TO MY FELLOW SHAREHOLDERS,

This has been both a challenging and satisfying year for Famous Dave's. Challenging, because of economic uncertainty, fluctuations in consumer confidence and volatile commodity markets. Satisfying, because we have once again shown, that we can continue to evolve our brand, improve our guests' experience, open new restaurants, attract new franchisees, and deliver improved financial performance.

We delivered comparable sales of 1.5 percent for company-owned restaurants, with increases in To Go and Catering, and we delivered flat comparable sales for our franchise-operated restaurants. We strategically managed commodity and labor costs, and continued to strengthen our balance sheet through our sixth 1.0 million share buyback program, amending and extending our line of credit, and reducing our long-term debt.

Entering A New Era

2011 was the culmination of multiple years of growth, development and patience, sowing the seeds for the future. In the past several years, we have improved many of our internal systems, making significant strides in our purchasing practices, restaurant site selection, and marketing initiatives, among many others. We have successfully expanded the definition of barbeque, introducing a variety of new and enhanced menu items as well as compelling limited time offers, and with the help of our founder, Famous Dave Anderson, have continued to maintain a high level of local and national visibility for our brand.

We have re-invented and re-engineered our original counter service format, fast casual concept, and have the potential to open restaurants faster, with a broader range of real estate options. Today, we have more options to offer to our existing franchise partners and to new franchise partners. We have a clear vision for growth, incorporating both the counter service as well as full-service formats to expand our brand. Our long-term goal is clear: We will grow to 400-500 restaurants domestically, with future growth internationally, and we believe we have the tools to grow smarter, faster, more efficiently and more cost-effectively.

Growing Steadily, Now Growing Faster

It's important to note that over the past several years, we have never stopped growing. Since the beginning of 2008, we have added 48 new locations, including 41 new franchise restaurants and 7 new company-owned locations. This growth has been achieved through single unit agreements and area development agreements with new partners, and continued growth from existing partners, significantly extending the reach of our brand. Additionally, in 2011, we opened our first location in Hawaii, and we announced our first international expansion, a multi-unit area development agreement in Canada, with the first unit anticipated to open in Winnipeg, in June of 2012. We're just hitting our stride. In 2012, we anticipate opening up to 15 new restaurants in total, with 10 to 12 franchise-operated locations and 2-3 company-owned restaurants.

A Clear Path Forward

Our strategy going forward remains focused on four central themes:

- **Growth in new units – both company and franchise**

As mentioned above, we will continue to grow the brand system-wide, domestically and internationally, with multiple size footprint and format options. We will continue to maintain an approximate 20%-25% company and 75%-80% franchise mix of restaurants. We will expand geographically in our existing core markets as well as explore new parts of the U.S. where the smaller footprint can serve small to medium-sized communities very well.

- **Concept evolution: in menu, restaurant format, and customer satisfaction.**

We will continue to evolve our menu to meet the needs of our guests, creating new flavor profiles, while staying true to our legendary pit BBQ roots. As we move forward, we will continue to evolve our concept and remain relevant with our guests. Look for enhancements to existing products, new items, new plate presentations and exciting limited time offers in 2012. Additionally, we will continue our focus on enhancing our guests' experience through a system-wide initiative revolving around 'voice of the guest'.

- **Excellence in core systems and processes with the focus on continuous improvement.**

"Good, better, best, never let it rest…" We live by these words of our founder every day as we continue to enhance support systems and improve processes for our operators, our support team, and our franchise system. As just one example, we are well underway with our system-wide 'FD Powers' program that quantitatively measures our company and franchise restaurants on key attributes including operational excellence, guest experience, health, sanitation and security, creating raving fans, supporting our communities and charitable organizations and training and succession.

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

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

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

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

In 2011, we introduced new tools to assist system-wide manager and team development including an orientation tool-kit and Investment Training for locations with targeted development/improvement needs. We will continue to develop resources and add tools to support our system. For instance, in 2012 we will be introducing a variety of new programs, including: ethics based training, expanding our Managing with PRIDE program, the Pitmaster Program, Multi-Unit Manager Workshops, and Leadership Development. We will maximize the use of technology by piloting an e-learning platform to enable us to continue expanding the reach of our programs through an electronic-based learning system with interactive modules and online testing and administration.

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

as well as for the conversion of our new company-owned restaurant, and various corporate infrastructure projects. In 2009, our cash spent on fixed assets was approximately $2.0 million, and we also had approximately $300,000 in accrued fixed asset charges at the end of the year for projects in process that had not been paid for. Additionally, a portion of our corporate infrastructure projects, originally planned to occur in fiscal 2009, were moved to fiscal 2010.

We expect total 2012 capital expenditures to be approximately $6.9 million, primarily reflecting three new restaurant openings, continued investments in our existing restaurants, including several significant remodeling projects, and continued investments in corporate infrastructure systems.

Net cash used for financing activities was approximately $8.2 million in fiscal 2011, $2.5 million in fiscal 2010, and $11.3 million in fiscal 2009. In fiscal 2011, we had draws on our line of credit of approximately $28.6 million and had repayments of approximately $30.6 million. The maximum balance on our line of credit during fiscal 2011 was $16.0 million. Additionally, we used approximately $5.7 million to repurchase approximately 610,000 shares of our common stock at an average price of $9.42 per share, excluding commissions. In fiscal 2010, we had draws on our line of credit of approximately $20.5 million and had repayments of approximately $21.0 million. The maximum balance on our line of credit during fiscal 2010 was $16.0 million. Additionally, we used approximately $8.7 million to repurchase approximately 1.1 million shares of our common stock at an average price of $8.18 per share, excluding commissions. In fiscal 2009, we had draws on our line of credit of approximately $9.0 million and had repayments of approximately $13.5 million. The maximum balance on our line of credit during fiscal 2009 was $18.0 million. Additionally, we repaid $7.0 million of high interest rate debt. In fiscal 2012, we will continue to have three main uses for our capital. First and foremost, we will continue to grow our system by investing in capital assets. Secondarily, we will continue to repurchase our common stock. Thirdly, we will continue to reduce our debt levels.

The Company and certain of its subsidiaries (collectively known as the "Borrower") currently have a Credit Agreement with Wells Fargo Bank, National Association, as administrative agent and lender (the "Lender"). The Credit Agreement was amended on July 5, 2011 and will expire on July 5, 2016, and contains a $30.0 million revolving credit facility (the "Facility") with an opportunity, subject to the Company meeting identified covenants and elections, to increase the commitment to $50.0 million, and a term loan (the "Term Loan").

Principal amounts outstanding under the Facility bear interest either at an adjusted Eurodollar rate plus an applicable margin or at a Base Rate plus an applicable margin. The Base Rate is defined in the Credit Agreement as the greater of the Federal Funds Rate (0.25% at January 1, 2012) plus 0.5% or Wells Fargo's prime rate (3.25% at January 1, 2012). The applicable margin will depend on the Company's Adjusted Leverage Ratio, as defined, at the end of the previous quarter and will range from 1.50% to 2.25% for Eurodollar Rate Loans and from 0.00% to +0.75% for Base Rate Loans. Unused portions of the Facility will be subject to an unused Facility fee which will be equal to either 0.25% or 0.375% of the unused portion, depending on the Company's Adjusted Leverage Ratio. Our rate for the unused portion of the Facility as of January 1, 2012, was 0.375%. An increase option exercise fee will apply to increased amounts between $30.0 and $50.0 million. Our current weighted average rate for the fiscal year ended January 1, 2012 was 2.72%.

The Facility contains customary affirmative and negative covenants for credit facilities of this type, including limitations on the Borrower with respect to indebtedness, liens, investments, distributions, mergers and acquisitions, dispositions of assets and transactions with affiliates of the Borrower, among others. The Facility also includes various financial covenants that have maximum target capital expenditures, cash flow ratios, and adjusted leverage ratios. If the Company's Adjusted Leverage Ratio is greater than 3.00 to 1.00, an additional covenant applies that limits the maximum royalty receivable aged past 30 days. In addition, capital expenditure limits include permitted stock repurchase limits (limited to $10.0 million in aggregate during any 12 month period, and $30.0 million in aggregate during the term of the agreement) beginning with the amendment of July 5, 2011.

The Credit Agreement currently provides for up to $3.0 million in letters of credit to be used by the Company, with any amounts outstanding reducing our availability for general corporate purchases, and also allows for the termination of the Facility by the Borrower without penalty at any time. At January 1, 2012 we had $11.0 million in borrowings under this Facility, and had approximately $620,000 in letters of credit for real estate locations. We were in compliance with all covenants under the Credit Agreement as of January 1, 2012.