizes the changes in the number of Company-owned and franchise-operated restaurants for the fiscal years ended December 29, 2019 and December 30, 2018:

	Famous Dave's	
	Year Ended December 29, 2019	Year Ended December 30, 2018
Company-owned restaurants:		
Beginning of period	17	16
New	1	—
Repurchased by the Company	18	2
Closed	(4)	(1)
End of period	32	17
% of system	25 %	12 %
Franchise-operated restaurants:		
Beginning of period	127	134
New	3	2
(Repurchased) by the Company	(18)	(2)
Closed	(16)	(7)
End of period	96	127
% of system	75 %	88 %
System end of period total	128	144

As of December 29, 2019, BBQ Holdings restaurants operated in 32 states, Canada, and the United Arab Emirates.

In fiscal 2019, we continued our focus on increasing sales and traffic through various initiatives. These initiatives included; New SMS text platform, Daily Deals promotion targeted at driving weekly dine-in traffic, Plant-Based menu limited-time offering, new menu item testing, continued testing of restaurant refreshes and enhancing our online ordering experience. Off-Premise was a key driver of our sales growth and we continued to expand on these capabilities while also driving adoption in our franchise community.

In October of 2018, we launched our new menu including an average of 10 new menu items across our system. In 2019, we continued to focus and analyze these items while also testing new items like Pretzels and Bratwurst. We also rolled out our Game Day Sampler, which was a “finger-food” based platter utilized as a promotion for various sporting events throughout the year.

In the second quarter of 2019, we launched an SMS-Text program in order to increase frequency and simplify our interaction with loyal guests. This program was a large success in driving traffic and we look to continue building on this program in fiscal 2020.

In fiscal 2020 we will continue our focus on driving sales by expanding on 2019 initiatives along with a new menu pricing strategy and continuing our restaurant refresh program. We are also working diligently to drive unit level margins with a focus on managing controllable costs in our restaurants. We believe continued adoption of technology will help offset increases in labor costs and working to streamline back-of-house operations. Some of these technology tests include; Handheld tablets, Kitchen Display Systems, Tabletop ordering and Kiosks.

In Fiscal 2019, our Franchisees opened two small format Restaurants and Famous Dave’s opened one. We look to continue evaluating these prototypes in fiscal 2020 for continued unit growth.

Throughout this Annual Report on Form 10-K, we refer to certain metrics of our franchise-operated restaurants; however, franchise-operated restaurants are not owned by us and therefore are not included in our consolidated results of operations and financial position. We believe that disclosure of certain information related to franchise-operated restaurants provides useful information to investors as the performance of franchise-operated restaurants directly impacts royalty and other revenues that we receive from our franchisees and has an impact on the perceived success and value of the Famous Dave’s brand.

Financial Information about Segments

Since its inception, our revenue, operating income and assets have been attributable to the single industry segment of the foodservice industry. Our revenue and operating results for each of the last two fiscal years, and our assets for each of the last two fiscal years, are disclosed in Item 8. Financial Statements and Supplementary Data to this Annual Report on Form 10-K.

Narrative Description of Business

Famous Dave’s restaurants, a majority of which offer full table service, feature wood-smoked and off-the-grill entrée favorites that fit into the barbeque category. We differentiate ourselves by providing high-quality food in distinctive and comfortable environments with signature décor and signage. As of December 29, 2019, 25 of our Company-owned restaurants are full-service and 5 are counter-service. Our prototypical design includes a designated bar, a signature exterior smokestack, a separate entrance for our To Go business and a patio. The Famous Dave’s concept can be adapted to fit various location sizes and desired service styles such as full-service or counter-service.

In fiscal 2019, our franchisees opened a Famous Dave’s restaurant in El Centro, Texas, Tucson, Arizona, Provo, Utah, and Abu Dhabi, United Arab Emirates. In fiscal 2019, Famous Dave’s opened a location in Minneapolis, Minnesota to replace the Calhoun Square location, which closed in the second quarter of fiscal 2019. In fiscal 2018, our franchisees opened a restaurant in El Paso, Texas and Fort Mill, South Carolina. In fiscal 2020 we may look to incentivize our franchisees to open additional restaurants. We offer conversion packages that provide our franchisees with the flexibility to convert existing restaurants as well as existing retail footprints into a Famous Dave's restaurant. Given the flexibility and scalability of our concept, we believe that there are a variety of development opportunities available now and in the future.

We pride ourselves on the following:

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

Focus on Guest Experience – We believe that a renewed focus on enhancing our Guests' experience and listening to their feedback is essential. In fiscal 2018, we remodeled our Coon Rapids location, including a new design, color scheme, furniture, audio visual, fixtures & equipment and a revised menu with over 20 new items. We believe a positive Guest experience, combined with our high-quality food, makes BBQ Holdings appealing to a diverse and broad demographic profile. In fiscal 2019, we remodeled two additional locations in Minnetonka, MN and Westbury NY. These remodels tested a new modern design including wall murals, lighter and more welcoming dining rooms and upgraded lighting. We expect to continue refreshing restaurants in 2020. Throughout 2018, we implemented various guest facing initiatives and in 2019, we worked on enhancing those items. In addition to our Mobile App, we rolled a SMS-Text program, and enhanced our Online ordering experience.

Distinctive Environment - ***Décor and Music –*** Our original décor theme was a nostalgic roadhouse shack ("Original Shack"), as defined by the abundant use of rustic antiques and Americana items. This format was used for both full-service and counter-service restaurant formats. In late 1997, we introduced the "Lodge" format which featured décor reminiscent of a comfortable "Northwoods" hunting lodge with a full-service dining room and small bar. We have evolved our format to that of a full-service concept with several "prototypical" designs that incorporate the best attributes of the past restaurants while providing a consistent brand image. Our Coon Rapids remodel showcases a modern, contemporary vibe that we believe will appeal to a younger demographic while still resonating with our current core Guest. We continued these enhancements in 2019, with Minnetonka and Westbury. Our franchise partners also remodeled 10 units across 2019 with these new elements. We have an additional eight Corporate remodels planned for 2020.

Granite City Food & Brewery – Founded in 1999 as a single store restaurant in St. Cloud, Minnesota, the Granite City brand has built a strong reputation in the Midwest for its award-winning craft beer and made-from-scratch craft food. Granite City's menu is chef driven and designed to introduce guests to innovative new cuisine choices and flavor profiles. This concept has separated itself from competition in the casual dining segment through its offering of craft beer expertise, on-site brewing and exceptional Guest experience.

Operating Strategy

Our ability to achieve sustainable profitable growth is dependent upon delivering high-quality experiences in terms of food and hospitality, consistently. Key elements of our strategy include the following:

Operational Excellence – During fiscal 2019, we continued to focus on operational excellence and integrity, and on creating a consistently enjoyable Guest experience, both in terms of food and hospitality, across our system. We define operational excellence as unyielding commitment to superior service for our Guests during every visit. We continue to look for ways to provide convenience and value to our Guests through reducing ticket times and streamlining off-premise operations. Operational excellence involves daily monitoring to ensure we execute our recipes at a high level inclusive of preparation, cooking, and handling procedures, rotation, sanitation, cleanliness and safety.

Our Famous Dave's menu focuses on a number of popular smoked, barbequed, grilled meats, entrée items and delicious side dishes which are prepared using proprietary seasonings, sauces and mixes. In order to enhance our appeal, expand our audience, increase frequency, and feature our cravable products, our culinary team has developed a product pipeline, which will allow us to offer new exciting items throughout the year. In fiscal 2019, we continued our analysis of the new Famous Dave's menu items launched in 2018 while also testing some new items like Pretzels, Bratwurst, and plant based menu items.

Human Resources and Training/Development - A key ingredient to our success lies with our ability to hire, train, engage and retain employees at all levels of our organization. We place a great deal of importance on creating an exceptional working environment for all of our employees. Through our human resource and training and development resources, tools and programs, we continually enhance and support superior performance within our restaurants and support center.

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

In the training and development arena, we offer a variety of ongoing on-the-job and classroom and eLearning training programs for the operations teams (hourly employees, restaurant managers) in an effort to create defined career paths. Our management training program provides new restaurant managers a foundational-based training for restaurant operations and several learning sessions focused on the basic behaviors and skills of a manager. As an enhancement to our current management training curricula, in 2020 we are preparing to offer a series of general manager workshops for all of our corporate and franchise general managers with the goal of increasing knowledge specific to the brand and overall skill enhancement that will further develop and hone in on skills acquired during the original management training experience and those specific to the role of the general manager.

Restaurant Operations

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

All managers must complete an eight-week training program, during which they are instructed in areas such as food quality and preparation, customer service, hospitality, and employee relations. We have prepared operations manuals relating to food and beverage quality and service standards. New employees participate in training under the supervision of our management. We have a vice president of operations who is responsible for overseeing all Company-owned restaurants. This individual as well as our area directors, work closely with the general managers to support day-to-day restaurant operations. In addition, the vice president and area directors assist in the professional development of our general managers and are instrumental in driving our vision of operational integrity and contributing to the improvement of results achieved at our restaurants, including building sales, developing personnel and growing profits. The area directors oversee 10-12 locations and report to our vice president of operations. Our vice president of operations reports directly to our senior vice president of operations at BBQ Holdings.

Off-Premise Occasions - Focus on Convenience

In addition to our lively and entertaining dine-in experience, we provide our Guests with maximum convenience by offering an expedient take-out service along with catering and delivery. 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. The high quality, fair prices and avoidance of preparation time make take-out of our product particularly attractive. Our off-premise sales provide us with revenue opportunities beyond our in-house seating capacity and we continue to seek ways to leverage these segments of our business. We see catering and delivery as a tremendous opportunity for new consumers to access our business. Every restaurant has dedicated vehicles to support our catering initiatives and many restaurants are served by multiple third-party delivery providers.

Our restaurants have been designed specifically to accommodate a significant level of To Go sales, including a separate To Go entrance with prominent and distinct signage, and, for added convenience, we separately staff the To Go counter. To further enhance To Go sales, we offer our Guest the ability to order online to improve convenience. We believe our focus on To Go enables Famous Dave's to capture a greater portion of the "take-out" market by allowing consumers to "trade within our brand," when dining in is not always an option. We pursue efforts to increase awareness of To Go in all Company-owned and franchise-operated restaurants by featuring signage and merchandising both inside and outside the restaurants. Additionally, we contract with several Delivery Service Providers ("DSP") to offer our Guests additional methods for receiving our food.

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

Value Proposition and Guest Frequency – We offer high quality food and a distinctive atmosphere at competitive prices to encourage frequent patronage. Lunch and dinner entrees range from $6.99 to $27.99, resulting in a per person dine-in and To Go average of $15.63 during fiscal 2019. During fiscal 2019, the per person dine-in and To Go tickets for lunch averaged $14.09 and for dinner averaged $16.73. We launched a "Famous Deals" program in the third quarter of fiscal 2019 intended to drive weekday dine-in traffic. These offers ranged from $3 burgers to $2 ribs on different days of the week. We had a great deal of success driving dine-in traffic on these days, and we intend to continue the program in fiscal 2020 while tweaking the offers quarterly. In addition, we intend to use value priced offerings, loyalty based incentives, new product introductions, and the convenience of connecting with Guests on their own terms, to drive new and infrequent Guests into our restaurants for additional meal occasions.

Marketing, Promotion and Sales

We believe that by specializing in unique and distinctive smoked meats, poultry & fish, our menu specialty helps set the brand apart from the crowded field in casual dining. To further develop the advertising and promotional materials and programs designed to create brand awareness and increase the reach of the brand, we have a system-wide marketing fund. All Company-owned restaurants, and those franchise-operated restaurants with agreements signed after December 17, 2003 are generally required to contribute 1.0% of net sales to this fund, which substantially funds the marketing and digital teams. In fiscal 2019, the Marketing Ad Fund contribution for contributing franchisees was 1.0% of net sales and will continue to be so in fiscal 2020.

The marketing team, working with outside agencies and other resources, is responsible for the advertising, promotion, creative development, and branding for Famous Dave's. Franchise-operated restaurants place the advertising and marketing programs in their local markets based on contractual requirements. Famous Dave's uses industry standard marketing efforts that include brand and graphic design, broadcast media, digital, online & social media platforms, public relations and out-of-home vehicles.

The strategic focus for marketing and promotion is to ensure that Famous Dave’s is recognized as the category–defining brand in barbeque, to create and sustain attractive differentiation in consumer’s mind, and to continue to strengthen the brand’s positioning and consistency. To help drive top-line sales, we have selectively tested discount based promotional activity across various channels. Given the results in 2019 we believe there is a place for limited discounting to increase frequency and drive traffic.

In 2019, we highlighted value and affordability in our menu along with promoting additional value offerings through limited time offers. We also continued to promote our To Go and Catering offering while rolling out delivery on a large-scale basis. This has allowed us to connect with Guests on their terms and offer unique and often compelling sources of growth, and each occasion is growing at a different rate.

Location Strategy

We believe that the barbeque segment of the casual dining restaurant industry continues to offer strong growth opportunities, and we believe we are positioned for growth on a geographical basis. Our geographical concentration, as of December 29, 2019, was 41% Midwest, 9% Middle Atlantic, 10% South, 33% West, 4% Northeast and 4% International.

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

In fiscal 2019, our franchisees opened two small format restaurant prototypes and BBQ Holdings opened one. All three restaurants have slight variations in menu and service style so we can analyze these results. These restaurants will help us shape our future unit growth.

These new service models will allow us to access new markets or strategically locate restaurants in existing markets where a full-service restaurant is unlikely to be financially viable. The surrounding trade area will determine which service style is appropriate. Site selection will focus on converting second-generation space cost effectively. We intend to finance company restaurant development through the use of cash on hand, cash flow generated from operations, through availability on our revolving line of credit and future additional debt.

We expect to continue to grow our Famous Dave’s franchise program. Our goal is to continue to improve the economics of our current restaurant prototypes, while providing more cost-effective development options for our franchisees. Our franchise system is a significant part of our brand’s success. As such, another one of our goals is to be a valued franchisor; to enhance communication and recognition of best practices throughout the system and to continue to expand our franchisee network domestically and internationally.

Purchasing

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

Approximately 85% of our food and non-alcoholic beverage purchases are on contract, with the majority being proteins. Pork represents approximately 37% of our total purchases, while beef, which includes hamburger and brisket, is approximately 19%, chicken is approximately 14%, and seafood is approximately 3%.

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

Information Technology

We recognize the importance of leveraging information and technology to support and extend our competitive position in the restaurant industry. We continue to invest in initiatives that provide secure and efficient operations, enhance the Guest experience and provide benchmarks that allow us to evaluate our operational metrics.

We utilize industry-leading service providers and cloud services to streamline processes at both the restaurant and support center. Interfaces between point-of-sale (“POS”), labor management, inventory management, menu management, digital platforms and financial systems are the foundation of our enterprise analytics platform. We also continue to implement and support solutions to capitalize on current digital market trends to drive sales and realize operational efficiency.

Trademarks

Our company has registered various trademarks, makes use of various unregistered marks, and intends to vigorously defend these marks. We highly value our 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

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 or her restaurants independently. Various laws limit our ability to influence the day-to-day operation of our franchise restaurants. We cannot assure you that the franchisees will be able to successfully operate BBQ Holdings restaurants in a manner consistent with our standards for operational excellence, service and food quality.

As of December 29, 2019, we had 30 ownership groups with franchise-operated restaurants in the following locations:

United States	
Arizona	2
California	10
Delaware	1
Florida	2
Illinois	8
Indiana	2
Iowa	2
Kansas	1
Kentucky	1
Maine	1
Maryland	4
Michigan	4
Minnesota	3
Missouri	1
Montana	4
Nebraska	3
Nevada	5
New Jersey	1
North Dakota	3
Oregon	2
Ohio	2
Pennsylvania	2
South Carolina	1
South Dakota	1
Tennessee	3
Texas	4
Utah	3
Virginia	4
Washington	4
Wisconsin	6
United States Total	90
International	
Canada	1
United Arab Emirates	5
International total	6
Total franchise-operated restaurants	96

Our franchise operations department is led by our senior vice president of operations, who guides the efforts of our director of franchise operations and two franchise business consultants. The director of franchise operations and franchise business consultants have the responsibility of supporting our franchisees throughout the system and play a critical role for us as well as for our franchise community. The director of franchise operations and franchise business consultants manage the relationship between us and our franchisees and provides 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 operations planning sessions with our franchise partners and review the individual strategies and tactics for obtaining superior performance for the franchisee. They ensure compliance with obligations under our area development and franchise agreements. Franchisees are encouraged to utilize all available assistance from the franchise business consultants and the support center but are not required to do so.

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

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. In fiscal 2019, certain franchisees were required to contribute 1.0% of net sales to a marketing fund dedicated to providing digital and creative services. Currently, franchisees are required to spend approximately 1.5% of their net sales annually on local marketing activities.

Seasonality

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

Government Regulation

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

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 have in the past and could in the future be required to incur costs to modify our restaurants in order to provide service to, or make reasonable accommodations for, disabled persons. Our restaurants are currently designed to be accessible to the disabled, and we believe we are in substantial compliance with all current applicable regulations relating to this Act.

Team Members

As of December 29, 2019, we employed approximately 1,677 team members of which approximately 172 were salaried full-time employees. None of our team members are covered by a collective bargaining agreement. We believe that we have good relationships with our team members.

Available Information

Copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on our website (www.bbq-holdings.com) as soon as reasonably practicable after we electronically file the material with or furnish it to the SEC. Additionally, the SEC maintains an internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Information on our website or linked to our website is not incorporated by reference into this Annual Report.

ITEM 1A. RISK FACTORS

We make written and oral statements from time to time, including statements contained in this Annual Report on Form 10-K regarding our 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 SEC, news releases, written or oral presentations made by our officers or other representatives to analysts, shareholders, investors, news organizations, and others, and discussions with our management and other representatives of our company. For such statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

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

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

Health concerns arising from the recent global coronavirus COVID-19 outbreak or other diseases have and may in the future adversely affect our business and results of operations.

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious virus, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, customers, economies, and financial markets globally, leading to an economic downturn. It has also disrupted the normal operations of many businesses, including ours. It is not possible for us to predict the duration or magnitude of the adverse results of the outbreak and its effects on our business or results of operations at this time. A health pandemic is an outbreak of a disease that occurs over a wide geographic area and affects an exceptionally high proportion of the population. Many customers are avoiding public gathering places due to this health pandemic, and local, regional and national governments are limiting or banning public gatherings to halt or delay the spread of this virus. These conditions are impacting our restaurant customer traffic and may hinder our ability to adequately staff our restaurants, receive deliveries on a timely basis or perform functions at the corporate level. Many jurisdictions in which we have restaurants have imposed mandatory closures, recommended voluntary closures or other restrictions on operations due to the spread of the COVID-19 virus. Even if such mandatory or voluntary measures are not implemented, the perceived risk of infection or significant health risk may adversely affect our business.

The spread of the COVID-19 virus and the resulting restaurant closures will likely significantly reduce our sales at Company-owned restaurants, and adversely affect the profitability of our franchisees and may inhibit their ability to pay us franchise fees when due.

The United States and other countries have experienced, or may experience in the future, outbreaks of other viruses, norovirus, Avian Flu or “SARS,” and H1N1 or “swine flu,” or other diseases such as bovine spongiform encephalopathy, commonly known as “mad cow disease.” To the extent that a virus or disease is food-borne, or perceived to be food-borne, future outbreaks may adversely affect the price and availability of certain food products.

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

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

Integrating the operations of the 18 Granite City restaurants we acquired in March 2020 may prove to be more difficult, costly and time consuming than expected, which could cause us not to realize some or all of the anticipated benefits and synergies of the acquisition.

The Granite City acquisition will involve substantial non-recurring costs, including significant transaction costs, regulatory costs and integration costs, such as facilities, systems and employment-related costs, and we may incur unanticipated costs or unknown liabilities which may be significant. Uncertainties associated with the manner in which the combined company following the acquisition will fare in the global economic environment may adversely affect the combined company's business and operations. The acquisition and the operation of the Granite City concept can lead us to incur unknown or new types of costs and liabilities, subject us to new regulatory and compliance frameworks, new market risks, involve operations in new geographies and challenging labor, regulatory and tax regimes as well as the execution and compliance costs and risks associated with such activities.

In connection with the Granite City acquisition, we have incurred additional debt, which could adversely affect us, including lowering our credit ratings, increasing our interest expense and decreasing our business flexibility, particularly if we are not able to realize some or all of the anticipated benefits and synergies of the Granite City acquisition.

Uncertainties associated with the acquisition may adversely affect Famous Dave's and Granite City's respective abilities to attract and retain management and other key employees during the integration period, and may disrupt our businesses which could impact our ability to retain customers, adversely affecting either or both concept's respective businesses and operations, which could cause us not to realize some or all of the anticipated benefits of the Granite City acquisition.

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

On June 20, 2019, we and certain of our affiliates entered into a loan arrangement with Choice Financial Corp. ("Choice") providing for a term loan in the principal amount of $24.0 million (the "First Note"). We are subject to various financial and non-financial covenants under the loan agreement, including a minimum debt-service coverage ratio. As of December 29, 2019, we were in compliance with all of our covenants; however, there can be no assurance that we will be able to comply with all of our financial and non-financial covenants in the future. A failure to comply with these covenants could cause us to be in default of our agreements and Choice would be within its rights to accelerate the maturity dates of any amount owed on our existing loan. If we were unable to repay outstanding amounts, either using current cash reserves, a replacement facility or another source of capital, our lender would have the right to foreclose on our real estate and personal property, which serves as collateral for the loan. Replacement financing may be unavailable to us on similar terms or at all. Termination of our existing loan without adequate replacement, either through a similar facility or other sources of capital, would have a material and adverse impact on our ability to continue our business operations.

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

Our company's future revenue and operating income will depend upon various factors, including continued and additional market acceptance of the BBQ Holdings brands, the quality of our restaurant operations, our ability to grow our brands, 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 BBQ Holdings restaurants are or will be located, economic conditions affecting disposable consumer income, general economic conditions and the continued popularity of the BBQ Holdings brands. 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.

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

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

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

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

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

We compete directly and indirectly for customer traffic with national and regional casual dining restaurant chains, as well as independently-owned restaurants. In addition, we face competition for customer traffic from fast casual and quick-service restaurants, home delivery services, mobile food service, grocery stores and meal kits that are increasing the quality and variety of their food products in response to customer demand. This increased competition, coupled with an oversupply of restaurants, has driven casual dining industry comparable traffic declines in recent years. This backdrop has made it even more challenging to improve customer traffic. We believe that many consumers remain focused on value and if our competitors, many of whom have significantly greater resources to market aggressively to customers, are able to promote and deliver a higher degree of perceived value, our customer traffic could suffer.

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

Our growth and success depends in part upon increasing the number of our franchised restaurants through execution of area development and franchise agreements with new and existing franchisees in new and existing markets. Our ability to successfully franchise additional restaurants or re-franchise existing Company-owned restaurants will depend on various factors, including our ability to attract, contract with and retain quality franchisees, the availability of suitable sites, the negotiation of acceptable leases or purchase terms for new locations, the negotiation of acceptable terms for the re-franchising of existing Company-owned restaurants, permitting and regulatory compliance, the ability to meet construction schedules, the financial and other capabilities of our franchisees, our ability to manage this anticipated expansion and general economic and business conditions. Additionally, certain of our long-term debt is subject to various financial covenants and secured by the land and real estate of restaurant locations that we own, and we will likely have to obtain approval from our lender and refinance this long-term debt. We may also be subject to additional impairment charges, lease termination and other charges, and increased financial statement disclosure requirements. Many of the foregoing factors are beyond our control or the control of our franchisees and there can be no assurance that we will be able to successfully carry out our franchising and refranchising strategy on terms acceptable to our management and Board, or at all.

Our growth and success also depend upon the ability of our franchisees to operate their restaurants successfully to our standards and promote the BBQ Holdings brands. Although we have established criteria to evaluate prospective franchisees, and our franchise agreements include certain operating standards, each franchisee operates its 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 BBQ Holdings 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 revenue, operating income and cash flows, and our ability to leverage the BBQ Holdings brands. In addition, there can be no assurance that our franchisees will have access to financial resources necessary to open the restaurants required by their respective area development agreements, which would negatively impact our growth plans.

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

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

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

The restaurant industry is subject to extensive federal, state, and local government regulation by various government agencies, including state and local licensing, zoning, land use, construction and environmental regulations and various regulations relating to the preparation and sale of food and alcoholic beverages, sanitation, disposal of refuse and waste products, public health, safety and fire standards, adjustments to tip credits, minimum wage requirements, working conditions, hiring and employment practices, workers' compensation and citizenship requirements. Our facilities must comply with the applicable requirements of the Americans with Disabilities Act of 1990 ("ADA") and related state accessibility statutes. Under the ADA and related state laws, we must provide equivalent service to disabled persons and make reasonable accommodation for their employment, and when constructing or undertaking significant remodeling of our restaurants, we must make those facilities accessible. Due to the fact that we offer and sell franchises, we are also subject to federal regulation and certain state laws which govern the offer and sale of franchises. Many state franchise laws impose substantive requirements on franchise agreements, including limitations on non-competition provisions and termination or non-renewal of a franchise. We may also be subject in certain states to "dram-shop" statutes, which provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. In addition, our operating results would be adversely affected in the event we fail to maintain our food and liquor licenses.

Any change in the current status of such regulations, including an increase in team member benefits costs, any and all insurance rates, or other costs associated with team members, could substantially increase our compliance and labor costs. Because we pay many of our restaurant-level team members rates based on either the federal or the state minimum wage, increases in the minimum wage would lead to increased labor costs. As a franchisor, we may be party to complaints naming us as a joint employer of workers at our franchisees. Such complaints or similar complaints could result in legal proceedings against us, based on the actions of our franchisees. Enactment and enforcement of various federal, state and local laws, rules and regulations on immigration and labor organizations may adversely impact the availability and costs of labor for our restaurants in a particular area or across the United States. Other labor shortages or increased team member turnover could also increase labor costs. Furthermore, restaurant operating costs are affected by increases in unemployment tax rates and similar costs over which we have no control.

We are subject to laws and regulations relating to the preparation and sale of food, including regulations regarding product safety, nutritional content and menu labeling. We are subject to laws and regulations requiring disclosure of calorie, fat, trans fat, salt and allergen content. There is a risk that consumers' dining preferences may be impacted by such menu labeling. If we elect to alter our recipes in response to such a change in dining preferences, doing so could increase our costs and/or change the flavor profile of our menu offerings which could have an adverse impact on our results of operations.

We are subject to laws relating to information security and privacy. As a merchant and service provider of point-of-sale services, we are also subject to the Payment Card Industry Data Security Standard issued by the Payment Card Industry Council ("PCI DSS").

U.S. federal income tax reform could adversely affect us.

On December 22, 2017, President Donald Trump signed into law sweeping tax reform, which overhauls individual, business and international taxes including, but not limited to:

- Reducing the corporate federal statutory tax rate to 21%
- Limiting net interest expense deductions to 30% of adjusted taxable income
- Limiting the net operating loss deduction to 80% of taxable income

If we fail to generate significant taxable income, we may not be able to fully deduct the interest expense on our debt, which could result in us having to pay increased federal income taxes. We have also generated substantial taxable losses in the past and may continue to do so in the future. Although the treatment of tax losses generated before December 31, 2017 has not changed, subsequent tax losses generated will only be able to offset 80% of taxable income, although the losses may be carried forward indefinitely. This could cause us to have to pay federal income taxes despite generating a loss for federal income tax purposes in the future.

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

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

A significant negative publicity event could have an adverse impact on our business or our relationships with customers, partners and franchisees.

Our business and reputation could be adversely affected by a negative publicity event resulting from any key stakeholder's statements and actions. If we were unable to rebuild the trust of our customers, franchisees, business partners and suppliers, and if further negative publicity continued, we could experience a substantial negative impact on our business. We could also experience additional claims or litigation as a consequence of those events.

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

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

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

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

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

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

We rely heavily on information technology to conduct our business, including point-of-sale processing in our and our franchisees' restaurants, online ordering and delivery, management of our supply chain, collection of cash and other receivables, payment of obligations and various other processes and procedures, and any material failure or interruption of service could adversely affect our operations. Our ability to effectively and efficiently manage our business depends significantly on the reliability and capacity of these systems. The failure of these systems to operate effectively, problems with maintenance, upgrades or the transition to replacement systems, inaccurate or fraudulent manipulation of sales reporting from our restaurants resulting in loss of sales and royalty payments, or a breach in security of these systems could be harmful and cause delays in customer service, reduce efficiency in our operations and negatively impact our business. Significant capital investment might be required to remediate any problems. In addition, we outsource certain essential technology-based business processes to third-party vendors and we may share sensitive financial and other information with third party vendors which subjects us to risks, including disruptions in business, increased costs and exposure to data breaches or privacy law compliance issues of our third-party vendors.

Recently, retailers have experienced actual or potential security breaches in which credit and debit card information may have been compromised, including several highly-publicized incidents. Although we take it very seriously and expend resources to ensure that our information technology operates securely and effectively, any security breaches could result in disruptions to operations or unauthorized disclosure of confidential information. If our customers' consumer data or our team members' personal data are compromised, our operations could be adversely affected, our reputation could be harmed, and we could be subjected to litigation or the imposition of penalties and other remedial costs. In addition, as a franchisor, we are subject to additional reputation risk associated with data breaches that could occur at one of our franchise locations that could potentially harm the BBQ Holdings brand reputation.

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

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

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

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

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

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

Changes in consumer buying patterns, particularly e-commerce sites and off premise sales affect our revenues, operating results and liquidity.

Our restaurants are primarily located near high consumer activity areas such as regional malls, lifestyle centers, “big box” shopping centers and entertainment centers. We depend in large part on a high volume of visitors to these centers to attract customers to our restaurants. E-commerce or online shopping continues to increase and negatively impact consumer traffic at traditional “brick and mortar” retail sites located in regional malls, lifestyle centers, “big box” shopping centers and entertainment centers. A decline in visitors to these centers near our restaurants may negatively affect our sales. Additionally, e-commerce or online shopping has caused some “brick and mortar” retail sites to cease operations, and it may continue to cause future “brick and mortar” retail sites to cease operations. These closures of traditional “brick and mortar” retail sites may lead to reduced customer traffic and a general deterioration in the surrounding retail centers in which our restaurants are located and may contribute to lower customer traffic at our restaurants.

In the last several years, off-premise sales, specifically delivery, have increased due to consumer demand for convenience. While we plan to continue to invest in the growth of our off-premise sales, there can be no guarantee that we will be able to increase our off-premise sales. Off-premise sales could also cannibalize dine in sales, or our systems and procedures may not be sufficient to handle off-premise sales, which require additional investments in technology or people. Additionally, a large percentage of delivery from our restaurants is through third-party delivery companies. These-third party delivery companies require us to pay them a commission, which lowers our profit margin on those sales; however, we believe that the majority of such sales are incremental. Any bad press, whether true or not, regarding third-party delivery companies or their business model may negatively impact our sales. If these third-party delivery companies cease doing business with us, or cannot make their scheduled deliveries, or do not continue their relationship with us on favorable terms, it will have a negative impact on sales or result in increased third-party delivery fees.

New information or attitudes regarding diet, health and the consumption of alcoholic beverages may materially affect customer demand and have an adverse impact on our results of operations.

Regulations and consumer eating habits may change as a result of new information or attitudes regarding diet and health. Such changes may include regulations that impact the ingredients and nutritional content of the food and beverages we offer. For example, several municipalities and states have approved restrictions on the use of trans-fats by restaurants. The success of our restaurant operations is dependent, in part, upon our ability to effectively respond to changes in any consumer health regulations and our ability to adapt our menu offerings to trends in food consumption. If consumer health regulations or consumer eating habits change significantly, we may be required to modify or delete certain menu items. To the extent we are unable to respond with appropriate changes to our menu offerings, it may materially affect customer demand and have an adverse impact on our results of operations. The risks and costs associated with nutritional disclosures on our menus may also impact our operations, particularly given differences among applicable legal requirements and practices within the restaurant industry with respect to testing and disclosure, ordinary variations in food preparation among our own restaurants, and the need to rely on the accuracy and completeness of nutritional information obtained from third-party suppliers.

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

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

Minnesota law and our Articles protect our directors from certain types of lawsuits, which could make it difficult for us to recover damages from them in the event of a lawsuit.

Minnesota law provides that our directors will not be liable to our company or to our shareholders for monetary damages for all but certain types of conduct as directors. Our Articles require us to indemnify our directors and officers against all damages incurred in connection with our business to the fullest extent provided or allowed by law. The exculpation provisions may have the effect of preventing shareholders from recovering damages against our directors caused by their negligence, poor judgment or other circumstances. The indemnification provisions may require our company to use its assets to defend our directors and officers against claims, including claims arising out of their negligence, poor judgment, or other circumstances.

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. 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

We believe that our properties will be suitable for our needs and adequate for operations for the foreseeable future. The following table sets forth certain information about our existing Company-owned restaurant locations, as of December 29, 2019:

Location	Square Footage	Owned or Leased	Date Opened/Acquired
1 Roseville	4,800	Leased	6/10/1996
2 Maple Grove	6,132	Leased	4/28/1997
3 Highland Park	5,200	Leased	6/16/1997
4 Apple Valley	3,800	Leased	7/18/1997
5 Forest Lake	4,875	Leased	10/13/1997
6 Minnetonka	5,500	Leased	12/20/1997
7 Plymouth	4,094	Owned	12/29/1997
8 Des Moines (West)	5,370	Leased	4/10/1998
9 Woodbury	5,900	Owned	10/27/1998
10 Coon Rapids	5,693	Owned	12/18/2006
11 May's Landing	6,500	Leased	9/13/2004
12 Westbury	6,930	Leased	10/25/2005
13 Mountainside	8,674	Leased	3/25/2002
14 Janesville	4,100	Leased	8/7/2018
15 Greenwood	5,700	Leased	10/9/2018
16 Aurora	6,727	Leased	3/5/2019
17 Colorado Springs	8,461	Leased	3/5/2019
18 Grand Junction	6,800	Leased	6/4/2019
19 Stapleton	6,000	Leased	3/5/2019
20 Thornton	6,500	Leased	3/5/2019
21 Madison	4,298	Leased	5/15/2019
22 Greenfield	6,700	Leased	5/15/2019
23 Flint	5,626	Leased	5/1/2019
24 Saginaw	6,157	Leased	5/1/2019
25 Toledo	5,533	Leased	5/1/2019
26 Grandville	6,651	Leased	5/1/2019
27 Peoria	6,500	Leased	7/11/2019
28 Chandler	6,500	Leased	7/11/2019
29 Mesa	6,500	Leased	7/11/2019
30 Cedar Falls	5,400	Leased	6/18/2019
31 Florence	5,693	Leased	7/30/2019
32 Lake Street	3,000	Leased	12/19/2019

All square footage listed is approximate. Interior seating ranges from approximately 50 at our counter service locations to approximately 275 at our full service restaurants.

Our Minnesota executive offices are currently located in approximately 10,946 square feet in Minnetonka, Minnesota. Our executive office lease expires in November 2025. During 2015, our 8,400-square foot office in Lombard, IL was closed and sublet to another tenant. This office lease expires in October 2022.

ITEM 3. LEGAL PROCEEDINGS

The information contained in Note 8 “Commitments and Contingencies” of the notes to the accompanying consolidated financial statements included in this Annual Report on Form 10-K is incorporated by reference into this Item 3. Except as set forth therein, as of the end of the period covered by this Annual Report on Form 10-K, we are not a party to any material pending legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

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

Market Information

Our common stock has traded on the Nasdaq Stock Market since July 24, 1997 and trades under the symbol BBQ. Currently, our common stock trades on the Nasdaq Global Market.

Holders

As of March 10, 2020, we had approximately 80 shareholders of record and approximately 2,918 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 growth and reduce our debt levels. 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

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

The purpose of the 2015 Plan is to increase shareholder value and to advance the interests of our company by furnishing a variety of economic incentives designed to attract, retain and motivate team members (including officers), certain key consultants and directors of our company. The Plans have each been approved by the shareholders of our company. The following table sets forth certain information as of December 29, 2019, with respect to the 2005 Plan and the 2015 Plan.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options Warrants and Rights (A)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (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 shareholders:			
2005 Stock Incentive Plan	450	$ 28.53	—
2015 Stock Incentive Plan	451,694	6.28	237,333
TOTAL	452,144	$ 6.71	237,333

Performance Graph

Not applicable to smaller reporting companies.

Purchases of Equity Securities by the Issuer

None

ITEM 6. SELECTED FINANCIAL DATA

Not applicable to smaller reporting companies.

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

Overview

In September 2019 a holding company reorganization was completed in which FDA became a wholly owned subsidiary of the new parent holding company named BBQ Holdings. BBQ Holdings was incorporated in March 2019 under the laws of the State of Minnesota, while FDA was incorporated in Minnesota in March 1994 and opened its first restaurant in Minneapolis, Minnesota in June 1995. As of December 29, 2019, there were 128 Famous Dave's restaurants operating in 32 states, Canada, and the United Arab Emirates, including 32 Company-owned restaurants and 96 franchise-operated restaurants. An additional 63 restaurants were committed to be developed through signed area development agreements as of December 29, 2019. The first Clark Crew BBQ restaurant opened in December 2019 in Oklahoma City, Oklahoma. On March 19, 2020, we purchased one Real Urban Barbecue restaurant, located in Vernon Hills, Illinois. On March 9, 2020, we purchased 18 Granite City Food & Brewery restaurants in connection with a Chapter 11 bankruptcy filing.

Impact of the COVID-19 Virus on our business

In March 2020 the World Health Organization declared the novel strain of coronavirus ("COVID-19") a global pandemic. This contagious virus, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, customers, economies, and financial markets globally, leading to an economic downturn. It has also disrupted the normal operations of many businesses, including ours. Many customers are avoiding public gathering places due to this health pandemic, and local, regional and national governments are limiting or banning public gatherings to halt or delay the spread of this virus. These conditions are impacting our restaurant customer traffic and may hinder our ability to adequately staff our restaurants, receive deliveries on a timely basis or perform functions at the corporate level. We have also been affected in jurisdictions in which we have restaurants operating under imposed mandatory closures and/or restrictions on operations. Even if such mandatory or voluntary measures are not implemented, the perceived risk of infection or significant health risk may adversely affect our business. While it is not possible for us to predict the duration or magnitude of the adverse results of the outbreak and its effects on our business or results of operations at this time, we do anticipate it will have an adverse effect on our revenue and profitability in fiscal 2020.

Fiscal Year

Our fiscal year ends on the Sunday nearest to December 31st of each year. Our fiscal year is generally 52 weeks; however, it periodically consists of 53 weeks. The fiscal years ended December 29, 2019 (fiscal 2019) and December 30, 2018 (fiscal 2018) consisted of 52 weeks. Fiscal 2020, which ends on January 3, 2021, will consist of 53 weeks.

Basis of Presentation

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

Application of Critical Accounting Policies and Estimates

The following discussion and analysis of our financial condition and results of operations is based upon our 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 materially from these estimates under different assumptions or conditions. Our management believes the following critical accounting policies reflect its more significant judgments and estimates used in the preparation of our consolidated financial statements. Our company's significant accounting policies are described in Note 1 to the consolidated financial statements included herein.

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

Recognition of Franchise-Related Revenue

We recognize franchise fee revenue on a straight-line basis over the life of the related franchise agreements and any exercised renewal periods. Cash payments are due upon the opening of a new restaurant or upon the execution of a renewal of the related franchise agreement. Our performance obligation with respect to franchise fee revenues consists of a license to utilize our brand for a specified period of time, which is satisfied equally over the life of each franchise agreement.

Area development fees are deferred until a new restaurant is opened pursuant to the area development agreement, at which time revenue is recognized on a straight-line basis over the life of the franchise agreement. Cash payments for area development agreements are typically due when an area development agreement has been executed. Gift card breakage revenue is recognized proportionately as gift cards are redeemed utilizing an estimated breakage rate based on our historical experience. Gift card breakage revenue is reported within the licensing and other revenue line item of the consolidated statements of operations.

The Company reports contributions from franchisees to our company's system-wide Public Relations and Marketing Development Fund (the "NAF") on a gross basis within the franchisee national advertising fund contributions line item on the consolidated statements of operations.

Costs and Expenses

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

General and Administrative Expenses

General and administrative expenses include all corporate and administrative functions, other than marketing and digital services. Salaries and benefits, legal fees, accounting fees, professional consulting fees, travel, rent and general insurance are major items in this category. Additionally, we record expense for managers-in-training ("MITs") in this category.

Asset Impairment, Estimated Lease Termination and Other Closing Costs

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

Lease Accounting

We lease the property for our corporate headquarters, most of our Company-owned stores, and certain office and restaurant equipment. We determine if an arrangement is a lease at inception. Operating leases are included in operating lease right-of use ("ROU") assets, current portion of operating lease liabilities, and operating lease liabilities in its consolidated balance sheets. ROU assets and operating lease liabilities are recognized based on the present value of lease payments over the lease term, including any renewal options where the renewal is reasonably assured at the commencement date. Because most of our leases do not provide an implicit rate of return, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Operating lease ROU assets also exclude lease incentives received. Where we are the lessee, at initial adoption, we have elected to account for non-lease components associated with its leases (e.g., common area maintenance costs) and lease components separately for substantially all of its asset classes. Subsequent to adoption we will combine lease and non-lease components

We account for construction allowances by recording a receivable when its collectability is considered probable, and relieve the receivable once the cash is obtained from the landlord. We depreciate the leasehold improvements over the lesser of their useful lives or the full term of the lease, including renewal options and build-out periods. We record rent expense during the build-out period and classify this expense in pre-opening expenses in our consolidated statements of operations.

Liquor licenses

We own transferable liquor licenses in jurisdictions with a limited number of authorized liquor licenses. These licenses are capitalized as indefinite-lived intangible assets and are included in intangible assets, net in our consolidated balance sheets. We review annually these liquor licenses for impairment. Additionally, the costs of obtaining non-transferable liquor licenses that are directly issued by local government agencies for nominal fees are expensed as incurred. Annual liquor license renewal fees are recognized in expense over the renewal term.

Accounts receivable, net

We provide an allowance for uncollectible accounts on accounts receivable based on historical losses and existing economic conditions, when relevant. We provide for a general bad debt reserve for franchise receivables due to increases in days sales outstanding for which no payment plan or other payment arrangement exists. This general reserve is based on the aging of receivables meeting specified criteria and is adjusted each quarter based on past due receivable balances. Additionally, we have periodically established a specific reserve on certain receivables as necessary on a case-by-case basis. Any changes to the reserve are recorded in general and administrative expenses. Accounts receivable balances written off have not exceeded allowances provided. We believe all accounts receivable in excess of the allowance are fully collectible. If accounts receivable in excess of provided allowances are determined uncollectible, they are charged to expense in the period that determination is made. In assessing recoverability of these receivables, we make judgments regarding the financial condition of the franchisees based primarily on past and current payment trends, as well as other variables, including annual financial information, which franchisees are required to submit to us.

Stock-based compensation

Beginning in fiscal 2019, we were required to adopt ASU 2018-17- Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. See Note 1 “Nature of Business and Significant Accounting Policies” the notes to the accompanying financial statements for more information.

We recognize compensation expense for share-based awards granted to team members based on their fair values at the time of grant over the requisite service period. Additionally, our board members receive share-based awards for their board service. The incentive compensation of our chief executive officer provides for grants of unrestricted, freely tradable shares of our common stock upon the achievement of share price milestones. The expense for these grants is recorded when earned by our chief executive officer. Our pre-tax compensation expense for stock options and other incentive awards is included in general and administrative expenses in our consolidated statements of operations.

Income Taxes

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

Results of Operations – Fiscal Year 2019 Compared to Fiscal Year 2018

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

	Year Ended	
	December 29, 2019	**December 30, 2018**
Food and beverage costs(1)	32.0 %	31.5 %
Labor and benefits costs(1)	36.5 %	35.9 %
Operating expenses(1)	31.6 %	31.4 %
Restaurant level operating margin(1)(3)	(0.1)%	1.3 %
Depreciation and amortization expenses(2)	2.7 %	2.3 %
General and administrative expenses(2)	13.4 %	14.6 %
(Loss) income from operations(2)	(2.0)%	10.9 %

(1) As a percentage of restaurant sales, net
(2) As a percentage of total revenue
(3) Restaurant level cash operating margin is equal to restaurant sales, net, less food and beverage costs, labor and benefit costs, and operating expenses.

Total Revenue

Our components of and changes in revenue consisted of the following for the fiscal years ended December 29, 2019 and December 30, 2018:

	Year Ended			
(dollars in thousands)	December 29, 2019	December 30, 2018	$ Change	% Change
Revenue:				
Restaurant sales, net	$ 67,278	$ 38,051	$ 29,227	76.8 %
Franchise royalty and fee revenue	12,126	13,871	(1,745)	(12.6)%
Franchisee national advertising fund contributions	1,616	1,932	(316)	(16.4)%
Licensing and other revenue	1,249	1,034	215	20.8 %
Total revenue	$ 82,269	$ 54,888	$ 27,381	49.9 %

The increase in year-over-year restaurant sales for the year ended December 29, 2019 as compared to the year ended December 30, 2018 was primarily a result of the net increase of 15 Company-owned restaurants during fiscal 2019. Additionally, same store net sales for Company-owned restaurants for the year ended December 29, 2019 increased 2.0% compared to the year ended December 30, 2018. It is our policy to include in our same store net sales base, restaurants that are open year round and have been open at least 24 months. Reacquired and refranchised restaurants are included in the same store net sales base after new ownership has been in place for at least 12 months. On a weighted basis, for the year ended December 29, 2019, Dine-In sales decreased by 4.3%, while To Go and Catering sales increased 6.9% and 13.7%, respectively. The increase in the Catering line of business for the comparable restaurant base was driven by a concentrated effort to increase sales in this area and To-Go was driven by third-party delivery sales and marketing efforts aimed at increasing traffic.

We have been making significant investments in programs aimed at increasing To-Go and Catering sales at BBQ Holdings restaurants. For example, we have expanded the online ordering program in certain franchise-operated restaurants. We have rolled out delivery programs with various third-party services, which we believe, along with online ordering, will continue to augment our To Go and Catering sales in the future. We believe that these innovations will provide additional avenues for our franchisees to grow their respective businesses.

The decrease in year-over-year franchise-related revenue was primarily a result of the net decrease of 31 franchise-operated restaurants in fiscal year 2019 compared to fiscal year 2018. This decrease was offset in part by an increase of 1.0% in same-store sales at franchise-operated restaurants. The increase year over year was primarily related to continued franchisee adoption of brand initiatives to drive traffic and awareness of the brand as well as the closures of underperforming franchise stores. Licensing and other revenue, which is primarily derived from retail sales of Famous Dave's branded sauces, rubs and other consumer packaged goods, increased approximately $215,000 in fiscal 2019.

Average Weekly Net Sales and Operating Weeks

The following table shows Company-owned and franchise-operated average weekly net sales for the periods presented:

	Year Ended	
	December 29, 2019	December 30, 2018
Average Weekly Net Sales (AWS):		
Franchise-Operated[1]	$ 48,440	$ 47,011
Company-Owned	46,510	45,918
Full-Service	47,934	49,098
Counter-Service	40,042	38,959
Operating Weeks:		
Franchise-Operated	5,505	6,910
Company-Owned	1,441	829

(1) AWS for franchise-operated restaurants are not our revenues and are not included in our consolidated financial statements. We believe that disclosure of average weekly net sales and operating weeks for franchise-operated restaurants provides useful information to investors because historical performance and trends of BBQ Holdings franchisees relate directly to trends in franchise royalty revenues that we receive from such franchisees and have an impact on the perceived success and value of the BBQ Holdings brand. It also provides a comparison against which management and investors can analyze the extent to which Company-owned restaurants are realizing their revenue potential.

Food and Beverage Costs

Our food and beverage costs consisted of the following for fiscal years ended December 29, 2019 and December 30, 2018:

	Year Ended			
(dollars in thousands)	**December 29, 2019**	**December 30, 2018**	**$ Change**	**% Change**
Food and beverage costs	$ 21,541	$ 11,973	$ 9,568	79.9 %

Food and beverage costs for the fiscal years ended December 29, 2019 and December 30, 2018 represented approximately 32.0% and 31.5% of net restaurant sales, respectively. This year-over-year increase, as a percentage of net restaurant sales, was primarily driven by the most recently acquired 18 restaurants, which stores experienced higher food costs than our comparable stores. We expect margins will recover to a more normalized level in the coming quarters as management has taken action to correct the cause of these elevated costs.

Labor and Benefits Costs

Our labor and benefits costs consisted of the following for the fiscal years ended December 29, 2019 and December 30, 2018.

	Year Ended			
(dollars in thousands)	**December 29, 2019**	**December 30, 2018**	**$ Change**	**% Change**
Labor and benefits costs	$ 24,565	$ 13,663	$ 10,902	79.8 %

Labor and benefits costs for the fiscal years ended December 29, 2019 and December 30, 2018 were approximately 36.5% and 35.9% of net restaurant sales, respectively. The year-over-year increase during the year ended December 29, 2019, as a percentage of net restaurant sales, was primarily driven by the most recently acquired 18 restaurants, which stores experienced higher labor and benefits than our comparable stores. We expect margins will recover to a more normalized level in the coming quarters as management has taken action to correct the cause of these elevated costs. We believe that further training and in-restaurant initiatives will create operational efficiencies and will decrease labor and benefits costs in fiscal 2020.

Operating Expenses

Our operating expenses consisted of the following for the fiscal years ended December 29, 2019 and December 30, 2018:

	Year Ended			
(dollars in thousands)	**December 29, 2019**	**December 30, 2018**	**$ Change**	**% Change**
Operating expenses	$ 21,269	$ 11,932	$ 9,337	78.3 %

Operating expenses for the fiscal years ended December 29, 2019 and December 30, 2018 were approximately 31.6% and 31.4% of net restaurant sales, respectively.

Depreciation and Amortization

Depreciation and amortization expense for the fiscal years ended December 29, 2019 and December 30, 2018 was approximately $2.2 million and $1.3 million, respectively, representing approximately 2.7% and 2.3% of total revenues, respectively. Depreciation and amortization expense increased during the year ended December 29, 2019 primarily as a result of the addition of Company-owned restaurants.

General and Administrative Expenses

Our general and administrative expenses consisted of the following for the fiscal years ended December 29, 2019 and December 30, 2018:

	Year Ended			
(dollars in thousands)	**December 29, 2019**	**December 30, 2018**	**$ Change**	**% Change**
General and administrative expenses	$ 10,992	$ 7,988	$ 3,004	37.6 %

General and administrative expenses for the years ended December 29, 2019 and December 30, 2018, represented approximately 13.3% and 14.6% of total revenues, respectively. While as a percentage of revenues general and administrative expense decreased year over year, we incurred additional expenditure for acquisition costs and ongoing oversite of our new restaurants.

Asset Impairment, Estimated Lease Termination and Other Closing Costs

The following is a summary of the asset impairment, estimated lease termination and other closing costs we incurred for the periods presented:

	Year Ended	
(dollars in thousands)	**December 29, 2019**	**December 30, 2018**
Asset impairments, net	$ 282	$ 89
Lease termination charges (income) and related costs	926	(271)
Restaurant closure expenses	88	327
Asset impairment, estimated lease termination charges and other closing costs	$ 1,296	$ 145

During fiscal the fiscal year ended December 29, 2019, we closed four Company-owned stores and acquired 18 formerly franchise-owned restaurants. During the fiscal year ended December 30, 2018, we closed one Company-owned store and reacquired two franchisee-owned restaurants. These charges represented the write-offs of the net assets of closed restaurants, lease termination charges incurred with the early termination of leases as well as ongoing costs incurred related to closed restaurants.

Total Other Expense

Total other expense for the fiscal years ended December 29, 2019 and December 30, 2018 included interest expense of 494,000 and $493,000. These expenses were partially offset by interest income of approximately $215,000 and $122,000 during the fiscal years ended December 29, 2019 and December 30, 2018, respectively. The decrease in interest expense was primarily related to a lower average outstanding debt balance partially offset by a higher interest rate on our current debt. The increase in interest income was primarily related to interest from franchisees and interest on investments.

Income Tax Benefit

Income tax benefit for the year ended December 29, 2019 was $659,000. Income tax expense for the year ended December 30, 2018 was $729,000, representing an effective tax rate of 52.2% and 13.0%, respectively. The increase in our effective tax rate primarily related to changes in the valuation allowance and increased credits year over year.

Basic and Diluted Net Income (Loss) Per Common Share

Our basic and diluted net loss per common share for the year ended December 29, 2019 was $(0.07) per share. Our basic and diluted net income per common share for the year ended December 30, 2018 was $0.57 per share and $0.56 per share, respectively. For the year ended December 29, 2019, we had basic and diluted weighted-average shares outstanding of approximately 9,099,000. For the year ended December 30, 2018 we had basic and diluted weighted-average shares outstanding of approximately 8,599,000 and 8,624,000, respectively.

Financial Condition, Liquidity and Capital Resources

Our balance of cash and cash equivalents was approximately $6.1 million and $12.4 million at December 29, 2019 and December 30, 2018, respectively. We expect to utilize cash on hand to reinvest in our brand and the evolution of our company.

Our current ratio, which measures our immediate short-term liquidity, was 1.0 as of December 29, 2019 compared with 2.15 as of December 30, 2018. The current ratio is computed by dividing total current assets by total current liabilities. The decrease in our current ratio was primarily due to an increase in our net current liabilities and a decrease in current assets.

Net cash provided by operating activities for the year ended December 29, 2019 was approximately $2.6 million, which reflects net loss from continuing operations of approximately $1.2 million, increased by non-cash charges of approximately $3.7 million primarily due to depreciation and amortization, stock-based compensation and asset impairment/lease termination charges. Changes in operating assets and liabilities for the year ended December 29, 2019 primarily included net cash outflows related to accounts receivable and other current assets of $2.0 million offset in part by cash inflows of $2.1 related to accounts payable and other liabilities.

Net cash provided by operating activities for the year ended December 30, 2018 was approximately $3.9 million, which reflects net income from continuing operations of approximately $4.9 million, increased by non-cash charges of approximately $1.6 million primarily increased by depreciation and amortization, and deferred income taxes, partially offset by decreases related to deferred rent, asset impairment, estimated lease termination charges and reserves for bad debts. Changes in operating assets and liabilities for the year ended December 30, 2018 primarily included net cash outflows related to prepaid expenses and other current assets of $570,000, accounts payable of $600,000, accrued compensation and benefits of $824,000 and other liabilities of $624,000. These cash outflows were partially offset by inflows related to an increase in other assets of $167,000 and prepaid income taxes and income taxes receivable of $103,000.

Net cash used by investing activities for the year ended December 29, 2019 was $13.0 million primarily related to the acquisition of the Colorado and Arizona restaurants.

Net cash used by investing activities for the year ended December 30, 2018 was $745,000 primarily related to proceeds from the sale of assets, partially offset by property, equipment and leasehold improvements, advances on notes receivable and the purchase of two franchise restaurants.

Net cash provided by financing activities in fiscal year 2019 was $4.1 million primarily from the proceeds of loan agreement with Choice Bank.

Net cash used for financing activities in fiscal year 2018 was approximately $1.1 million, which primarily consisted of debt repayments of $6.8 million partially offset by proceeds from issuance of common stock of $5.1 million and proceeds from the exercise of stock options of approximately $520,000.

We are subject to various financial and non-financial covenants on our long-term debt, including a debt-service coverage ratio. As of December 29, 2019, we were in compliance with all of our covenants.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious virus, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, customers, economies, and financial markets globally, leading to an economic downturn. It has also disrupted the normal operations of many businesses, including ours (refer to our Risk Factors included in Item 1A of this filing). While it is not possible for us to predict the duration or magnitude of the adverse results of the outbreak and its effects on our business or results of operations at this time, we do anticipate it will have an adverse effect on our liquidity.

Contractual Obligations

The following is a summary of our contractual obligations as of December 29, 2019:

(in thousands)	Total	2020	2021	2022	2023	2024	Thereafter
Long Term Debt	$ 6,924	$ 616	$ 1,280	$ 1,347	$ 1,417	$ 1,490	$ 774
Financing Leases	—	—	—	—	—	—	—
Operating Lease Obligations	36,901	5,194	5,078	4,785	3,918	2,856	15,070
Total	$ 43,825	$ 5,810	$ 6,358	$ 6,132	$ 5,335	$ 4,346	$ 15,844

Off-Balance Sheet Arrangements

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

Income Taxes

As of December 29, 2019, we had cumulative state net operating loss carry-forwards for tax reporting purposes of approximately $25.2 million and federal net operating loss carry-forwards for tax reporting purposes of $9.4 million which, if not used, will begin to expire in fiscal 2020 and 2038, respectively.

Recent Accounting Guidance Not Yet Adopted

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which simplifies the accounting for goodwill impairment and is expected to reduce the cost and complexity of accounting for goodwill. ASU 2017-04 removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. Instead, goodwill impairment will be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of the goodwill. ASU 2017-04 is effective for annual and interim periods for fiscal years beginning after December 15, 2019 (our 2020 fiscal year) and will be applied on a prospective basis. Early adoption is permitted for interim and annual goodwill impairment tests performed on testing dates after January 1, 2017. We do not believe this standard will have a significant impact on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement, which changes disclosure requirements for fair value measurements. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019 (our 2020 fiscal year) and for interim periods within those years, with early adoption permitted. We do not believe this standard will have a significant impact on our consolidated financial statements

Inflation

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

While overall inflation rates decreased in fiscal 2019 compared to fiscal 2018, there is no assurance that inflation rates will continue at their current levels. An increase in inflation rates could contribute to some price instability.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable to smaller reporting companies.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of BBQ Holdings, 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

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of such date our disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information requested to be disclosed by us in our reports that we file or submit under the Exchange Act.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934, as amended). Our management assessed the effectiveness of our internal control over financial reporting as December 29, 2019. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the 2013 *Internal Control-Integrated Framework*. Our management has concluded that, as of December 29, 2019, our internal control over financial reporting is effective based on these criteria.

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

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

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

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

Code of Ethics

We have adopted a Code of Ethics specifically applicable to our CEO, CFO and Key Financial & Accounting Management. In addition, there is a more general Code of Ethics applicable to all team members. Both of these Codes of Ethics are available on our website at www.bbq-holdings.com and copies are available free of charge to anyone requesting them.

ITEM 11. EXECUTIVE COMPENSATION

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

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

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

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

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

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

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

Exhibits:

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

ITEM 16. FORM 10-K SUMMARY

Not applicable.

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
BBQ Holdings, Inc.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of BBQ Holdings, Inc. (a Minnesota corporation) and subsidiaries (the "Company") as of December 29, 2019 and December 30, 2018, the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, and the related notes and financial statement schedule included under Item 15(a) (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 29, 2019 and December 30, 2018, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Change in accounting principle

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for leases as of December 31, 2018 due to the adoption of ASC 842, *Leases*.

Basis for opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Grant Thornton LLP

We have served as the Company's auditor since 2002.

Minneapolis, Minnesota

March 27, 2020

BBQ HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

ASSETS				
Current assets:		December 29, 2019		December 30, 2018
Cash and cash equivalents	$	5,325	$	11,598
Restricted cash		761		842
Accounts receivable, net of allowance for doubtful accounts of $132,000 and $192,000, respectively		4,379		4,300
Inventories		1,346		722
Prepaid income taxes and income taxes receivable		264		377
Prepaid expenses and other current assets		1,356		1,363
Assets held for sale		2,842		—
Total current assets		16,273		19,202
Property, equipment and leasehold improvements, net		19,756		10,385
Other assets:				
Operating lease right-of-use assets		25,962		—
Goodwill		640		61
Intangible assets, net		2,213		1,428
Deferred tax asset, net		6,646		5,747
Other assets		1,591		1,533
	$	73,081	$	38,356
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	$	3,967	$	3,765
Current portion of lease liabilities		4,230		—
Current portion of long-term debt and financing lease obligations		616		1,369
Accrued compensation and benefits		2,694		808
Other current liabilities		4,975		2,970
Total current liabilities		16,482		8,912
Long-term liabilities:				
Lease liabilities, less current portion		26,957		—
Long-term debt, less current portion		6,258		2,411
Other liabilities		1,610		4,492
Total liabilities		51,307		15,815
Shareholders' equity:				
Common stock, $.01 par value, 100,000 shares authorized, 9,272 and 9,085 shares issued and outstanding at December 29, 2019 and December 30, 2018, respectively		93		91
Additional paid-in capital		7,856		7,375
Retained earnings		14,423		15,075
Total shareholders' equity		22,372		22,541
Non-controlling interest		(598)		—
Total equity		21,774		22,541
	$	73,081	$	38,356

See accompanying notes to consolidated financial statements.

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BBQ HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Year Ended	
	December 29, 2019	December 30, 2018
Revenue:		
Restaurant sales, net	$ 67,278	$ 38,051
Franchise royalty and fee revenue	12,126	13,871
Franchisee national advertising fund contributions	1,616	1,932
Licensing and other revenue	1,249	1,034
Total revenue	82,269	54,888
Costs and expenses:		
Food and beverage costs	21,541	11,973
Labor and benefits costs	24,565	13,663
Operating expenses	21,269	11,932
Depreciation and amortization expenses	2,231	1,264
General and administrative expenses	10,992	7,988
National advertising fund expenses	1,616	1,932
Asset impairment, estimated lease termination charges and other closing costs, net	1,296	145
Pre-opening expenses	460	—
(Gain) loss on disposal of property and bargain purchases, net	(74)	29
Total costs and expenses	83,896	48,926
(Loss) income from operations	(1,627)	5,962
Other income (expense):		
Interest expense	(494)	(493)
Interest income	215	122
Total other expense	(279)	(371)
(Loss) income before income taxes	(1,906)	5,591
Income tax benefit (expense)	659	(729)
Net (loss) income	(1,247)	4,862
Less: Net loss attributable to non-controlling interest	598	—
Net (loss) income attributable to shareholders	$ (649)	$ 4,862
Basic net (loss) income per share attributable to shareholders	$ (0.07)	$ 0.57
Diluted net (loss) income per share attributable to shareholders	$ (0.07)	$ 0.56
Weighted average shares outstanding - basic	9,099	8,599
Weighted average shares outstanding - diluted	9,099	8,624

See accompanying notes to consolidated financial statements.

BBQ HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Total Shareholders' Equity	Non-controlling Interest	Total Equity
Balance - December 31, 2017	7,376	$ 70	$ 1,460	$ 11,951	$ 13,481	$ —	$ 13,481
Cumulative effect of change in accounting principle	—	—	—	(1,738)	(1,738)	—	(1,738)
Common stock issued pursuant to rights offering	1,582	18	5,119	—	5,137	—	5,137
Exercise of stock options	102	2	432	—	434	—	434
Stock-based compensation	25	1	364	—	365	—	365
Net income	—	—	—	4,862	4,862	—	4,862
Balance - December 30, 2018	9,085	$ 91	$ 7,375	$ 15,075	$ 22,541	$ —	$ 22,541
Exercise of stock options	5	—	20	—	20	—	20
Stock-based compensation	182	2	461	—	463	—	463
Other	—	—	—	(3)	(3)	—	(3)
Net loss	—	—	—	(649)	(649)	(598)	(1,247)
Balance - December 29, 2019	9,272	$ 93	$ 7,856	$ 14,423	$ 22,372	$ (598)	$ 21,774

See accompanying notes to consolidated financial statements.

BBQ HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 29, 2019	Year Ended December 30, 2018
Cash flows from operating activities:		
Net (loss) income	$ (1,247)	$ 4,862
Adjustments to reconcile net income to cash flows provided by operations:		
Depreciation and amortization	2,231	1,264
Stock-based compensation	463	278
Net (gain) loss on disposal of property and bargain purchases	(74)	29
Asset impairment, estimated lease termination charges and other closing costs (gain), net	1,273	(46)
Bad debts recovery	239	(30)
Deferred income taxes	(688)	639
Other non-cash items	291	(515)
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,582)	(225)
Other assets	(449)	(389)
Accounts payable	258	(600)
Accrued and other liabilities	1,867	(1,390)
Cash flows provided by operating activities	2,582	3,877
Cash flows from investing activities:		
Proceeds from the sale of assets	33	1,187
Purchases of property, equipment and leasehold improvements	(6,755)	(953)
Payments for acquired restaurants	(6,188)	(229)
Advances on notes receivable	(150)	(750)
Purchases of held to maturity securities	—	(6,995)
Maturity of held to maturity securities	—	6,995
Payments received on note receivable	31	—
Cash flows used for investing activities	(13,029)	(745)
Cash flows from financing activities:		
Proceeds from long-term debt	4,300	—
Payments for debt issuance costs	(54)	—
Payments on long-term debt and financing lease obligations	(175)	(6,758)
Proceeds from sale of common stock, net of offering costs	—	5,120
Proceeds from exercise of stock options	22	520
Cash provided by (used for) financing activities	4,093	(1,118)
(Decrease) increase in cash, cash equivalents and restricted cash	(6,354)	2,014
Cash, cash equivalents and restricted cash, beginning of period	12,440	10,426
Cash, cash equivalents and restricted cash, end of period	$ 6,086	$ 12,440
Supplemental Disclosures		
Cash paid for interest, net	$ 244	$ 292
Cash paid for income taxes, net	—	(148)
Non-cash investing and financing activities:		
(Decrease) increase in accrued property and equipment purchases	(39)	22
Gift card liability assumed pursuant to acquisitions	705	—
Inventory acquired pursuant to acquisitions	103	—
Accounts receivable settled through acquisitions	993	—

See accompanying notes to consolidated financial statements.

BBQ HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of business

On September 17, 2019 a holding company reorganization was completed in which Famous Dave’s of America, Inc. (“FDA”) became a wholly owned subsidiary of the new parent holding company named BBQ Holdings, Inc. (“BBQ Holdings”). As used in this Form 10-K, “Company”, “we” and “our” refer to BBQ Holdings and its wholly owned subsidiaries. BBQ Holdings was incorporated on March 29, 2019 under the laws of the State of Minnesota, while FDA was incorporated in Minnesota on March 14, 1994. The Company develops, owns, operates and franchises restaurants under the name “Famous Dave’s”, “Clark Crew BBQ”, “Granite City Food & Brewery” and “Real Urban Barbecue.” As of December 29, 2019, there were 128 Famous Dave’s restaurants operating in 32 states, Canada, and the United Arab Emirates, including 32 Company-owned restaurants and 96 franchise-operated restaurants. The first Clark Crew BBQ restaurant opened in December 2019 in Oklahoma City, Oklahoma. On March 16, 2020, we purchased one Real Urban Barbecue restaurant located in Vernon Hills, Illinois. On March 9, 2020, we purchased 18 Granite City Food & Brewery restaurants in connection with a Chapter 11 bankruptcy filing.

Seasonality

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

Principles of consolidation

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

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) 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 materially from those estimates.

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, Canada and the United Arab Emirates, and operate within the single industry segment of foodservice. We make operating decisions on behalf of the BBQ Holdings brand which includes both Company-owned and franchise-operated restaurants. In addition, all operating expenses are reported in total and are not allocated to franchising operations for either external or internal reporting. As a result, we have concluded that we have a single reporting segment.

BBQ HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fiscal year

Our fiscal year ends on the Sunday nearest to December 31 of each year. Our fiscal year is generally 52 weeks; however, it periodically consists of 53 weeks. The fiscal years ended December 29, 2019 (fiscal 2019) and December 30, 2018 (fiscal 2018) each consisted of 52 weeks. Fiscal 2020, which ends on January 3, 2021, will consist of 53 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 $250,000, while the remaining balances are uninsured. Our uninsured cash and restricted cash balances were $4.6 million as of the end of each fiscal year 2019 and 2018. There have been no losses of uninsured amounts.

Restricted cash and marketing fund

We have a system-wide Marketing Development Fund, to which most Company-owned restaurants, in addition to the majority of franchise-operated restaurants, contribute a percentage of net sales, currently for use in public relations and marketing development efforts. The assets held by this fund are considered to be restricted. Accordingly, we reflect the cash related to this fund within restricted cash and reflect the liability within accounts payable on our consolidated balance sheets. We had approximately $761,000 and $700,000 in this fund as of December 29, 2019 and December 30, 2018, respectively.

In conjunction with certain lease agreements, our company was previously required to deposit amounts for undrawn letters of credit in cash collateral accounts. We had approximately $143,000 of restricted cash as of December 30, 2018, related to these undrawn letters of credit.

Accounts receivable, net

We provide an allowance for uncollectible accounts on accounts receivable based on historical losses and existing economic conditions, when relevant. We provide for a general bad debt reserve for franchise receivables due to increases in days sales outstanding and deterioration in general economic market conditions. This general reserve is based on the aging of receivables meeting specified criteria and is adjusted each quarter based on past due receivable balances. Additionally, we have periodically established a specific reserve on certain receivables as necessary. In assessing recoverability of these receivables, we make judgments regarding the financial condition of the franchisees based primarily on past and current payment trends, as well as other variables, including annual financial information, which our franchisees are required to submit to us. Any changes to the reserve are recorded in general and administrative expenses. Accounts receivable are written off when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Accounts receivable balances written off have not exceeded allowances provided and we believe all accounts receivable in excess of allowances provided are fully collectible. If accounts receivable in excess of provided allowances are determined uncollectible, they are charged to expense in the period that determination is made. As of December 29, 2019, we had a receivable from one franchisee in the amount of $588,000, and from another franchisee in the amount of $476,000. A portion of these receivables was reserved.

Inventories

Inventories consist principally of small wares and supplies, food and beverages, and retail goods, and are recorded at the lower of cost (first-in, first-out) or net realizable value.

BBQ HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Assets Held for Sale

As of December 29, 2019, we had assets held for sale of approximately $2.8 million related to an owned property for which we entered into an agreement to sell the property for a contract purchase price of $3.6 million.

Property, equipment and leasehold improvements, net

Property, equipment and leasehold improvements are stated at cost, net of accumulated depreciation. We recognize depreciation expense utilizing the straight-line method once an asset has been placed into service. The following table outlines the useful lives of our major classes of property, equipment and leasehold improvements:

Buildings	30 years
Leasehold improvements	0 - 30 years
Furniture, fixtures, equipment and software (excluding restaurant signage)	1 - 7 years
Restaurant signage	10 - 15 years
Decor	7 years

We capitalize labor costs associated with the implementation of significant information technology infrastructure projects based on actual labor rates per person including benefits, for all time spent on the implementation of software and are depreciated over 5 years. We capitalize construction overhead costs until the time a building is turned over to operations, which is approximately two weeks prior to opening and depreciate these items over the same useful life as leasehold improvements.

We evaluate restaurant sites and other long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the 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 site is determined to be impaired, the loss is measured as the amount by which the carrying amount of the restaurant site exceeds its fair value. Fair value is estimated based on the best information available including estimated future cash flows, expected growth rates in comparable restaurant sales, remaining lease terms and other factors.

Intangible Assets

We have transferable liquor licenses in jurisdictions with a limited number of authorized liquor licenses. These licenses were capitalized as indefinite-lived intangible assets and are included in intangible assets, net in our consolidated balance sheets. We review annually the liquor licenses for impairment. The costs of obtaining non-transferable liquor licenses that are directly issued by local government agencies for nominal fees are expensed as incurred. Annual liquor license renewal fees are expensed over the renewal term.

Goodwill represents the excess of cost over the fair value of identified net assets of businesses acquired. Goodwill is tested for impairment annually or on an interim basis if events or changes in circumstances between annual tests indicate a potential impairment. Factors considered include, but are not limited to historical financial performance, a significant decline in expected future cash flows, unanticipated competition, changes in management or key personnel, macroeconomic and industry conditions and the legal and regulatory environment. If the qualitative assessment indicates that it is more likely than not that an impairment exists, then a quantitative assessment is performed. The quantitative assessment requires an analysis of several best estimates and assumptions, including future sales and operating results, and other factors that could affect fair value or otherwise indicate potential impairment. The goodwill impairment assessment involves valuing our reporting units that carry goodwill and considers their projected ability to generate income from operations and positive cash flow in future periods. The fair value assessment could change materially if different estimates and assumptions were used. No goodwill impairment charges were recognized during the years ended December 29, 2019 and December 30, 2018.

BBQ HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Reacquired franchise rights are amortized over the life of the related franchise agreement. We evaluate reacquired franchise rights in conjunction with our impairment evaluation of long-lived assets.

Advertising

Advertising costs are charged to expense as incurred. Advertising costs were approximately $2.8 million and $2.7 million for the years ended December 29, 2019 and December 30, 2018, respectively, and are included in operating expenses for local store marketing and in national advertising fund expenses for national advertising in the consolidated statements of operations.

Research and development costs

Research and development costs represent all expenses incurred in relation to the creation of new menu and promotional offerings, recipe enhancements and documentation activities. Research and development costs were approximately $489,000 and $441,000 for the years ended December 29, 2019 and December 30, 2018, respectively, and are included in general and administrative expenses in the consolidated statements of operations.

Pre-opening expenses

All start-up and pre-opening costs are expensed as incurred. Pre-opening rent during the build-out period is included in pre-opening expense. We incurred approximately $460,000 of pre-opening expenses during the year ended December 29, 2019 and no such expense during the year ended December 30, 2018.

Leases

We lease the property for our corporate headquarters, most of our Company-owned stores, and certain office and restaurant equipment. Beginning in fiscal 2019, we adopted *ASU 2016-02 - Leases* (Topic 842). Under this standard, we determine if an arrangement is a lease at inception. Operating leases are included in operating lease right-of use ("ROU") assets, current portion of operating lease liabilities, and operating lease liabilities in its consolidated balance sheets. ROU assets and operating lease liabilities are recognized based on the present value of lease payments over the lease term at the commencement date. Because most of our leases do not provide an implicit rate of return, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Operating lease ROU assets exclude lease incentives received.

Lease terms for Company-owned stores generally range from 5-20 years with one or more five-year renewal options and generally require us to pay a proportionate share of real estate taxes, insurance, common area, and other operating costs in addition to a base or fixed rent. We have elected the short term lease exemption for certain qualifying leases with lease terms of twelve months or less and, accordingly, did not record right-of-use assets and lease liabilities. These leases with initial terms of less than 12 months are recorded directly to occupancy expense on a straight-line basis over the term of the lease. Additionally, we have decided to utilize the package of practical expedients and the practical expedient to not reassess certain land easements. We have decided not to utilize the practical expedient to use hindsight. Certain of our leases also provide for variable lease payments in the form of percentage rent, in which additional rent is calculated as a percentage of sales in excess of a base amount, and not included in the calculation of the operating lease liability or ROU asset. Our leases have remaining lease terms of one to 20 years. For purposes of calculating operating lease liabilities, lease terms may be deemed to include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. We recognize rent expense on a straight-line basis for our operating leases over the entire lease term, including lease renewal options and build-out periods where the renewal is reasonably assured and the build-out period takes place prior to the restaurant opening or lease commencement date. Rent expense recorded during the build-out period is reported as pre-opening expense. We account for construction allowances by recording a receivable when collectability is considered to be probable, and relieve the receivable once the cash is obtained from the landlord for the construction allowance. Construction allowances are included in the calculation of the ROU asset and related liability.

BBQ HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Exit and disposal costs

Exit or disposal activities, including restaurant closures, include the cost of disposing of the assets and other facility-related expenses from previously closed restaurants. These costs are generally expensed as incurred. Additionally, at the date we cease using a property under an operating lease, we remove the remaining balance of the ROU asset. Any subsequent adjustments to the related liability as a result of lease termination are recorded in the period incurred. Upon disposal of the assets associated with a closed restaurant, any gain or loss is recorded in the same caption as the original impairment within our consolidated statements of operations.

We recognize a liability for the fair value of a required asset retirement obligation ("ARO") when such obligation is incurred. Our AROs are primarily associated with leasehold improvements which, at the end of a lease, we are contractually obligated to remove in order to comply with the lease agreement.

Costs incurred for restaurants that have been closed, after the date of their closure, are presented within the asset impairment, estimated lease termination and other closing costs line item of our consolidated statements of operations.

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 divided by the sum of the weighted average number of shares of common stock outstanding plus all additional common stock equivalents, such as stock options and restricted stock units, when dilutive.

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

(in thousands, except per share data)	Year Ended December 29, 2019	Year Ended December 30, 2018
Net (loss) income per share – basic:		
Net (loss) income attributable to shareholders	$ (649)	$ 4,862
Weighted average shares outstanding - basic	9,099	8,599
Basic net (loss) income per share	$ (0.07)	$ 0.57
Net (loss) income per share – diluted:		
Net (loss) income attributable to shareholders	$ (649)	$ 4,862
Weighted average shares outstanding - diluted	9,099	8,624
Diluted net (loss) income per share	$ (0.07)	$ 0.56

There were approximately 191,000 and 111,000 stock options as of December 29, 2019 and December 30, 2018, respectively that were not included in the computation of diluted EPS because they were anti-dilutive.

Stock-based compensation

We recognize compensation cost for share-based awards granted to team members and board members based on their fair values at the time of grant over the requisite service period. Stock options granted to non-employees are marked to market as they vest. The bonus compensation of our Chief Executive Officer is issued in the form of unrestricted, freely tradable shares of our common stock and is expensed in full when earned. Our pre-tax compensation cost for stock options and other incentive awards is included in general and administrative expenses in our consolidated statements of operations. See Note 9 "Stock-based compensation."

Beginning in fiscal 2019, we adopted *ASU 2018-07 – Stock Compensation*, which simplifies the accounting related to nonemployee share-based payments. The update brings the accounting for nonemployees in line with that of

BBQ HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

awards granted to employees. The standard allows for measurement at the grant date for equity awards as opposed to the earlier of the performance commitment date or the date performance is complete. The new standard allows an entity to use the expected term or the contractual term.

Income Taxes

We provide for income taxes based on our estimate of federal and state income tax liabilities. These estimates include, among other items, effective rates for state and local income taxes, allowable tax credits for items such as taxes paid on reported tip income, estimates related to depreciation and amortization expense allowable for tax purposes, and the tax deductibility of certain other items. Our estimates are based on the information available to us at the time that we prepare the income tax provision. We generally file our annual income tax returns several months after our fiscal year-end. Income tax returns are subject to audit by federal, state, and local governments, generally years after the tax returns are filed. These returns could be subject to material adjustments or differing interpretations of the tax laws.

Revenue recognition

We recognize revenue at the point in time when food and services are provided to a restaurant Guest or other customer. Revenues from restaurant operations are presented net of discounts, coupons, employee meals and complimentary meals and recognized when food, beverage and retail products are sold. Sales tax collected from customers is excluded from sales and the obligation is included in sales tax payable until the taxes are remitted to the appropriate taxing authorities. Revenue from catered events are recognized in income upon satisfaction of the performance obligation (the date the event is held). All customer payments, including nonrefundable upfront deposits, are deferred as a liability until such time.

We recognize franchise fee revenue on a straight-line basis over the life of the related franchise agreements and any exercised renewal periods. Cash payments are due upon the opening of a new restaurant or upon the execution of a renewal of the related franchise agreement. Our performance obligation with respect to franchise fee revenues consists of a license to utilize our company's brand for a specified period of time, which is satisfied equally over the life of each franchise agreement.

Area development fees are deferred until a new restaurant is opened pursuant to the area development agreement, at which time revenue is recognized on a straight-line basis over the life of the franchise agreement. Cash payments for area development agreements are typically due when an area development agreement has been executed.

Gift card breakage revenue is recognized proportionately as gift cards are redeemed utilizing an estimated breakage rate based on our company's historical experience. Gift card breakage revenue is reported within the licensing and other revenue line item of the consolidated statements of operations.

Our company defers revenue associated with the estimated selling price of reward points earned pursuant to our loyalty program and establishes a corresponding liability. This deferral is based on the estimated value of the product for which the reward is expected to be redeemed, net of estimated unredeemed points. When a Guest redeems an earned reward, we recognize revenue for the redeemed product and reduce the deferred revenue. Deferred revenue associated with our loyalty program was not material as of December 29, 2019 and December 30, 2018.

Contract liabilities consist of deferred revenue resulting from franchise fees paid by franchisees. We classify these liabilities within other current liabilities and other liabilities within our consolidated balance sheets based on the expected timing of revenue recognition associated with these liabilities. The following table reflects the change in contract liabilities between December 29, 2019 and December 30, 2018:

(in thousands)		
Balance, December 30, 2018	$	1,998

Revenue recognized		(680)
Balance, December 29, 2019	$	1,318

The following table illustrates estimated revenues expected to be recognized in the future related to unsatisfied performance obligations as of December 29, 2019:

(in thousands)		
Fiscal Year		
2020	$	130
2021		114
2022		112
2023		105
2024		93
Thereafter		764
Total	$	1,318

Recent Accounting Guidance

Recently adopted accounting guidance

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes the existing guidance for lease accounting, Leases (Topic 840). ASU 2016-02 requires lessees to recognize a lease liability and a right-of-use asset for all leases. Lessor accounting remains largely unchanged. The amendments in this ASU were effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption was permitted for all entities. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842), which allows entities to initially apply the new lease standard as of the adoption date instead of at the beginning of the earliest period presented in the financial statements. The new lease standard provides for a modified retrospective approach or current period adjustment approach for all leases existing at, or entered into after the date of initial adoption, with an option to elect to use certain transition relief. We adopted the new lease standard as of the effective date by applying the current period adjustment approach, utilizing the package of practical expedients available and the practical expedient to not reassess land easements.

In June 2018, the FASB issued ASU 2018-07, Compensation-Stock Compensation (Topic 718), which expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. Under the updated standard, an entity should apply the requirements of Topic 718 to nonemployee awards, except for specific guidance on inputs to an option-pricing model and the attribution of cost. The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in the grantor's own operations by issuing share-based payment awards. The amendments also clarify that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling or goods or services as part of a contract accounted for under Topic 606, Revenue from Contracts with Customers. The amendments in this ASU were effective for fiscal years beginning after December 15, 2018 and interim periods within that fiscal year. Early adoption was permitted, but no earlier than an entity's adoption date of Topic 606. We adopted this new standard as of the effective date with no material impact on our consolidated financial statements.

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(2) INVENTORIES

Inventories consisted approximately of the following at:

(in thousands)	December 29, 2019	December 30, 2018
Food and beverage	$ 798	$ 389
Smallwares and supplies	548	333
	$ 1,346	$ 722

(3) INTANGIBLE ASSETS

We have intangible assets that consist of liquor licenses, goodwill and reacquired franchise rights, net. The liquor licenses and goodwill are indefinite-lived assets and are not subject to amortization. Reacquired franchise rights are amortized to depreciation and amortization expense on a straight-line basis over the remaining life of the reacquired franchise agreement. In fiscal 2018, we also included lease interest assets in intangible assets and amortized to occupancy costs on a straight-line basis over the remaining term of each respective lease. With the adoption of *ASC 842 – Leases*, these assets were included in ROU assets on the balance sheet. The amount of such reclass was approximately $768,000.

Intangible assets consisted approximately of the following at:

(in thousands)	December 29, 2019	December 30, 2018
Lease interest assets, net	-	768
Reacquired franchise rights, net	1,788	25
Goodwill	640	61
Liquor licenses	425	635
Intangible assets, net	$ 2,853	$ 1,489

The following table provides the projected future amortization of reacquired franchise rights, net for the next five years, as of December 29, 2019:

(in thousands)	Reacquired Franchise Rights, net
Fiscal 2020	$ 418
Fiscal 2021	418
Fiscal 2022	418
Fiscal 2023	253
Fiscal 2024	132
Thereafter	149
	$ 1,788

We recognized amortization expense related to reacquired franchise rights of approximately $306,000 and $1,000 during the years ended December 29, 2019 and December 30, 2018, respectively, and expect to recognize the remaining balance over a period of 8 years.

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(4) PROPERTY, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS, NET

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

(in thousands)	December 29, 2019	December 30, 2018
Land, buildings, and improvements	$ 28,185	$ 24,191
Furniture, fixtures, equipment and software	17,880	16,108
Décor	584	681
Construction in progress	483	138
Accumulated depreciation and amortization	(27,376)	(30,733)
Property, equipment and leasehold improvements, net	$ 19,756	$ 10,385

(5) OTHER CURRENT LIABILITIES

Other current liabilities consisted of the following at:

(in thousands)	December 29, 2019	December 30, 2018
Gift cards payable	$ 2,360	$ 1,035
Accrued expenses	1,874	1,238
Asset retirement obligations and lease reserves	6	161
Sales tax payable	584	274
State income tax payable	—	16
Deferred franchise fees	151	207
Accrued property and equipment purchases	—	39
Other current liabilities	$ 4,975	$ 2,970

(6) OTHER LIABILITIES

Other liabilities consisted of the following at December 29, 2019:

(in thousands)	December 29, 2019	December 30, 2018
Deferred rent	$ —	$ 1,787
Deferred franchise fees	1,165	1,791
Miscellaneous other liabilities	216	441
Asset retirement obligations	3	16
Accrual for uncertain tax position	6	10
Long-term lease reserve	—	254
Long-term deferred compensation	220	193
Other liabilities	$ 1,610	$ 4,492

(7) LONG-TERM DEBT AND FINANCING LEASE OBLIGATIONS

Long-term debt

On June 20, 2019 (the “Effective Date”), we entered into a Loan Agreement among our company and Choice Financial Group (“Choice”). The Loan Agreement provides for a term loan from Choice to our company set forth therein in the principal amount of up to $24.0 million and is evidenced by a promissory note (the “First Note”) executed and delivered by our company to Choice on the Effective Date. The First Note has a maturity date of June 20, 2025. The first year of the First Note (the “Draw Period”) provides for payments of interest only, with the remaining five years requiring payments of interest and principal based on a 60 month amortization period. Interest shall be payable in an amount equal to the Wall Street Journal Prime Rate, but in no circumstances shall the rate of interest be less than 5.00%. The First Note may be prepaid, partially or in full, at any time and for no prepayment penalty.

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Proceeds from the loan were used to repay our previous real estate loan, dated December 2, 2016, which had an outstanding balance as of the Effective Date of approximately $2.6 million. The remainder of the First Note may be drawn upon during the Draw Period, provided that there are no uncured events of default.

The Loan Agreement is secured by a mortgage and security agreement and fixture financing statement (the “First Mortgage”) granting to Choice a security interest in and title to certain real property in the state of Minnesota and as more fully described therein.

The Loan Agreement contains customary representations and warranties and financial and other covenants and conditions, including, among other things, minimum debt service coverage ratio and post-closing covenant to maintain a complete deposit and cash management relationship with Choice. The Loan Agreement also places certain restrictions on, among other things, our ability to incur additional indebtedness, to create liens or other encumbrances, to use funds for purposes other than as stated therein, to sell or otherwise dispose of assets without the consent of Choice.

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

Also on the Effective Date, we also entered into a Revolving Promissory Note among our company and Choice. The Revolving Promissory Note provided for a revolving line of credit from Choice to our company set forth therein in the principal amount of up to $1.0 million (the “Second Note”) executed and delivered by our company to Choice on the Effective Date. The Second Note had a maturity date of December 2, 2019. The Second Note provided for monthly payments of interest only, with a balloon payment of the remaining outstanding balance and applicable interest due on the maturity date. Interest was to be payable in an amount equal to the 30-day London Interbank Offer Rate (“LIBOR”) plus 325 basis points, but in no circumstances was the rate of interest be less than 3.75%. Second Note has matured and no balance is due.

As of December 29, 2019 and December 30, 2018, the weighted average interest rate on our long-term debt was 5.0% and 4.41%, respectively. The notes pursuant to the Loan Agreements are secured by substantially all of our assets and we are subject to various financial and non-financial covenants, including debt-service coverage ratio. As of December 29, 2019, we were in compliance with all of our covenants. In the event of a default, Choice has the right to terminate its obligations under the Loan Agreements and to accelerate the payment on any unpaid principal amounts then outstanding.

Long-term debt consisted of approximately the following as of the periods presented:

(in thousands)	December 29, 2019	December 30, 2018
Term Loan	$ 6,924	$ —
Real Estate Loan	—	2,705
Less: deferred financing costs	(50)	(131)
Less: current portion of long-term debt	(616)	(163)
Long-term debt, less current portion	$ 6,258	$ 2,411

Future minimum principal payments on long-term debt, as of December 29, 2019, were as follows:

(in thousands)	
Fiscal Year	
2020	$ 616
2021	1,280
2022	1,347

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2023		1,417
2024		1,490
Thereafter		774
Total	$	6,924

Financing Lease Obligation

Pursuant to an amended sale leaseback transaction, our company had an option to repurchase two properties at the end of the lease term. Because of our continuing involvement in the properties, the transaction was accounting for as a financing arrangement. As of December 30, 2018, the weighted-average interest rate of such obligation was approximately 8.09%. The Company repaid its financing lease obligation during the fiscal year ended December 29, 2019.

(8) COMMITMENTS AND CONTINGENCIES

Operating Leases

We lease most of our Company-owned restaurants and office facilities under non-cancelable operating leases with remaining minimum terms ranging from one to 20 years. Our lease agreements generally contain base rent escalations that are either fixed pursuant to the lease agreement or based on the consumer price index. We are also required to pay contingent rentals on certain of our leases in amounts between 5% and 8% of gross sales above a minimum threshold. Beginning in fiscal 2019, we adopted ASC 842 – Leases. Under this standard, we determine if an arrangement is a lease at inception. Operating leases are included in ROU assets, current portion of operating lease liabilities, and operating lease liabilities in our consolidated balance sheets. ROU assets and operating lease liabilities are recognized based on the present value of lease payments over the lease term at the commencement date.

The following table sets forth certain information related to our rental activities as of the periods presented:

(in thousands)		**Year Ended December 29, 2019**
Operating lease cost	$	4,261
Short-term lease cost		123
Variable lease cost		31
Sublease income		(248)
Total lease cost		4,167

(in thousands)		**Year Ended December 29, 2019**
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$	4,424
Right-of-use assets obtained in exchange for new operating lease liabilities		18,458
Weighted-average remaining lease term of operating leases (in years)		9.56
Weighted-average discount rate of operating leases		5.56 %

Future maturities of our lease liabilities, as of December 29, 2019, are as follows:

(in thousands)		
Fiscal Year		
2020	$	5,194
2021		5,078

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2022		4,785
2023		3,918
2024		2,856
Thereafter		15,070
Total operating lease obligations		36,901
Less imputed interest		(5,944)
Total	$	30,957

Litigation

In the normal course of business, we are involved in a number of litigation matters that are incidental to the operation of the business. These matters generally include, among other things, matters with regard to employment and general business-related issues. We currently believe that the resolution of any of these pending matters will not have a material adverse effect on our financial position or liquidity, but an adverse decision in more than one of the matters could be material to our consolidated results of operations.

(9) STOCK-BASED COMPENSATION

Effective May 5, 2015, we adopted the 2015 Equity Plan (the “2015 Plan”), pursuant to which we may grant stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance stock units and other stock and cash awards to eligible participants. We also maintain an Amended and Restated 2005 Stock Incentive Plan (the “2005 Plan”). The 2005 Plan prohibits the granting of options pursuant to the 2005 plan after May 12, 2015, the tenth anniversary of the date the 2005 Plan was approved by our shareholders. Nonetheless, the 2005 Plan will remain in effect until all outstanding incentives granted thereunder have either been satisfied or terminated. As of December 29, 2019, there were 237,333 shares available for grant pursuant to the 2015 Plan.

Stock options granted to employees and directors generally vest over two to five years, in monthly or annual installments, as outlined in each agreement. Options generally expire ten years from the date of grant. Compensation expense equal to the grant date fair value of the options is recognized in general and administrative expense over the applicable service period.

Stock options granted to certain non-employees either vest immediately or monthly over a period of two years. Options generally expire ten years from the date of grant. Compensation expense is recognized in general and administrative expense over the applicable service period. In fiscal 2019, we adopted ASU 2018-07, which changes the way we account for stock options granted to non-employees. See Note 1 – Nature of Business and Significant Accounting Policies.

The incentive compensation of our Chief Executive Officer is tied to increases in our share price and calls for the issuance of freely tradable shares of our common stock upon the achievement of certain milestones.

We utilize the Black-Scholes option pricing model when determining the compensation cost associated with stock options issued using the following significant assumptions:

- Stock price – Published trading market values of our common stock as of the date of grant.
- Exercise price – The stated exercise price of the stock option.
- Expected life – The simplified method as outlined in ASC 718.
- Expected dividend – The rate of dividends that we expect to pay over the term of the stock option.
- Volatility – Actual volatility over the most recent historical period equivalent to the expected life of the option.
- Risk-free interest rate – The daily United States Treasury yield curve rate.

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We recognized stock-based compensation expense in its consolidated statements of operations for the twelve months ended December 29, 2019 and December 30, 2018, respectively, as follows:

	Year Ended	
(in thousands)	December 29, 2019	December 30, 2018
Stock options	$ 266	$ 208
Shares of common stock	—	70
Restricted stock	198	—
	$ 463	$ 278

The following is a roll-forward of our stock option activity for the periods presented:

	Number of Options (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Aggregate Intrinsic Value (in thousands)
Options outstanding at December 31, 2017	539	$ 6.60	6.6	$ 598
Granted	90	7.67		—
Exercised	(102)	5.28		273
Canceled, forfeited or expired	(143)	5.74		231
Options outstanding at December 30, 2018	384	$ 7.43	6.7	$ 29
Granted	212	4.37		—
Exercised	(5)	3.90		6
Canceled, forfeited or expired	(138)	5.22		68
Options outstanding at December 29, 2019	453	$ 6.71	5.7	$ 28
Options exercisable at December 29, 2019	280	$ 7.54	5.1	$ 19

The following table discloses the weighted-average values of significant assumptions that we made in valuing option grants for the periods presented:

	Year Ended	
	December 29, 2019	December 30, 2018
Weighted-average fair value of options granted during the period	$ 1.88	$ 3.73
Expected life (in years)	4.6	6.2
Expected dividend	$ —	$ —
Expected stock volatility	50.55 %	45.94 %
Risk-free interest rate	1.9 %	2.9 %

As of December 29, 2019, the total compensation cost related to unvested stock option awards was approximately $408,000, which is expected to be recognized over a period of approximately 3 years.

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(10) RETIREMENT SAVINGS PLANS

401(k) Plan

We have a pre-tax salary reduction/profit-sharing plan under the provisions of Section 401(k) of the Internal Revenue Code, which covers employees meeting certain eligibility requirements. The following table outlines certain information about our 401(k) plan:

	Year Ended	
(dollars in thousands)	December 29, 2019	December 30, 2018
Employer contribution rate, percent of employee contributions	25.0 %	25.0 %
Employee contribution rate, maximum percentage of employee earnings subject to employer matching	4.0 %	4.0 %
Employee contributions	$ 570	$ 469
Employer match	$ 113	$ 76
Discretionary contributions	$ —	$ —

Non-Qualified Deferred Compensation Plan

We maintain a non-qualified deferred compensation plan, effective as of February 25, 2005 (the “DCP”) for eligible participants, as defined in the DCP. The DCP allows participating employees to defer a portion of their compensation (salary, bonus and commissions). The assets of the DCP are maintained in an unsecured account that has no trust fund. In the event of bankruptcy, participants entitled to future payments under the DCP would have no greater rights than that of an unsecured general creditor and the DCP confers no legal rights for interest or claim on any of our assets. The benefits provided by the DCP are not, nor are they required to be, insured.

The following table outlines certain information about the DCP:

	Year Ended	
(dollars in thousands)	December 29, 2019	December 30, 2018
Employer contribution rate, percent of employee contributions	25.0 %	25.0 %
Employee contribution rate, maximum percentage of employee earnings subject to employer matching	4.0 %	4.0 %
Declared interest rate	6.0 %	6.0 %
Employee contributions	$ 47	$ 36
Employer match and interest	$ 6	$ 17
Distributions	$ 32	$ 30

(11) RESTAURANT ACQUISITIONS

On August 6, 2018, we completed the acquisition of a Famous Dave's restaurant in Janesville, Wisconsin. The seller of the restaurant was Team R N' B Wisconsin, LLC. The contract purchase price of the restaurant was approximately $37,000, exclusive of closing costs plus the assumption of the gift card liability.

On October 8, 2018, we completed the acquisition of a Famous Dave's restaurant in Greenwood, Indiana. The seller of the restaurant was Greenwood Ribs, LLC. The contract purchase price of the restaurant was approximately $191,000, exclusive of closing costs plus the assumption of the gift card liability.

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The acquisitions were accounted for using the purchase method of accounting in accordance with ASC 805 "Business Combinations" and, accordingly, the consolidated statements of operations include the results of these operations from the date of acquisition. The assets acquired and the liabilities assumed were recorded at estimated fair values based on information available.

(in thousands)		
Assets acquired:		
Cash and cash equivalents	$	4
Inventory		66
Property, plant, equipment and leasehold improvements, net		91
Goodwill		42
Reacquired franchise rights, net		25
Total assets acquired		228
Gift card liability assumed		(25)
Total purchase price	$	203

On March 4, 2019, we completed the acquisition of the assets and operations of four Famous Dave's restaurants in Colorado (the "Colorado Restaurants"). The sellers of the Colorado Restaurants were Legendary BBQ, Inc., Quebec Square BBQ, Inc., Cornerstar BBQ, Inc., Razorback BBQ, Inc., and Larkridge BBQ, Inc. Pursuant to the same purchase agreement as the acquisition of the Colorado Restaurants, on June 3, 2019, we completed the acquisition of the assets and operations of one Famous Dave's restaurant in Grand Junction, Colorado (the "Grand Junction Restaurant"). The seller of the Grand Junction Restaurant was Mesa Mall BBQ, Inc. The contract purchase price of the Colorado Restaurants and the Grand Junction Restaurant was approximately $4.1 million, exclusive of acquisition costs of approximately $409,000, which are reflected in general and administrative expenses, plus the assumption of the gift card liability associated with the restaurants. Accounts receivable amounts owed to our company reduced the cash required to be paid for the purchase price. We also purchased inventory on hand as of the acquisition dates. Effective as of the closing date of the acquisitions, the franchise agreements for the Colorado Restaurants and the Grand Junction Restaurant were terminated.

The acquisition was accounted for using the purchase method of accounting in accordance with ASC 805 "Business Combinations" and, accordingly, these consolidated statements of operations include the results of these operations from the date of acquisition.

(in thousands)		
Assets acquired:		
Cash and cash equivalents	$	13
Inventory		176
Property, plant, equipment and leasehold improvements, net		3,139
Lease right-of-use asset, net of unfavorable lease value		6,729
Identifiable intangible assets, net		1,368
Total identifiable assets acquired		11,425
Liabilities assumed:		
Gift card liability		(182)
Lease liability		(7,116)
Net assets acquired		4,127
Goodwill		373
Total consideration transferred	$	4,500

On July 10, 2019, we completed the acquisition of the assets and operations of four Famous Dave's restaurants in Arizona (the "Arizona Restaurants"). The sellers of the Arizona Restaurants were Desert Ribs LLC, Famous Charlie LLC, Famous Freddie LLC, Famous Gracie LLC, and Famous George LLC, which were franchisees of the Company. The

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acquisition of the Arizona Restaurants was pursuant to the Purchase Agreement, as filed on June 26, 2019, resulting from a stalking horse bid in the sale process conducted under Sections 363 and 365 of Chapter 11 of the U.S. Bankruptcy Code. The purchase price of the Arizona Restaurants was approximately $1.6 million in cash and approximately $1.4 million for the assumption of gift card and other liabilities as specified in the Purchase Agreement, settlement of outstanding franchise billings, and fees related to debtor-in-possession financing. We incurred acquisition costs of approximately $166,000, which are reflected in general administrative expenses, associated with the purchase of the Arizona Restaurants. Effective as of the closing date of the acquisition, the franchise agreements for the Arizona Restaurants were terminated and outstanding receivables were considered additions to the purchase price.

The acquisition was accounted for using the purchase method of accounting in accordance with ASC 805 "Business Combinations" and, accordingly, these consolidated statements of operations include the results of these operations from the date of acquisition.

(in thousands)		
Assets acquired:		
Cash and cash equivalents	$	12
Inventory		103
Property, plant, equipment and leasehold improvements, net		5,177
Lease right-of-use asset, net of unfavorable lease value		731
Total identifiable assets acquired		6,023
Liabilities assumed:		
Gift card liability		(428)
Lease liability		(2,992)
Net assets acquired		2,603
Goodwill		415
Total consideration transferred	$	3,018

The following table presents the allocation of assets acquired and liabilities assumed for individually immaterial acquisitions during the twelve months ended December 29, 2019:

(in thousands)		
Assets acquired:		
Cash and cash equivalents	$	15
Inventory		202
Property, plant, equipment and leasehold improvements, net		362
Lease right-of-use asset, net of unfavorable lease value		6,109
Identifiable intangible assets, net		728
Total identifiable assets acquired		7,416
Liabilities assumed:		
Gift card liability		(71)
Lease liability		(6,715)
Net assets acquired		630
Gain on bargain purchase		(178)
Total consideration transferred	$	452

Unaudited pro forma results of operations for the fiscal years ended December 29, 2019 and December 30, 2018, as if we had acquired majority ownership of all operations on January 1, 2018 is as follows. The pro forma results include estimates and assumptions which our management believes are reasonable. However, pro forma results are not necessarily

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indicative of the results that would have occurred if the business combination had been in effect on the dates indicated, or which may result in the future.

	Year Ended	
	December 29, 2019	December 30, 2018
(in thousands)		
Pro forma revenues	$ 99,053	$ 102,186
Pro forma net income	$ 75	$ 7,308
Basic pro forma net income per share attributable to shareholders	$ 0.01	$ 0.85
Diluted pro forma net income per share attributable to shareholders	$ 0.01	$ 0.85

(12) INCOME TAXES

For financial reporting purposes, income (loss) before income taxes consists of the following components for the periods presented:

	Year Ended	
(in thousands)	December 29, 2019	December 30, 2018
United States	$ (2,072)	$ 5,370
Foreign	166	221
Total	$ (1,906)	$ 5,591

The following table summarizes the income tax (expense) benefit for the periods presented:

	Year Ended	
(in thousands)	December 29, 2019	December 30, 2018
Current:		
Federal	$ (10)	$ 4
State	(48)	(17)
Foreign	(25)	(77)
	(83)	(90)
Deferred:		
Federal	603	(532)
State	139	(107)
	742	(639)
Total income tax (expense) benefit	$ 659	$ (729)

The impact of uncertain tax positions taken or expected to be taken on income tax returns must be recognized in the financial statements at the largest amount that is more likely than not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized in the financial statements unless it is more likely than not of being sustained.

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The following is a reconciliation of the beginning and ending amounts of gross unrecognized tax benefit for the periods presented:

(in thousands)	
Balance at December 31, 2017	13
Decreases due to lapses of statutes of limitations	(5)
Balance at December 30, 2018	8
Decreases due to lapses of statutes of limitations	(4)
Balance at December 29, 2019	$ 4

Substantially all of our unrecognized tax benefits, if recognized, would impact our effective tax rate.

We file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The preparation of these income tax returns requires us to interpret and apply relevant federal and state income tax laws. It is common for federal and state taxing authorities to periodically examine filed tax returns. During these examinations, it is possible for taxing authorities to interpret facts or tax law differently than we do. As a result, we may be required to adjust tax liabilities affecting our effective tax rate. Tax years 2016 and forward remain subject to federal examination. Tax years 2015 and forward remain subject to state examination. It is possible that the liability associated with the unrecognized tax benefits will increase or decrease within the next 12 months. The expiration of statutes of limitations would decrease our unrecognized tax benefits by approximately $4,000.

We have significant net deferred tax assets ("DTA"), which results from the net temporary timing differences between amounts recorded within our consolidated financial statements in accordance with GAAP and such amounts measured in accordance with the laws of various taxing jurisdictions and as reported in our tax returns. A DTA generally represents future tax benefits to be received when temporary differences previously reported in our consolidated financial statements become deductible for income tax purposes, when net operating loss carry forwards are applied against future taxable income, or when tax credit carry forwards are utilized on our tax returns. As of December 29, 2019, the majority of our DTA resulted from net operating loss and tax credit carryforwards, which will not be realized unless we generate taxable income in the future. We evaluate our net deferred tax asset on a quarterly basis to determine whether current facts and circumstances indicate that the DTA may not be fully realizable and we provide for valuation allowances on those portions of the DTA that we don't expect to realize.

Significant judgment is required in determining the realizability of our DTA. The assessment of whether valuation allowances are required considers, among other matters, the nature, frequency and severity of any current and cumulative losses, forecasts of future profitability, the duration of statutory carry forward periods, our experience with loss carry forwards not expiring unused and tax planning alternatives. In analyzing the need for valuation allowances, we first considered our history of cumulative operating results for income tax purposes over the past three years in each of the tax jurisdictions in which we operate, our financial performance in recent quarters, statutory carry forward periods and tax planning alternatives. Finally, we considered both our near and long-term financial outlook. After considering all available evidence both positive and negative, we concluded that recognition of valuation allowances for substantially all of our DTA was not required. We recognized a valuation allowance relating to certain state net operating losses for which we believe that is it more likely than not that the benefit will not be realized. In recognition of this risk, we have provided a valuation allowance of $1.3 million on the deferred tax asset related to these state net operating loss carryforwards.

BBQ HOLDINGS, INC. AND SUBSIDIARIES
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The following is a summary of the components of our net deferred tax assets as of the periods presented:

(in thousands)	December 29, 2019	December 30, 2018
Deferred tax asset:		
Deferred rent	$ —	$ 411
Federal net operating loss carry-forwards	1,980	1,812
State net operating loss carry-forwards	1,993	4,130
Intangible property basis difference	(7)	131
Financing lease obligation	—	299
Tax credit carryover	2,581	2,164
Accrued expenses	168	205
Stock-based compensation	187	103
Deferred revenue	693	666
Lease reserve	8,060	107
Accrued and deferred compensation	53	36
Contribution carryover	50	46
Transaction and organization costs	121	—
Inventories	10	5
Total deferred tax asset	$ 15,889	$ 10,115
Deferred tax liability:		
Property and equipment basis difference	$ (755)	$ (568)
Inventories	(146)	(83)
Prepaid expenses	(365)	(236)
Right of use asset	(6,664)	—
Total deferred tax liability	$ (7,930)	$ (887)
Net deferred tax assets	7,959	9,228
Valuation allowance	(1,313)	(3,481)
Deferred tax asset, net	$ 6,646	$ 5,747

During the year ended December 29, 2019, the net change in our DTA valuation allowance was approximately $2,168,000.

As of December 29, 2019, we had cumulative state net operating loss carry-forwards for tax reporting purposes of approximately $25.2 million and federal net operating loss carry-forwards for tax reporting purposes of $9.4 million which, if not used, will begin to expire in fiscal 2020 and 2038, respectively.

BBQ HOLDINGS, INC. AND SUBSIDIARIES
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The following is a reconciliation from our statutory tax rate to our effective tax rate for the periods presented:

	Year Ended	
	December 29, 2019	December 30, 2018
Federal statutory tax rate	21.0 %	21.0 %
State taxes, net of valuation allowance and federal benefit	(4.7)	2.2
Deferred rate change	11.9	(0.6)
Foreign taxes	(2.0)	1.4
Tax effect of permanent differences	0.5	(0.1)
Tax effect of general business credits	24.3	(3.4)
Tax effect of foreign tax credit	2.0	(3.2)
Uncertain tax positions	0.3	(0.1)
Return to provision update	(173.8)	(15.7)
Change in valuation allowance	171.8	11.5
Other	0.9	—
Effective tax rate	52.2 %	13.0 %

(13) ASSET IMPAIRMENT, ESTIMATED LEASE TERMINATION AND OTHER CLOSING COSTS

The following is a summary of asset impairment, estimated lease termination and other closing costs for the periods presented:

	Year Ended	
(dollars in thousands)	December 29, 2019	December 30, 2018
Asset impairments, net	$ 282	$ 89
Lease termination charges (income) and related costs	926	(271)
Restaurant closure expenses	88	327
Asset impairment, estimated lease termination charges and other closing costs	$ 1,296	$ 145

Below reflects the change in our reserve for lease termination costs for the periods presented:

(in thousands)	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions Credits to Costs and Expenses and Other Accounts	Balance at End of Period
Year Ended December 29, 2019				
Reserve for lease termination costs and asset retirement obligations	$ 431	182	(605)	$ 8
Year Ended December 30, 2018				
Reserve for lease termination costs and asset retirement obligations	$ 1,799	511	(1,879)	$ 431

These amounts were recorded in other current liabilities or other liabilities depending on when we expected the amounts to be paid.

BBQ HOLDINGS, INC. AND SUBSIDIARIES
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(14) FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement framework establishes a three-tier hierarchy. The three levels, in order of priority, are as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date. Level 1 measurements are determined by observable inputs which include data sources and market prices available and visible outside of the entity.

Level 2: Observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly.

Level 3: Inputs that are used to estimate the fair value of the asset or liability. Level 3 measurements are determined by unobservable inputs, which include data and analyses developed within the entity to assess the fair value.

For assets and liabilities falling within Level 3 of the fair value hierarchy, a change in the input assumptions used could result in a change in the estimated fair value of the asset or liability. Transfers in and out of levels will be based on our judgment of the availability of unadjusted quoted prices in active markets, other observable inputs, and non-observable inputs.

The carrying amounts of cash and cash equivalents reported in the consolidated balance sheets approximates fair value based on current interest rates and short-term maturities. The carrying amount of accounts receivable approximates fair value due to the short-term nature of accounts receivable. We believe that the carrying amount of long-term debt approximates fair value due to the variable interest rates charged on long-term debt or as a result of the proximity of the refinancing to the end of the fiscal year.

We had no assets measured at fair value in our consolidated balance sheets as of December 29, 2019 and December 30, 2018 except for the assets recorded at fair value in conjunction with restaurant acquisitions. See Note 11 – *Restaurant Acquisition*.

(15) VARIABLE INTEREST ENTITIES

A variable interest holder is considered to be the primary beneficiary of a variable interest entity ("VIE") if it has the power to direct the activities of a VIE that most significantly impact the entity's economic performance and has the obligation to absorb losses of, or the right to receive benefits from, the entity that could potentially be significant to the VIE. Once an entity is determined to be a VIE, the primary beneficiary is required to consolidate the entity. We have an installment agreement with one of our franchisees as the result of refranchising our Lincoln, Nebraska restaurant. This franchisee is a VIE; however, the owners of the franchise operations are the primary beneficiaries of the entities; therefore, the franchise operations are not required to be consolidated in our consolidated financial statements.

On November 1, 2017, we sold our Frederick, Maryland restaurant. Pursuant to the terms of the Frederick Agreement, we remained the primary obligor of the lease. As of December 29, 2019, the amount of future lease payments for which we would be liable in the event of a default was approximately $393,000. As the amount of such payments outweighed the amount of expected sublease income, in fiscal 2019, we recorded $200,000 as asset impairment related to ROU asset. Of such amount $159,000 approximates the present value of future minimum lease payments net of expected sublease receipts.

On July 18, 2018, we and Clark Championship Products LLC ("Clark"), an entity owned by Travis Clark, became members of Mercury BBQ LLC ("Mercury") for the purposes of building out and operating the inaugural Clark Crew

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BBQ restaurant in Oklahoma City, Oklahoma (the "Restaurant"). Clark will own 80% of the units outstanding of Mercury and we will own 20% of the units outstanding of Mercury. Mercury shall be governed by three managers, two of which will be appointed by us and one of which will be appointed by Clark. Also in July 2019, we entered into a secured promissory note with Mercury which we amended in October 2019. This promissory note as amended (the "Loan") was in the amount of $3.9 million, the proceeds of which are required to be used for the build out of the Restaurant. The Loan bears interest at a rate of 8% per annum and requires payments of 100% of the excess monthly cash flows until the Loan and all interest accrued thereon is repaid. The Loan requires a balloon payment of unpaid principal and accrued interest on July 15, 2025 and may be prepaid at any time. Also on July 18, 2018, we and Clark entered into an intellectual property license agreement (the "License Agreement") pursuant to which Clark granted to us an exclusive license to use and sublicense the patents, trademarks, trade names, service marks, logos and designs related to Clark Crew BBQ restaurants and products. The term of the License Agreement is indefinite and may only be terminated by mutual written consent, unless we breach the License Agreement.

Because we have provided more than half of the subordinated financial support of Mercury and control Mercury via our representation on the board of managers, we have concluded that Mercury is a VIE, of which we are the primary beneficiary and must consolidate Mercury. Mercury generated a net loss of approximately $748,000, of which $598,000 was recorded as non-controlling interest on our consolidated financial statements. As of December 29, 2019, Mercury had assets of $5.8 million, which primarily consist of fixed assets. The liabilities recognized as a result of consolidating Mercury BBQ's results of operations do not represent additional claims on the general assets of BBQ Holdings, Inc.; rather, they represent claims against the specific assets of the Mercury BBQ's. Conversely, assets recognized as a result of consolidating the Mercury BBQ's results of operations do not represent additional assets that could be used to satisfy claims against the general assets of BBQ Holdings.

(16) RELATED PARTY TRANSACTIONS

Anand D. Gala is a franchisee and currently serves as one of our directors. Mr. Gala is the Founder, President and Chief Executive Officer of Gala Holdings International, a diversified holding company that conducts consulting, restaurant development and management operations.

Charles Davidson is a franchisee of ours and is the beneficial owner of approximately 18.2% of our common stock as of the date that these financial statements were available to be issued, by virtue of his ownership interest in Wexford Capital.

The following table outlines amounts received from related parties during the years ended December 29, 2019 and December 30, 2018:

	Year Ended	
(in thousands)	**December 29, 2019**	**December 30, 2018**
Revenues and NAF contributions - Anand Gala	$ 1,649	$ 1,538
Revenues and NAF contributions - Charles Davidson	314	308

The following table outlines accounts receivable, net from related parties as of December 29, 2019 and December 30, 2018:

(in thousands)	**December 29, 2019**	**December 30, 2018**
Accounts receivable, net - Anand Gala	$ 290	$ 271
Accounts receivable, net - Charles Davidson	77	44

BBQ HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(17) SUBSEQUENT EVENTS

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

On February 11, 2020, we entered into an Asset Purchase Agreement with Granite City Food & Brewery Ltd. (“Granite City”) to acquire certain assets associated with Granite City restaurants in connection with the Chapter 11 filing of Granite City (the “Acquisition”). The Acquisition was approved by the Bankruptcy Court at a hearing on February 21, 2020. The purchase price for the assets purchased was $3,650,000. On March 9, 2020, we closed the Acquisition with cash on hand and borrowing under its existing loan agreement with Choice.

Subsequent to December 29, 2019, we obtained funding from our agreement with Choice of $8.1 million in the aggregate. As of March 12, 2020, the balance on such note was $15.0 million.

In March 2020 the World Health Organization declared the novel strain of coronavirus (“COVID-19”) a global pandemic. This contagious virus, which has continued to spread, has adversely affected workforces, customers, economies, and financial markets globally, leading to an economic downturn. It has also disrupted the normal operations of many businesses, including ours. There have been mandates from federal, state and local authorities requiring forced closures of certain businesses, which could negatively impact our business. As of the date of this filing, certain Company-owned and franchise restaurants have been temporarily closed or only able to offer to-go or delivery. While it is not possible for us to predict the duration or magnitude of the adverse results of the outbreak of COVID-19 and its effects on our business or results of operations at this time, we do anticipate it will have an adverse effect on our revenue and profitability in fiscal 2020.

BBQ HOLDINGS, INC. AND SUBSIDIARIES

Financial Statement Schedule

SCHEDULE II. VALUATION AND QUALIFYING ACCOUNTS

(in thousands)	Balance at Beginning of Period	Additions: Charged to Costs and Expenses	Deductions: Credits to Costs and Expenses and Other Accounts	Balance at End of Period
Year ended December 30, 2018:				
Allowance for doubtful accounts	$ 592	$ —	$ (400)	$ 192
Reserve for lease termination costs and asset retirement obligation	1,799	511	(1,879)	431
Reserve for corporate severance	355	98	(453)	—
Year ended December 29, 2019:				
Allowance for doubtful accounts	$ 192	$ 74	$ (133)	$ 132
Reserve for lease termination costs and asset retirement obligation	431	182	(605)	8

EXHIBITS

Exhibit No.	Description
3.1	Articles of Incorporation, dated March 29, 2019, incorporated by reference to Exhibit 3.1 to Form 8-K12B filed on September 17, 2019.
3.2	Bylaws, dated March 29, 2019, incorporated by reference to Exhibit 2.1 of Form 8-K12B filed on September 17, 2019.
4.1*	Description of Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934.
10.1	Trademark License Agreement between BBQ Holdings, Inc. and Grand Pines Resorts, Inc., incorporated by reference to Exhibit 10.11 to the Registration Statement on Form SB-2 (File No. 333-10675) filed on August 23, 1996
10.2	Second Amended and Restated Non-Qualified Deferred Compensation Plan, dated January 1, 2008, incorporated by reference to Exhibit 10.16 to Form 10-K filed March 14, 2008 †
10.3	Amended and Restated 2005 Stock Incentive Plan (as amended through January 21, 2013), incorporated by reference to Exhibit 10.6 to Form 10-K filed March 15, 2013 †
10.4	Form of Director Restricted Stock Agreement Granted Under the Amended and Restated 2005 Stock Incentive Plan, incorporated by reference to Exhibit 10.4 to Form 10-K filed March 13, 2015 †
10.5	BBQ Holdings, Inc. 2015 Equity Incentive Plan, incorporated by reference to Exhibit 10.1 to Form 10-Q filed May 8, 2015 †
10.6	Amendment No. 1 to 2015 Equity Incentive Plan, incorporated by reference to Exhibit 10.1 to Form 8-K filed July 31, 2015 †
10.7	Amendment No. 2 to 2015 Equity Incentive Plan, incorporated by reference to Exhibit 10.1 to Form 10-Q filed November 6, 2015 †
10.8	Form of Indemnification Agreement between BBQ Holdings, Inc. and each of its directors and officers, incorporated by reference to Exhibit 10.2 to Form 10-Q filed November 6, 2015
10.9	Schedule of directors and officers subject to Indemnification Agreements in the form of Exhibit 10.30, incorporated by reference to Exhibit 10.3 to Form 10-Q filed November 6, 2015
10.10	Stock Purchase Agreement dated November 10, 2017 between BBQ Holdings, Inc. and PW Partners, LLC, incorporated by reference to Exhibit 10.1 to Form 8 K filed November 13, 2017
10.11	Registration Rights Agreement dated November 10, 2017 between BBQ Holdings, Inc. and PW Partners, LLC, incorporated by reference to Exhibit 10.2 to Form 8 K filed November 13, 2017
10.12	Employment Agreement dated November 14, 2017 between BBQ Holdings, Inc. and Jeffery Crivello, incorporated by reference to Exhibit 10.3 to Form 8 K filed November 13, 2017 †
10.13	Asset Purchase Agreement dated November 1, 2017 among BBQ Holdings Ribs of Maryland, Inc., BBQ Holdings Ribs, Inc., Commonwealth Blue Ribbon Restaurants, LLC and Capital Blue Ribbon Restaurants, LLC, incorporated by reference to Exhibit 10.53 to the Registration Statement on Form S 1 filed on December 29, 2017

Exhibit No.	Description
10.14	Asset Purchase Agreement (and supplemental letter agreement) dated November 1, 2017 between BBQ Holdings Ribs of Maryland, Inc. and Capital Blue Ribbon Restaurants, LLC, incorporated by reference to Exhibit 10.54 to the Registration Statement on Form S 1 filed on December 29, 2017
10.15	Amendment dated January 29, 2018 to Employment Agreement dated November 14, 2017 between BBQ Holdings, Inc. and Jeffery Crivello, incorporated by reference to Exhibit 10.2 to Form 8-K filed January 29, 2018 †
10.16	Employment Agreement dated April 13, 2016 between BBQ Holdings, Inc. and Geovannie Concepcion, incorporated by reference to Exhibit 10.3 to Form 8-K filed January 29, 2018 †
10.17	Amendment dated January 29, 2018 to Employment Agreement dated April 13, 2016 between BBQ Holdings, Inc. and Geovannie Concepcion, incorporated by reference to Exhibit 10.4 to Form 8-K filed January 29, 2018 †
10.18	Standby Purchase Agreement, between BBQ Holdings, Inc. and PW Partners, LLC, dated January 29, 2018, incorporated by reference to Exhibit 10.1 to Form 8-K filed January 29, 2018
10.19	Employment Agreement dated February 12, 2018 between BBQ Holdings, Inc. and Paul M. Malazita, incorporated by reference to Exhibit 10.54 to the Form 10-K filed March 5, 2018 †
10.20	BBQ Holdings, Inc. Amended and Restated 2015 Equity Incentive Plan dated March 29, 2018, incorporated by reference to Exhibit A to the Definitive Proxy Statement on Schedule 14A, filed on April 4, 2018
10.21	Secured Promissory Note, dated July 18, 2018 between Mercury BBQ LLC and BBQ Holdings, Inc., incorporated by reference to Exhibit 10.1 to Form 10-Q filed on August 13, 2018
10.22	Intellectual Property License Agreement, dated July 18, 2018 among Travis Clark, Clark Championship Products LLC and BBQ Holdings, Inc., incorporated by reference to Exhibit 10.2 to Form 10-Q filed on August 13, 2018
10.23 *	Amendment dated November 12, 2018 to Employment Agreement dated February 12, 2018 between BBQ Holdings, Inc. and Paul M. Malazita, incorporated by reference to Exhibit 10.39 to Form 10 K filed March 4, 2019 †
10.24	Asset Purchase Agreement, dated January 29, 2019, by and among BBQ Holdings Ribs, Inc., Legendary BBQ, Inc., Cornerstar BBQ, Inc., Razorback BBQ, Inc., Larkridge BBQ, Inc., Mesa Mall BBQ, Inc., and Quebec Square BBQ, Inc., incorporated by reference to Exhibit 10.1 to Form 8-K filed February 4, 2019
10.25 *	Form of Restricted Stock Agreement Granted under the Amended and Restated 2015 Equity Incentive Plan, incorporated by reference to Exhibit 10.41 to Form 10-K filed March 4, 2019 †
10.26 *	Second Amendment, dated February 28, 2019, to employment agreement between BBQ Holdings, Inc. and Jeffery Crivello, incorporated by reference to Exhibit 10.42 to Form 10-K filed March 4, 2019 †
10.27 *	Second Amendment, dated February 28, 2019, to employment agreement between BBQ Holdings, Inc. and Geovannie Concepcion, incorporated by reference to Exhibit 10.43 to Form 10-K filed March 4, 2019 †
10.28	Asset Purchase Agreement, dated March 13, 2019, by and among Famous Dave's of America, Inc., and Big Ten Ribs, Inc., incorporated by reference to Exhibit 10.1 to Form 8-K filed on March 12, 2019

Exhibit No.	Description
10.29	Asset Purchase Agreement, dated March 13, 2019, by and among Famous Dave's of America, Inc., and Team R n' B Wisconsin, LLC, incorporated by reference to Exhibit 10.2 to Form 8-K filed on March 12, 2019
10.30	Purchase Agreement, dated June 12, 2019, by and among Famous Dave's Ribs, Inc. and General Realty CE LLC, incorporated by reference to Exhibit 10.1 to Form 8-K filed on June 18, 2019
10.31	Purchase Agreement, dated June 20, 2019, by and among Famous Dave's Ribs, Inc. and Desert Ribs LLC, Famous Charlie LLC, Famous Freddie LLC, Famous Gracie LLC, and Famous George LLC, incorporated by reference to Exhibit 10.1 to Form 8-K filed on June 26, 2019
10.32	Loan Agreement dated June 20, 2019, by and among Famous Dave's of America, Inc., D&D of Minnesota, Inc., Famous Dave's Ribs of Maryland, Inc., Famous Dave's Ribs, Inc., Famous Dave's Ribs-U, Inc., Lake & Hennepin BBQ & Blues, Inc. and Choice Financial Group, incorporated by reference to Exhibit 10.2 to Form 8-K filed on June 26, 2019
10.33	Term Promissory Note dated June 20, 2019 among Famous Dave's of America, Inc., D&D of Minnesota, Inc., Famous Dave's Ribs of Maryland, Inc., Famous Dave's Ribs, Inc., Famous Dave's Ribs-U, Inc., Lake & Hennepin BBQ & Blues, Inc. to Choice Financial Group, incorporated by reference to Exhibit 10.3 to Form 8-K filed on June 26, 2019
10.34	Revolving Promissory Note, dated June 20, 2019 among Famous Dave's of America, Inc., D&D of Minnesota, Inc., Famous Dave's Ribs of Maryland, Inc., Famous Dave's Ribs, Inc., Famous Dave's Ribs-U, Inc., Lake & Hennepin BBQ & Blues, Inc. to Choice Financial Group, incorporated by reference to Exhibit 10.4 to Form 8-K filed on June 26, 2019
10.35	Mortgage Security Agreement and Fixture Financing Statement, dated June 20, 2019 among Famous Dave's of America, Inc., D&D of Minnesota, Inc., Famous Dave's Ribs of Maryland, Inc., Famous Dave's Ribs, Inc., Famous Dave's Ribs-U, Inc., Lake & Hennepin BBQ & Blues, Inc. to Choice Financial Group, incorporated by reference to Exhibit 10.5 to Form 8-K filed on June 26, 2019
10.36	Plan of Merger, dated September 6, 2019, among Famous Dave's of America, Inc., BBQ Holdings, Inc., and BBQ Merger Sub, Inc., incorporated by reference to Exhibit 2.1 to Form 8-K12B filed on September 17, 2019
10.37	Intellectual Property License Agreement, dated October 2, 2019 between Clark Championship Products LLC and Mercury BBQ, LLC, incorporated by reference to Exhibit 10.1 to Form 10-Q filed November 12, 2019
10.38	Amendment, dated October 2, 2019, among Travis Clark, Clark Championship Products LLC and BBQ Oklahoma, Inc., to the Intellectual Property License Agreement, dated July 13, 2018, incorporated by reference to Exhibit 10.2 to Form 10-Q filed November 12, 2019
10.39	Secured Promissory Note, dated October 2, 2019, between Mercury BBQ LLC and BBQ Oklahoma, Inc., incorporated by reference to Exhibit 10.3 to Form 10-Q filed on November 12, 2019
10.40	Offer of Employment Letter to Jim Gilbertson, dated December 17, 2019, incorporated by reference to Exhibit 10.1 to form 8-K filed January 9, 2020 †
21.0*	Subsidiaries of BBQ Holdings, Inc.
23.1*	Consent of Grant Thornton LLP

Exhibit No.	Description
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
101.INS*	XBRL Instance Document
101.SCH*	XBRL Schema Document
101.CAL*	XBRL Calculation Linkbase Document
101.LAB*	XBRL Label Linkbase Document
101.PRE*	XBRL Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document

* Filed herewith
† Management compensatory plan

SIGNATURES

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

BBQ HOLDINGS, INC.
("Registrant")

Dated: March 27, 2020

By: /s/ Jeffery J. Crivello
Jeffery J. Crivello
Chief Executive Officer
(Principal Executive Officer)

By: /s/ James G. Gilbertson
James G. Gilbertson
Chief Financial Officer and Secretary
(Principal Financial Officer and Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 27, 2020 by the following persons on behalf of the registrant, in the capacities indicated.

Signature	*Title*
/s/ Jeffery J. Crivello Jeffery J. Crivello	Chief Executive Officer and Director
/s/ David L. Kanen David L. Kanen	Non-Executive Chairman of the Board of Directors
/s/ Anand D. Gala Anand D. Gala	Director
/s/ Peter O. Haeg Peter O. Haeg	Director
/s/ Joseph M. Jacobs Joseph M. Jacobs	Director
/s/ Richard A. Shapiro Richard A. Shapiro	Director
/s/ Richard S. Welch Richard S. Welch	Director
/s/ Bryan L. Wolff Bryan L. Wolff	Director

Description of the Registrant's Securities
Registered Pursuant to Section 12 of the
Securities Exchange Act of 1934

The following description sets forth certain material terms and provisions of the securities of BBQ Holdings, Inc. that are registered under Section 12 of the Securities Exchange Act of 1934, as amended. This description also summarizes relevant provisions of Minnesota law. Unless the context requires otherwise, references to "we," "us," "our" and the "Company" refer to BBQ Holdings, Inc.

This summary does not purport to be complete and is qualified by reference to our Articles of Incorporation and our Bylaws, which are filed as exhibits to this Annual Report on Form 10-K and are incorporated by reference herein. We encourage you to read our Articles of Incorporation and our Bylaws for additional information.

Capital Stock

As of the date hereof, the Company's authorized capital stock consists of 100,000,000 shares, having a par value of $.0.01 per share in the case of Common Stock, and having a par value as determined by the Board in the case of preferred stock, to be held, sold and paid for at such times and in such manner as the Board may from time to time determine in accordance with Minnesota law. The Board is expressly authorized to establish more than one class or series of shares, either preferred or Common, and to fix the relative rights, restrictions and preferences of any such different classes or series, and the authority to issue shares of a class or series to another class or series to effectuate share dividends, splits or conversion of the Company's outstanding shares. The Board also has the authority to issue rights to convert any of the Company's securities into shares of stock of any class or classes, the authority to issue options to purchase or subscribe for shares of stock of any class or classes, and the authority to issue share purchase or subscription warrants or any other evidence of such option rights which set forth the terms, provisions and conditions thereof, including the price at which such shares may be subscribed for or purchased. Such options, warrants and rights may be transferable or nontransferable and separable or inseparable from the Company's other securities.

Voting Rights

Each share of Common Stock entitles the holder to one vote with respect to each matter presented to our shareholders on which the holders of Common Stock are entitled to vote. Our Common Stock votes as a single class on all matters relating to the election and removal of directors on our Board and as provided by law. Holders of our Common Stock will not have cumulative voting rights. Except as otherwise provided in our Articles, Bylaws, or required by law, the shareholders shall take action by the affirmative vote of the holders of a majority of the voting power of the minimum number of the shares entitled to vote that would constitute a quorum for the transaction of business at the meeting.

Dividend Rights

The holders of Common Stock are entitled to receive such dividends as are from time to time declared by the Board out of funds legally available therefore. We have never declared or paid cash dividends on our Common Stock. We currently intend to retain all available funds and any future earnings for use in the operation of our business and do not anticipate paying any dividends on our Common Stock in the foreseeable future. Any future determination to declare dividends will be made at the discretion of our Board and will depend on such factors as earnings levels, capital requirements, loan agreement or other contractual restrictions, our financial condition and other factors deemed relevant by our Board.

Liquidation and Other Rights

In the event of our liquidation, dissolution or winding-up, the holders of our Common Stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of preferred stock, if any, then outstanding. The holders of our Common Stock have no conversion, redemption, preemptive, subscription or similar rights. There are no sinking fund provisions for or applicable to the Common Stock. The outstanding shares of Common Stock are not liable to further call or to assessment by the Company.

Listing

The Company's Common Stock is listed on the Nasdaq Global Market under the symbol "BBQ".

Transfer Agent and Registrar

Broadridge Corporate Issuer Solutions, Inc. is the transfer agent and registrar for the Company's Common Stock.

Anti-takeover Effects of Minnesota Law and Our Articles and Bylaws

Certain provisions of our Articles and Bylaws may make it less likely that our management would be changed or someone would acquire voting control of our Company without our Board's consent. These provisions may delay, deter or prevent tender offers or takeover attempts that shareholders may believe are in their best interests, including tender offers or attempts that might allow shareholders to receive premiums over the market price of their Common Stock.

Ability to Issue Capital Stock with Preferential Rights without Shareholder Approval

Our Board can at any time, under our Articles, and without shareholder approval, issue more than one class or series of shares, either preferred or Common, and to fix the relative rights, restrictions and preferences of any such different classes or series. In some cases, the issuance of classes or series of stock having preferential rights to the shares of common stock that are currently outstanding, without shareholder approval, could discourage or make more difficult attempts to take control of our Company through a merger, tender offer, proxy contest or otherwise. Such classes or series of shares having preferential or special voting rights or other features issued to persons favoring our management could stop a takeover by preventing the person trying to take control of our Company from acquiring enough voting shares necessary to take control.

Advance Notice Provisions for Raising Business or Nominating Directors

Sections 3.13 and 4.3 of our Bylaws contain advance-notice provisions relating to the ability of shareholders to raise business at a shareholder meeting and make nominations for directors to serve on our Board. These advance-notice provisions generally require shareholders to raise business within a specified period of time prior to a meeting in order for the business to be properly brought before the meeting. Similarly, our Bylaws prescribe the timing of submissions for nominations to our Board and certain factual and background information respecting the nominee and the shareholder making the nomination.

Unanimous Shareholder Written Consent

The Minnesota Business Corporation Act's Section 302A.441 provides that any action required or permitted to be taken by the shareholders of a corporation may be effected by written consent only if signed, or consented to by authenticated electronic communication, by all of the shareholders entitled to vote on that action. The Minnesota Business Corporation Act does not permit a publicly held company such as ours to opt-out of this unanimous written consent provision.

Special Meetings of Shareholders

Our Bylaws provide that special meetings of shareholders may be called only by the Chief Executive Officer, the Chief Financial Officer, our Board, any two or more members of the Board, or one or more shareholders holding 10% or more of the issued and outstanding voting shares of the Company and complying with certain procedures specified in our Bylaws. Further, business transacted at any special meeting of shareholders is limited to matters relating to the purpose or purposes stated in the notice of the meeting.

Anti-Takeover Effects of Certain Provisions of Minnesota Law

Several provisions of Minnesota law may deter potential changes in control of the Company that some shareholders may view as beneficial or that may provide a premium on our stock price. These provisions, as described below, could have an anti-takeover effect. They are intended to provide management flexibility, to enhance the likelihood of continuity and stability in the composition of our Board and in the policies formulated by our Board and to discourage an unsolicited takeover if our Board determines that such a takeover is not in our best interests or the best interests of our shareholders. However, these provisions could have the effect of discouraging certain attempts to acquire us that could deprive our shareholders of opportunities to sell their shares of our stock at higher values.

Although we have amended our Bylaws to provide that Section 302A.671 (Control Share Acquisitions) of the Minnesota Business Corporation Act does not apply to or govern us, we remain subject to Section 302A.673 (Business Combinations) of the Minnesota Business Corporation Act. Section 302A.673 of the Minnesota Business Corporation Act generally prohibits any business combination by us, or any of our subsidiaries, with an interested shareholder, which means any shareholder that purchases 10% or more of our voting shares within four years following such interested shareholder's share acquisition date, unless the business combination is approved by a committee of disinterested members of our Board before the interested shareholder's share acquisition date.

Section 302A.675 of the Minnesota Business Corporation Act generally prohibits an offeror from acquiring our shares within two years following the offeror's last purchase of our shares pursuant to a takeover offer with respect to that class, unless our shareholders are able to sell their shares to the offeror upon substantially equivalent terms as those provided in the earlier takeover offer. This statute will not apply if the acquisition of shares is approved by a committee of disinterested members of our board of directors before the purchase of any shares by the offeror pursuant to the earlier takeover offer.

Exhibit 21.0

SUBSIDIARIES OF BBQ HOLDINGS, INC.

Famous Dave’s of America, Inc.

BBQ Oklahoma, Inc.

BBQ Ventures, Inc.

D&D of Minnesota, Inc.

Famous Dave’s Ribs of Maryland, Inc.

Famous Dave’s Ribs, Inc.

Famous Dave’s Ribs-U, Inc.

FDA Properties, Inc.

Lake & Hennepin BBQ and Blues, Inc.

Minwood Partners, Inc.

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We have issued our report dated March 27, 2020, with respect to the consolidated financial statements included in the Annual Report of BBQ Holdings, Inc. on Form 10-K for the year ended December 29, 2019. We consent to the incorporation by reference of said report in the Registration Statements of BBQ Holdings, Inc. on Forms S-3 (File No. 333-224919,) and on Forms S-8 (File No. 333-226816, File No. 333-208261, File No. 333-204015, File No. 333-176278 and File No. 333-124985).

/s/ Grant Thornton LLP

Minneapolis, Minnesota
March 27, 2020

Exhibit 31.1

CERTIFICATIONS

I, Jeffery Crivello, certify that:

1. I have reviewed this Annual Report on Form 10-K of BBQ Holdings, Inc.;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

    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;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) 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 officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    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 27, 2020

By: /s/ Jeffery Crivello
Jeffery Crivello
Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, James G. Gilbertson, certify that:

1. I have reviewed this Annual Report on Form 10-K of BBQ Holdings, Inc.;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

    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;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) 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 officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    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 27, 2020

By: /s/ James G. Gilbertson
James G. Gilbertson
Chief Financial Officer

Exhibit 32.1

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 BBQ Holdings, Inc. (the “Registrant”) on Form 10-K for the annual period ended December 29, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jeffery Crivello, Chief Executive Officer and Director 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:

1. The Report 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 27, 2020

By: /s/ Jeffery Crivello
Jeffery Crivello
Chief Executive Officer

Exhibit 32.2

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 BBQ Holdings, Inc. (the "Registrant") on Form 10-K for the annual period ended December 29, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James G. Gilbertson, Chief Financial Officer and Secretary 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:

1. The Report 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 27, 2020

By: /s/ James G. Gilbertson
James G. Gilbertson
Chief Financial Officer