

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

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 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)

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

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

As of November 8, 2019, 9,273,905 shares of the registrant's Common Stock were outstanding.

BBQ HOLDINGS, INC.
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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**

BBQ HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 29, 2019 AND DECEMBER 30, 2018
(in thousands, except per share data)
(Unaudited)

ASSETS		
Current assets:	September 29, 2019	December 30, 2018
Cash and cash equivalents	\$ 4,932	\$ 11,598
Restricted cash	657	842
Accounts receivable, net of allowance for doubtful accounts of \$101,000 and \$192,000, respectively	3,597	4,300
Inventories	1,202	722
Prepaid income taxes and income taxes receivable	339	377
Prepaid expenses and other current assets	1,242	1,363
Assets held for sale	2,842	—
Total current assets	14,811	19,202
Property, equipment and leasehold improvements, net	17,816	10,385
Other assets:		
Operating lease right-of-use assets	24,863	—
Goodwill	845	61
Intangible assets, net	3,056	1,428
Deferred tax asset, net	5,717	5,747
Other assets	1,766	1,533
	\$ 68,874	\$ 38,356
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 5,082	\$ 3,765
Current portion of lease liabilities	3,920	—
Current portion of long-term debt and financing lease obligations	101	1,369
Accrued compensation and benefits	1,811	808
Other current liabilities	3,361	2,970
Total current liabilities	14,275	8,912
Long-term liabilities:		
Lease liabilities, less current portion	26,478	—
Long-term debt, less current portion	2,471	2,411
Other liabilities	1,707	4,492
Total liabilities	44,931	15,815
Shareholders' equity:		
Common stock, \$.01 par value, 100,000 shares authorized, 9,274 and 9,085 shares issued and outstanding at September 29, 2019 and December 30, 2018, respectively	93	91
Additional paid-in capital	7,727	7,375
Retained earnings	16,190	15,075
Total shareholders' equity	24,010	22,541
Non-controlling interest	(67)	—
Total equity	23,943	22,541
	\$ 68,874	\$ 38,356

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS
SEPTEMBER 29, 2019 AND SEPTEMBER 30, 2018
(in thousands, except per share data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Revenue:				
Restaurant sales, net	\$ 20,114	\$ 9,903	\$ 47,326	\$ 28,571
Franchise royalty and fee revenue	2,909	3,462	9,560	10,623
Franchisee national advertising fund contributions	395	497	1,275	1,495
Licensing and other revenue	261	211	839	766
Total revenue	23,679	14,073	59,000	41,455
Costs and expenses:				
Food and beverage costs	6,383	3,091	15,068	8,907
Labor and benefits costs	7,477	3,601	17,253	10,158
Operating expenses	6,133	3,011	14,489	8,746
Depreciation and amortization expenses	576	281	1,355	983
General and administrative expenses	2,653	1,937	7,547	5,922
National advertising fund expenses	395	497	1,275	1,495
Asset impairment, estimated lease termination charges and other closing costs, net	214	31	718	143
Pre-opening expenses	94	—	94	—
Net (gain) loss on disposal of property and bargain purchases	(28)	—	(174)	29
Total costs and expenses	23,897	12,449	57,625	36,383
(Loss) income from operations	(218)	1,624	1,375	5,072
Other income (expense):				
Interest expense	(33)	(80)	(392)	(422)
Interest income	27	54	114	79
Total other expense	(6)	(26)	(278)	(343)
(Loss) income before income taxes	(224)	1,598	1,097	4,729
Income tax benefit (expense)	174	(196)	(25)	(937)
Net (loss) income	(50)	1,402	1,072	3,792
Less: Net loss attributable to non-controlling interest	67	—	67	—
Net income attributable to shareholders	\$ 17	\$ 1,402	\$ 1,139	\$ 3,792
Basic net (loss) income per share attributable to shareholders				
	\$ 0.00	\$ 0.15	\$ 0.13	\$ 0.45
Diluted net (loss) income per share attributable to shareholders				
	\$ 0.00	\$ 0.15	\$ 0.12	\$ 0.45
Weighted average shares outstanding - basic	9,105	9,090	9,095	8,435
Weighted average shares outstanding - diluted	9,279	9,111	9,193	8,459

See accompanying notes to consolidated financial statements.

BBQ HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
SEPTEMBER 29, 2019

(in thousands)
(Unaudited)

	<u>Common Stock</u>		<u>Additional</u>	<u>Retained</u>	<u>Total</u>	<u>Non-controlling</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Earnings</u>	<u>Shareholders'</u>		
			<u>Capital</u>		<u>Equity</u>	<u>Interest</u>	<u>Equity</u>
Balance - December 30, 2018	9,085	\$ 91	\$ 7,375	\$ 15,075	\$ 22,541	\$ —	\$ 22,541
Cumulative effect of change in accounting principle	—	—	—	(24)	(24)	—	(24)
Stock-based compensation	189	2	352	—	354	—	354
Net income	—	—	—	1,139	1,139	(67)	1,072
Balance - September 29, 2019	<u>9,274</u>	<u>\$ 93</u>	<u>\$ 7,727</u>	<u>\$ 16,190</u>	<u>\$ 24,010</u>	<u>\$ (67)</u>	<u>\$ 23,943</u>

See accompanying notes to consolidated financial statements

BBQ HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
SEPTEMBER 29, 2019 AND SEPTEMBER 30, 2018
(in thousands)
(Unaudited)

	Nine Months Ended	
	September 29, 2019	September 30, 2018
Cash flows from operating activities:		
Net income	\$ 1,072	\$ 3,792
Adjustments to reconcile net income to cash flows provided by operations:		
Depreciation and amortization	1,355	983
Stock-based compensation	354	225
Net (gain) loss on disposal of property and bargain purchases	(174)	29
Asset impairment and estimated lease termination charges (gain)	660	(257)
Bad debts recovery	(67)	(35)
Deferred income taxes	36	(185)
Other non-cash items	280	(391)
Changes in operating assets and liabilities:		
Accounts receivable, net	(495)	(49)
Other assets	(580)	918
Accounts payable	1,371	(183)
Accrued and other liabilities	(356)	(1,023)
Cash flows provided by operating activities	3,456	3,824
Cash flows from investing activities:		
Proceeds from the sale of assets	33	1,187
Purchases of property, equipment and leasehold improvements	(3,792)	(597)
Payments for acquired restaurants	(6,188)	(37)
Advances on notes receivable	(150)	(750)
Purchases of held to maturity securities	—	(6,995)
Payments received on note receivable	20	—
Cash flows used for investing activities	(10,077)	(7,192)
Cash flows from financing activities:		
Payments for debt issuance costs	(54)	—
Payments on long-term debt and financing lease obligations	(176)	(6,625)
Proceeds from sale of common stock, net of offering costs	—	5,120
Proceeds from exercise of stock options	—	520
Cash flows used for financing activities	(230)	(985)
Decrease in cash, cash equivalents and restricted cash	(6,851)	(4,353)
Cash, cash equivalents and restricted cash, beginning of period	12,440	10,426
Cash, cash equivalents and restricted cash, end of period	\$ 5,589	\$ 6,073
Supplemental Disclosures		
Cash paid for interest, net	\$ 275	\$ 271
Cash paid for income taxes, net	—	6
Non-cash investing and financing activities:		
(Decrease) Increase in accrued property and equipment purchases	(39)	23
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) Basis of Presentation

Basis of Presentation

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-Q, "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" and "Clark Crew BBQ." As of September 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 is under development in Oklahoma City, Oklahoma.

These consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and Securities and Exchange Commission ("SEC") Rules and Regulations. These unaudited consolidated financial statements represent the consolidated financial statements of the Company and its subsidiaries as of September 29, 2019 and December 30, 2018, and for the three and nine months ended September 29, 2019 and September 30, 2018. The information furnished in these consolidated financial statements includes normal recurring adjustments and reflects all adjustments, which are, in the opinion of management, necessary for a fair presentation. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in FDA's Annual Report on Form 10-K for the fiscal year ended December 30, 2018 as filed with the SEC on March 4, 2019.

Due to the seasonality of the Company's business, revenue and operating results for the three and nine months ended September 29, 2019 are not necessarily indicative of the results to be expected for the full fiscal year or any other interim period.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period's presentation. These reclassifications did not have an impact on the reported net income (loss) for any of the periods presented.

Income Taxes

The Company maintains a federal deferred tax asset ("DTA") in the amount of \$5.7 million for each of the periods ended September 29, 2019 and December 30, 2018, respectively. The Company evaluates the DTA on a quarterly basis to determine whether current facts and circumstances indicate that the DTA may not be fully realizable. As of September 29, 2019, the Company concluded that the DTA is fully realizable and that no further valuation allowance was necessary; however, the Company will continue to evaluate the DTA on a quarterly basis until the DTA has been fully utilized.

The following table presents the Company's effective tax rates for the periods presented:

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 29, 2019</u>	<u>September 30, 2018</u>	<u>September 29, 2019</u>	<u>September 30, 2018</u>
Effective tax rate	77.7 %	12.3 %	2.3 %	19.8 %

The Company provides for income taxes based on its 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. The Company's estimates are based on the information available at the time that the Company prepares the income tax provision. The Company generally files its annual income tax returns several months after its 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.

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

Restricted cash and marketing fund

The Company has 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 for use in public relations and marketing development efforts. The assets held by this fund are considered to be restricted. Accordingly, the Company reflects the cash related to this fund within restricted cash and reflects the liability within accounts payable on the Company's consolidated balance sheets. The Company had approximately \$657,000 and \$700,000 in this fund as of September 29, 2019 and December 30, 2018, respectively.

In conjunction with the Company's credit agreements, the Company was previously required to deposit amounts for undrawn letters of credit in cash collateral accounts. The Company had approximately \$143,000 in restricted cash as of December 30, 2018, related to these undrawn letters of credit.

Assets Held for Sale

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

Concentrations of Credit Risk

As of September 29, 2019, the Company had an outstanding receivable from one franchisee of approximately \$531,000.

Recently Adopted Accounting Pronouncements

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 is required to 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 are 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. The Company adopted this new standard as of the effective date. Adoption of the new standard did not have a material impact on the Company's consolidated financial statements.

Beginning in fiscal 2019, the Company adopted Topic 842, Leases, which had a material impact on the Company's consolidated financial statements. See Note 7 – Leases.

(2) Intangible Assets, net

The Company has intangible assets that consist of liquor licenses, lease interest assets and reacquired franchise rights, net. The liquor licenses are indefinite-lived assets and are not subject to amortization. The lease interest assets are amortized to occupancy costs on a straight-line basis over the remaining term of each respective lease. Reacquired franchise rights are amortized to depreciation and amortization expense on a straight-line basis over the remaining life of the reacquired franchise agreement.

A reconciliation of the Company's intangible assets as of September 29, 2019 and December 30, 2018, respectively, are presented in the table below:

<i>(in thousands)</i>	<u>September 29, 2019</u>	<u>December 30, 2018</u>
Lease interest assets, net	739	768
Reacquired franchise rights, net	1,892	25
Liquor licenses	425	635
Intangible assets, net	<u>\$ 3,056</u>	<u>\$ 1,428</u>

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

The following table provides the projected future amortization of reacquired franchise rights, net and lease interest assets for the next five years, as of September 29, 2019:

<i>(in thousands)</i>	Reacquired Franchise Rights, net	Lease Interest Assets
Fiscal 2019	\$ 104	\$ 9
Fiscal 2020	418	36
Fiscal 2021	418	36
Fiscal 2022	418	36
Fiscal 2023	253	36
Thereafter	281	586
	<u>\$ 1,892</u>	<u>\$ 739</u>

(3) Long-Term Debt and Financing Lease Obligations

Long-term debt

Long-term debt consisted of the following at:

<i>(in thousands)</i>	September 29, 2019	December 30, 2018
Term Loan	\$ 2,624	\$ —
Real Estate Loan	—	2,705
Less: deferred financing costs	(52)	(131)
Less: current portion of long-term debt	(101)	(163)
Long-term debt, less current portion	<u>\$ 2,471</u>	<u>\$ 2,411</u>

The weighted-average interest rate of long-term debt outstanding as of September 29, 2019 and December 30, 2018 was 5.31% and 4.41%, respectively.

On June 20, 2019 (the “Effective Date”), the Company entered into a Loan Agreement among the Company and Choice Financial Group (the “Lender”). The Loan Agreement provides for a term loan from the Lender to the borrowers 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 the borrowers to the Lender 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 Note may be prepaid, partially or in full, at any time and for no prepayment penalty.

Proceeds from the loan were used to repay the Company’s 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 the Lender 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 a post-closing covenant to maintain a complete deposit and cash management relationship with the Lender. The Loan Agreement also places certain restrictions on, among other things, the borrowers’ 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 the Lender.

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

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 the borrowers and failure to timely provide financial statements.

Also on the Effective Date, the Company also entered into a Revolving Promissory Note among the Company and the Lender. The Revolving Promissory Note provides for a revolving line of credit from the Lender to the borrowers set forth therein in the principal amount of up to \$1.0 million (the "Second Note") executed and delivered by the borrowers to the Lender on the Effective Date. The Second Note has a maturity date of December 2, 2019. The Second Note provides for monthly payments of interest only, with a balloon payment of the remaining outstanding balance and applicable interest is due on the maturity date. Interest shall be payable in an amount equal to the 30-day London Interbank Offer Rate ("LIBOR") plus 325 basis points, but in no circumstances shall the rate of interest be less than 3.75%. The Note may be prepaid, partially or in full, at any time and for no prepayment penalty. Proceeds from the revolving line of credit may be used at the Company's discretion.

The Company is subject to various financial and non-financial covenants on its long-term debt, including a debt-service coverage ratio. As of September 29, 2019, the Company was compliant with all of its covenants.

Financing Lease Obligation

The Company repaid its financing lease obligation during the nine months ended September 29, 2019.

(4) Prepaid Expenses and Other Current Assets

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

<i>(in thousands)</i>	<u>September 29, 2019</u>	<u>December 30, 2018</u>
Prepaid expenses and deferred costs	\$ 1,043	\$ 767
Prepaid insurance	199	596
Prepaid expenses and other assets	<u>\$ 1,242</u>	<u>\$ 1,363</u>

(5) Other Current Liabilities

Other current liabilities consisted of the following at:

<i>(in thousands)</i>	<u>September 29, 2019</u>	<u>December 30, 2018</u>
Gift cards payable	\$ 1,525	\$ 1,035
Accrued expenses	1,161	1,238
Asset retirement obligations and lease reserves	6	161
Sales tax payable	518	274
State income tax payable	—	16
Deferred franchise fees	151	207
Accrued property and equipment purchases	—	39
Other current liabilities	<u>\$ 3,361</u>	<u>\$ 2,970</u>

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

(6) Other Liabilities

Other liabilities consisted of the following at:

<i>(in thousands)</i>	September 29, 2019	December 30, 2018
Lease interest liabilities and deferred rent	\$ 3	\$ 1,792
Deferred franchise fees	1,219	1,791
Miscellaneous other liabilities	270	436
Asset retirement obligations	3	16
Accrual for uncertain tax position	6	10
Long-term lease reserve	—	254
Long-term deferred compensation	206	193
Other liabilities	<u>\$ 1,707</u>	<u>\$ 4,492</u>

(7) Leases

The Company leases the property for its corporate headquarters, most of its Company-owned stores, and certain office and restaurant equipment. The Company determines 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 the Company's leases do not provide an implicit rate of return, the Company uses its 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 the Company is the lessee, at initial adoption, the Company has 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, the Company will combine lease and non-lease components.

Lease terms for Company-owned stores generally range from 5-20 years with one or more five-year renewal options and generally require the Company to pay a proportionate share of real estate taxes, insurance, common area, and other operating costs in addition to a base or fixed rent. The Company has 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, the Company has decided to utilize the package of practical expedients and the practical expedient to not reassess certain land easements. The Company has decided not to utilize the practical expedient to use hindsight. Certain of the Company's 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. The Company's leases have remaining lease terms of 0.90 to 20.33 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 the Company will exercise that option. Economic performance of a store is the primary factor used to estimate whether an option to extend a lease term will be exercised or not.

Lease expense for lease payments is recognized on a straight-line basis over the lease term. The components of lease expense for the period presented is as follows:

<i>(in thousands)</i>	Nine Months Ended September 29, 2019	
Operating lease cost	\$	2,879
Short-term lease cost		68
Variable lease cost		31
Sublease income		(207)
Total lease cost	<u>\$</u>	<u>2,771</u>

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

Supplemental cash flow information related to leases for the period presented is as follows:

<i>(in thousands)</i>	Nine Months Ended September 29, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 3,125
Right-of-use assets obtained in exchange for new operating lease liabilities	18,887
Weighted-average remaining lease term of operating leases (in years)	9.24
Weighted-average discount rate of operating leases	5.49 %

The maturities of the Company's lease liabilities as of September 29, 2019 is as follows (in thousands):

2019	\$ 1,327
2020	5,288
2021	5,173
2022	4,879
2023	4,012
Thereafter	17,967
Total future minimum payments	38,646
Less imputed interest	(8,248)
Total lease liability	\$ 30,398

As of September 29, 2019, the Company had one operating lease that had not commenced for a new restaurant site in Oklahoma City, Oklahoma. The lease has a 15-year term with two five-year renewal options.

(8) Revenue Recognition

The Company recognizes 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. The Company's performance obligation with respect to franchise fee revenues consists of a license to utilize the 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 the Company's historical experience. Gift card breakage revenue is reported within the licensing and other revenue line item of the consolidated statements of operations.

The Company defers revenue associated with the estimated selling price of reward points, which we refer to as Bones, earned pursuant to the Company's 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 Bones. When a Guest redeems an earned reward, the Company recognizes revenue for the redeemed product and reduces the deferred revenue. Deferred revenue associated with the Company's loyalty program was not material as of September 29, 2019 and December 30, 2018.

The Company's revenue is generally disaggregated within the consolidated statements of operations. Gift card breakage revenue was not material to the Company's consolidated financial statements. The Company recognized revenue related to gift cards of approximately \$208,000 and \$369,000 during the three and nine months ended September 29, 2019, respectively, which is reflected in the restaurant sales, net, line item of its consolidated statements of operations. Gift cards payable of approximately \$1.5 million is expected to be recognized as revenue over the next 12 months.

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

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

(in thousands)

Fiscal Year		
2019	\$	38
2020		139
2021		121
2022		117
2023		108
Thereafter		848
Total	\$	<u>1,371</u>

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 30, 2018 and September 29, 2019:

(in thousands)

Balance, December 30, 2018	\$	1,998
Revenue recognized		(627)
Balance, September 29, 2019	\$	<u>1,371</u>

(9) Stock-based Compensation

Effective May 5, 2015, the Company adopted the 2015 Equity Incentive Plan (the “2015 Plan”), which was assumed by the Company, pursuant to which the Company 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. The Company also maintains an Amended and Restated 2005 Stock Incentive Plan (the “2005 Plan”). Together, the 2015 Plan and 2005 Plan are referred to herein as the “Plans.” The 2005 Plan prohibits the granting of incentives after May 12, 2015, the tenth anniversary of the date the 2005 Plan was approved by the Company’s shareholders. Nonetheless, the 2005 Plan will remain in effect until all outstanding incentives granted thereunder have either been satisfied or terminated. As of September 29, 2019, there were 105,001 shares available for grant pursuant to the 2015 Plan. For purposes of net income per share, there were approximately 214,000 and 103,000 stock options outstanding as of September 29, 2019 and September 30, 2018, respectively, which were not included in the computation of diluted net income per share because their impact was antidilutive. As of September 29, 2019, the total compensation cost related to unvested stock option awards was approximately \$1.3 million which is expected to be recognized over a period of approximately 3.17 years.

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.

The Company utilizes 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 the Company’s 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 the Company expects 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.

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

The Company recognized stock-based compensation expense in its consolidated statements of operations for the three and nine months ended September 29, 2019 and September 30, 2018, respectively, as follows:

<i>(in thousands)</i>	Three Months Ended		Nine Months Ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Stock options	\$ 72	\$ 58	\$ 213	\$ 225
Restricted stock	59	—	141	—
	<u>\$ 131</u>	<u>\$ 58</u>	<u>\$ 354</u>	<u>\$ 225</u>

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

<i>(number of options in thousands)</i>	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years
Options outstanding at December 30, 2018	384	\$ 7.43	6.7
Granted	187	4.28	
Forfeited or expired	(25)	6.72	
Options outstanding at September 29, 2019	<u>546</u>	<u>\$ 6.38</u>	<u>5.6</u>

Information regarding the Company's restricted stock is summarized below:

<i>(number of awards in thousands)</i>	Number of Awards	Weighted Average Award Date Fair Value	Weighted Average Remaining Contractual Life in Years
Unvested at December 30, 2018	—	\$ —	
Granted	189	5.00	
Vested	(28)	5.00	
Unvested at September 29, 2019	<u>161</u>	<u>\$ 5.00</u>	<u>3.4</u>

	Nine Months Ended	
	September 29, 2019	September 30, 2018
Weighted-average fair value of options granted during the period	\$ 1.75	\$ 3.73
Expected life (in years)	3.9	6.2
Expected dividend	\$ —	\$ —
Expected stock volatility	51.38 %	45.94 %
Risk-free interest rate	1.9 %	2.9 %

BBQ HOLDINGS, INC. AND SUBSIDIARIES
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(10) 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 three and nine months ended September 29, 2019 and September 30, 2018. These costs are included in asset impairment, estimated lease termination and other closing costs in the consolidated statements of operations.

<i>(dollars in thousands)</i>	Three Months Ended		Nine Months Ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Asset impairments, net	\$ 129	\$ 21	\$ 479	\$ 173
Lease termination charges (income) and related costs	65	(11)	156	(354)
Restaurant closure expenses	20	21	83	324
Asset impairment, estimated lease termination charges and other closing costs	\$ 214	\$ 31	\$ 718	\$ 143

(11) 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 analysis 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 the Company's 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. The Company believes that the carrying amount of long-term debt approximates fair value due to the variable interest rate on the Company's long-term debt, as well as that there has been no significant change in the credit risk or credit markets since origination.

The Company had no assets measured at fair value in its consolidated balance sheets as of September 29, 2019 and December 30, 2018, except for the assets recorded at fair value in conjunction with restaurant acquisitions. See Note 12 – *Restaurant Acquisition*.

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

(12) Restaurant Acquisition

On July 10, 2019, the Company 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 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. The Company 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. The assets acquired and the liabilities assumed were provisionally recorded at estimated fair values based on information available.

The following table presents the provisional allocation of assets acquired and liabilities assumed for the Arizona Restaurants during the three months ended September 29, 2019:

(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		<u>6,023</u>

Liabilities assumed:

Gift card liability		(428)
Lease liability		(2,992)
Net assets acquired		2,603
Goodwill		415
Total consideration transferred	\$	<u><u>3,018</u></u>

The Company expects goodwill to be deductible for tax purposes, subject to amortization.

On March 4, 2019, the Company 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, the Company 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 \$4,100,000, exclusive of acquisition costs of approximately \$209,000, 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 the Company reduced the cash required to be paid for the purchase price. The Company 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 Company provisionally allocated the purchase price of the Colorado Restaurants as of the end of the first quarter of fiscal 2019. As a result of the completion of the acquisition of the Grand Junction Restaurant, the Company provisionally allocated the identifiable tangible and intangible assets associated with the Grand Junction Restaurant, which resulted in the reduction of goodwill of approximately \$0.6 million.

BBQ HOLDINGS, INC. AND SUBSIDIARIES
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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.

The following table presents the provisional allocation of assets acquired and liabilities assumed for the Colorado Restaurants and the Grand Junction Restaurant during the nine months ended September 29, 2019:

(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

The Company expects goodwill to be deductible for tax purposes, subject to amortization.

During the nine months ended September 29, 2019, the Company completed several individually immaterial acquisitions of previously franchised Famous Dave’s restaurants. 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 dates of the respective acquisitions. The assets acquired and the liabilities assumed were recorded at estimated fair values based on information available. Pursuant to these acquisitions, the Company incurred approximately \$244,000 of acquisition costs, which are reflected in general and administrative expenses. As a result of the acquisition of previously franchised restaurants during the nine months ended September 29, 2019, the Company entered into five leases with a current franchisee pursuant to the respective purchase agreements.

The following table presents the provisional allocation of assets acquired and liabilities assumed for the individually immaterial acquisitions during the nine months ended September 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

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

Unaudited pro forma results of operations for the three month and nine month periods ended September 29, 2019 and September 30, 2018, as if the Company had acquired majority ownership of all operations on January 1, 2018 is as follows. The pro forma results include estimates and assumptions which management believes are reasonable. However, pro forma results are not necessarily 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.

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 29, 2019</u>	<u>September 30, 2018</u>	<u>September 29, 2019</u>	<u>September 30, 2018</u>
<i>(in thousands)</i>				
Pro forma revenues	\$ 24,135	\$ 25,630	\$ 75,778	\$ 77,565
Pro forma net income (loss)	\$ (195)	\$ 2,014	\$ 1,632	\$ 5,666
Basic pro forma net income (loss) per share	\$ (0.02)	\$ 0.22	\$ 0.19	\$ 0.67
Diluted pro forma net income (loss) per share	\$ (0.02)	\$ 0.22	\$ 0.19	\$ 0.67

(13) 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. The Company has an installment agreement with one of its franchisees as the result of refranchising its Lincoln, Nebraska restaurant. This franchisee is a VIE; however, the owners of the franchise operations are the primary beneficiaries of the entities, not the Company. Therefore, the franchise operations are not required to be consolidated in the Company’s consolidated financial statements.

On November 1, 2017, the Company sold its Frederick, Maryland restaurant. Pursuant to the terms of the Frederick Agreement, the Company remained the primary obligor of the lease. As of September 29, 2019, the amount of future lease payments for which the Company would be liable in the event of a default are approximately \$439,000. An accrual related to the future lease obligation was not considered necessary as of September 29, 2019.

On July 18, 2018, the Company 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 BBQ restaurant in Oklahoma City, Oklahoma (the “Restaurant”). Clark will own 80% of the units outstanding of Mercury and the Company will own 20% of the units outstanding of Mercury. Mercury shall be governed by three managers, two of which will be appointed by the Company and one of which will be appointed by Clark. Also on July 18, 2018, the Company entered into a secured promissory note in the amount of \$1.4 million (the “Loan”) with Mercury, the proceeds of which are required to be used for the build out of the Restaurant. The Loan bears interest at a rate of 10% 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, 2023 and may be prepaid at any time. Also on July 18, 2018, the Company and Clark entered into an intellectual property license agreement (the “License Agreement”) pursuant to which Clark granted to the Company 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 the Company breaches the License Agreement. In October 2019, the Company and Clark agreed to increase the amount of the Loan to \$2.5 million, reduce the interest rate to 8% and extend the maturity date of the Loan to 2025.

Because the Company will provide more than half of the subordinated financial support of Mercury and controls Mercury via its representation on the board of managers, the Company has concluded that Mercury is a VIE, of which the Company is the primary beneficiary and must consolidate Mercury. The Company has incurred expenses of \$84,000 related to Mercury during the nine months ended September 29, 2019, of which \$67,000 was allocated to non-controlling interest. As of September 29, 2019, Mercury had assets of \$1.6 million, which primarily consists of fixed assets.

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

(14) Litigation

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

(15) Related Party Transactions

Anand D. Gala is a franchisee of the Company and currently serves as a director of the Company. 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 the Company and is the beneficial owner of approximately 18.2% of the Company's 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 nine months ended September 29, 2019, and September 30, 2018:

<i>(in thousands)</i>	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 29, 2019</u>	<u>September 30, 2018</u>	<u>September 29, 2019</u>	<u>September 30, 2018</u>
Revenues and NAF contributions - Anand Gala	\$ 388	\$ 368	\$ 1,208	\$ 1,162
Revenues and NAF contributions - Charles Davidson	81	77	242	235

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

<i>(in thousands)</i>	<u>September 29, 2019</u>	<u>December 30, 2018</u>
Accounts receivable, net - Anand Gala	\$ 152	\$ 271
Accounts receivable, net - Charles Davidson	37	44

(16) Subsequent Events

The Company has evaluated for the occurrence of subsequent events through the issuance date of the Company's consolidated 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.

In October 2019, the Company and Clark agreed to modify the amount of the Loan to \$2.5 million, reduce the interest rate to 8% and extend the maturity date of the Loan to 2025. Also in October 2019, Clark and BBQ Oklahoma, Inc., a wholly owned subsidiary of the Company, formed a new entity, Mercury BBQ Products, LLC ("BBQ Products"), in which Clark owns 51% and BBQ Oklahoma owns 49% of the outstanding units. For its units, BBQ Oklahoma contributed \$100,000 and provided a line of credit up to \$500,000 to fund the business.

Clark contributed certain intellectual properties for its units. In exchange for a payment of \$100,000 from BBQ Products, Clark and BBQ Products entered into an exclusive Intellectual Property License Agreement, dated October 16, 2019, whereby Clark grants BBQ Products the right to use and sublicense sauces, seasonings, trademarks, trade name, service marks, logos and related to Clark Crew BBQ restaurants with respect to consumer packaged goods.

On October 29, 2019, we drew \$4.3 million on the First Note. As of November 12, 2019, the balance on the First Note was \$6.8 million.

In October 2019, FDA, entered into an agreement with Midwest BBQ Ventures, LLC and its wholly owned subsidiaries ("Midwest BBQ and Subsidiaries") to collect on outstanding receivables owed by Midwest BBQ and Subsidiaries to FDA which is secured by a mortgage in favor of FDA to certain real property owned by FDKC Speedway LLC.

BBQ HOLDINGS, INC. AND SUBSIDIARIES**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Overview**

On September 17, 2019 a holding company reorganization was completed in which Famous Dave's of America, Inc. became a wholly owned subsidiary of the new parent holding company named BBQ Holdings, Inc. BBQ Holdings, Inc. was incorporated in Minnesota on March 29, 2019 under the laws of the State of Minnesota, while Famous Dave's of America, Inc. was incorporated in Minnesota on March 14, 1994.

The following table summarizes the changes in the number of Company-owned and franchise-operated restaurants for the periods presented:

	Famous Dave's	
	Nine Months Ended September 29, 2019	Nine Months Ended September 30, 2018
Company-owned restaurants:		
Beginning of period	17	16
New	—	—
Repurchased by the Company	17	1
Closed	(2)	(1)
End of period	<u>32</u>	<u>16</u>
% of system	25 %	11 %
Franchise-operated restaurants:		
Beginning of period	127	134
New	2	2
(Repurchased) by the Company	(17)	(1)
Closed	(16)	(4)
End of period	<u>96</u>	<u>131</u>
% of system	75 %	89 %
System end of period total	<u>128</u>	<u>147</u>

During the nine months ended September 29, 2019, we opened one franchise-operated restaurant in Dubai, United Arab Emirates and a small-footprint concept in Tucson, Arizona. We also repurchased 17 stores in the Colorado, Ohio, Wisconsin, Michigan, Iowa, Kentucky and Arizona markets. See Note 12 – *Restaurant Acquisition* to the accompanying consolidated financial statements.

Fiscal Year

Our fiscal year ends on the Sunday closest to December 31st. Our fiscal year is generally 52 weeks; however, it periodically consists of 53 weeks. The fiscal years ending December 29, 2019 (fiscal 2019) and December 30, 2018 (fiscal 2018) are both 52 week fiscal years.

Revenue

Our revenue consists of restaurant sales, franchise-related revenue, and licensing and other revenue. Our franchise-related revenue is comprised of three separate and distinct earnings processes: area development fees, initial franchise fees, and continuing royalty and national advertising fund payments. Currently, our domestic area development fee consists of a one-time, non-refundable payment of approximately \$10,000 per restaurant in consideration for the services we perform in preparation of executing each area development agreement. For our foreign area development agreements, the one time, non-refundable payment is negotiated on a per development basis and is determined based on the costs incurred to arrange for the sale of that development area. Currently, our initial, non-refundable, franchise fee for domestic growth is \$45,000 per restaurant. Finally, franchisees are also required to pay us a monthly royalty equal to a percentage of their net sales. Licensing revenue includes royalties from a retail line of business, including sauces, rubs, marinades and seasonings. Other revenue includes opening assistance and training we provide to our franchise partners.

BBQ HOLDINGS, INC. AND SUBSIDIARIES**Costs and Expenses**

Restaurant costs and expenses include food and beverage costs; labor and benefits costs; and operating expenses, which include occupancy costs, repair and maintenance costs, supplies, 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, operations, and catering support salaries, occupancy and insurance costs.

General and Administrative Expenses

General and administrative expenses include all corporate and administrative functions to support future growth. Salaries and benefits, legal fees, accounting fees, professional consulting fees, travel, rent and general insurance are major items in this category. We also provide franchise services for which the revenue is included in other revenue and the expenses are included in general and administrative expenses.

Results of Operations – the three and nine months ended September 29, 2019 compared to the three and nine months ended September 30, 2018.

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the accompanying unaudited consolidated financial statements and notes, and the audited consolidated financial statements and notes included in our Annual Report on Form 10-K for the fiscal year ended December 30, 2018.

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

	Three Months Ended		Nine Months Ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Food and beverage costs ⁽¹⁾	31.7 %	31.2 %	31.8 %	31.2 %
Labor and benefits costs ⁽¹⁾	37.2 %	36.4 %	36.5 %	35.6 %
Operating expenses ⁽¹⁾	30.5 %	30.4 %	30.6 %	30.6 %
Restaurant level operating margin ⁽¹⁾⁽³⁾	0.6 %	2.0 %	1.1 %	2.7 %
Depreciation and amortization expenses ⁽²⁾	2.4 %	2.0 %	2.3 %	2.4 %
General and administrative expenses ⁽²⁾	11.2 %	13.8 %	12.8 %	14.3 %
Income from operations ⁽²⁾	(0.9)%	11.5 %	2.3 %	12.2 %

(1) As a percentage of restaurant sales, net

(2) As a percentage of total revenue

(3) Restaurant level margins are equal to restaurant sales, net, less restaurant level food and beverage costs, labor and benefit costs, and operating expenses.

Same Store Net Sales

It is our policy to include in our same store net sales base, restaurants that are open year round and have been open at least 24 months. Reacquired and refranchised restaurants are removed from the same store net sales base until the new ownership has been in place for at least 12 months. Same store net sales for Company-owned restaurants for the three and nine months ended September 29, 2019 increased 0.4% and 1.0% compared to the three and nine months ended September 30, 2018, respectively. As of September 29, 2019 and September 30, 2018, there were 14 and 15 restaurants in the same store sales base, respectively.

Same store net sales for franchise-operated restaurants for the three and nine months ended September 29, 2019 increased 2.1% and 1.2% compared to the three and nine months ended September 30, 2018, respectively.

BBQ HOLDINGS, INC. AND SUBSIDIARIES

Total Revenue

Our components of and changes in revenue consisted of the following for the three and nine months ended September 29, 2019 and September 30, 2018:

	Three Months Ended			
	September 29, 2019	September 30, 2018	\$ Change	% Change
<i>(dollars in thousands)</i>				
Revenue:				
Restaurant sales, net	\$ 20,114	\$ 9,903	\$ 10,211	103.1 %
Franchise royalty and fee revenue	2,909	3,462	(553)	(16.0)%
Franchisee national advertising fund contributions	395	497	(102)	(20.5)%
Licensing and other revenue	261	211	50	23.7 %
Total revenue	\$ 23,679	\$ 14,073	\$ 9,606	68.3 %

	Nine Months Ended			
	September 29, 2019	September 30, 2018	\$ Change	% Change
<i>(dollars in thousands)</i>				
Revenue:				
Restaurant sales, net	\$ 47,326	\$ 28,571	\$ 18,755	65.6 %
Franchise royalty and fee revenue	9,560	10,623	(1,063)	(10.0)%
Franchisee national advertising fund contributions	1,275	1,495	(220)	(14.7)%
Licensing and other revenue	839	766	73	9.5 %
Total revenue	\$ 59,000	\$ 41,455	\$ 17,545	42.3 %

Restaurant Sales, net

The increase in year-over-year restaurant sales, net for the three and nine months ended September 29, 2019 was primarily a result of the acquisition of restaurants in the Michigan, Ohio, Wisconsin, Colorado, Indiana, Iowa, Kentucky and Arizona markets as well as an increase in same-store sales.

On a weighted basis, for the three months ended September 29, 2019 compared to the three months ended September 30, 2018, Dine-In sales decreased by 3.3%, while Catering and To-Go same store net sales increased by 2.2% and 1.5%, respectively, driven by third-party delivery sales and catering events. On a weighted basis, for the nine months ended September 29, 2019 compared to the nine months ended September 30, 2018, Dine-In same store net sales decreased by 2.5%, while To-Go and Catering same store net sales increased by 2.4% and 1.1%, 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 is driven by third-party delivery sales and marketing efforts aimed at increasing traffic.

Line of Business Summary

The following table summarizes the Company-owned restaurants by line of business for the three months ended September 29, 2019:

	Dine In	To Go	Catering	TOTAL
% of sales	47%	33%	20%	100%
Comparable sales %	-6.7%	4.7%	12.7%	0.4%
Comparable sales "contribution"	-3.3%	1.5%	2.2%	0.4%
Average party size	2.0	2.1	58.5	2.7
Per person average	\$ 16.40	\$ 13.80	\$ 11.00	\$ 14.10
Average check size	\$ 32.80	\$ 29.00	\$ 642.00	\$ 38.20

BBQ HOLDINGS, INC. AND SUBSIDIARIES

The following table summarizes the Company-owned restaurants by line of business for the nine months ended September 29, 2019:

	Dine In	To Go	Catering	TOTAL
% of sales	50%	36%	14%	100%
Comparable sales %	-4.8%	7.1%	8.4%	1.0%
Comparable sales "contribution"	-2.5%	2.4%	1.1%	1.0%
Average party size	2.0	2.1	50.2	2.5
Per person average	\$ 16.50	\$ 13.50	\$ 10.90	\$ 14.30
Average check size	\$ 33.20	\$ 28.80	\$ 545.10	\$ 35.80

Franchise-Related Revenue, including national advertising fund contributions

Franchise-related same store net sales increased by 2.1% and 1.2%, respectively, for the three and nine months ended September 29, 2019 compared to the three and nine months ended September 30, 2018. 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.

In fiscal 2018, we rolled out several initiatives, aimed at driving traffic and improving sales, to our Company-owned stores that are in various stages of implementation throughout our franchise system. Additionally, we continue to focus our resources on innovations to provide new avenues for our franchisees to improve their net sales and operating performance.

Licensing and Other Revenue

For the three months ended September 29, 2019, licensing and other revenue grew 23.7% to \$261,000 compared to the same period of fiscal 2018. For the nine months ended September 29, 2019, licensing and other revenue was \$839,000 as compared to \$766,000 in fiscal 2018, an increase of 9.5%. Licensing and other revenue is primarily related to royalties earned on the sale of Famous Dave's branded sauces, rubs, and other consumer packaged goods.

Average Weekly Net Sales and Operating Weeks

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

	Three Months Ended		Nine Months Ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Average Weekly Net Sales (AWS):				
Franchise-Operated ⁽¹⁾	\$ 49,444	\$ 46,724	\$ 49,909	\$ 47,692
Company-Owned	48,511	48,813	48,412	46,913
Full-Service	49,717	52,530	50,437	50,475
Counter-Service	42,015	40,929	40,273	39,351
Operating Weeks:				
Franchise-Operated	1,281	1,743	4,274	5,240
Company-Owned	415	203	979	609

(1) AWS for franchise-operated restaurants are not our revenues and are not included in our consolidated financial statements. We believe that disclosure of comparable restaurant net sales for franchise-operated restaurants provides useful information to investors because historical performance and trends of Famous Dave's 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 Famous Dave's 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.

BBQ HOLDINGS, INC. AND SUBSIDIARIES**Food and Beverage Costs**

Our food and beverage costs consisted of the following for the three and nine months ended September 29, 2019 and September 30, 2018:

<i>(dollars in thousands)</i>	Three Months Ended			
	September 29, 2019	September 30, 2018	\$ Change	% Change
Food and beverage costs	\$ 6,383	\$ 3,091	\$ 3,292	106.5 %

<i>(dollars in thousands)</i>	Nine Months Ended			
	September 29, 2019	September 30, 2018	\$ Change	% Change
Food and beverage costs	\$ 15,068	\$ 8,907	\$ 6,161	69.2 %

Food and beverage costs for the three months ended September 29, 2019 and September 30, 2018 represented approximately 31.7% and 31.2% of net restaurant sales, respectively. Food and beverage costs for the nine months ended September 29, 2019 and September 30, 2018 represented approximately 31.8% and 31.2% of net restaurant sales, respectively. This year-over-year increase, as a percentage of net restaurant sales, was primarily driven by the acquisition of 18 restaurants over the past twelve months, which stores experienced higher food costs than our comparable stores. Acquired stores in Michigan, Wisconsin, and Ohio were the main driver of our elevated food and beverage costs during the three and nine months ended September 29, 2019. Each of these items have been identified and are being addressed by management, and the company anticipates that actions taken and being implemented will result in margins recovering to more normalized levels in the coming quarters.

Labor and Benefits Costs

Our labor and benefits costs consisted of the following for the three and nine months ended September 29, 2019 and September 30, 2018:

<i>(dollars in thousands)</i>	Three Months Ended			
	September 29, 2019	September 30, 2018	\$ Change	% Change
Labor and benefits costs	\$ 7,477	\$ 3,601	\$ 3,876	107.6 %

<i>(dollars in thousands)</i>	Nine Months Ended			
	September 29, 2019	September 30, 2018	\$ Change	% Change
Labor and benefits costs	\$ 17,253	\$ 10,158	\$ 7,095	69.8 %

Labor and benefits costs for the three months ended September 29, 2019 and September 30, 2018 represented approximately 37.2% and 36.4% of net restaurant sales, respectively. Labor and benefits costs for the nine months ended September 29, 2019 and September 30, 2018 represented approximately 36.5% and 35.6% of net restaurant sales, respectively. The year-over-year increase during the three and nine months ended September 29, 2019, as a percentage of net restaurant sales, was primarily driven by the acquisitions of 18 restaurants over the past twelve months, which stores experienced higher labor and benefits than our comparable stores. Acquired stores in Michigan, Wisconsin, and Ohio were the main driver of our elevated labor and benefits costs during the three and nine months ended September 29, 2019. Each of these items have been identified and are being addressed by management, and the company anticipates that actions taken and being implemented will result in margins recovering to more normalized levels in the coming quarters.

BBQ HOLDINGS, INC. AND SUBSIDIARIES**Operating Expenses**

Our operating expenses consisted of the following for the three and nine months ended September 29, 2019 and September 30, 2018:

<i>(dollars in thousands)</i>	Three Months Ended			
	September 29, 2019	September 30, 2018	\$ Change	% Change
Operating expenses	\$ 6,133	\$ 3,011	\$ 3,122	103.7 %

<i>(dollars in thousands)</i>	Nine Months Ended			
	September 29, 2019	September 30, 2018	\$ Change	% Change
Operating expenses	\$ 14,489	\$ 8,746	\$ 5,743	65.7 %

Operating expenses for the three months ended September 29, 2019 and September 30, 2018 represented approximately 30.5% and 30.4% of net restaurant sales, respectively. Operating expenses for the nine months ended September 29, 2019 and September 30, 2018 and represented approximately 30.6% and 30.6% of net restaurant sales for each period, respectively.

Depreciation and Amortization

Depreciation and amortization expense for the three months ended September 29, 2019 and September 30, 2018 represented approximately 2.4% and 2.0% of total revenues, respectively. Depreciation and amortization expense for the nine months ended September 29, 2019 and September 30, 2018 represented approximately 2.3% and 2.4% of total revenues, respectively.

General and Administrative Expenses

Our general and administrative expenses consisted of the following for the three and nine months ended September 29, 2019 and September 30, 2018:

<i>(dollars in thousands)</i>	Three Months Ended			
	September 29, 2019	September 30, 2018	\$ Change	% Change
General and administrative expenses	\$ 2,653	\$ 1,937	\$ 716	37.0 %

<i>(dollars in thousands)</i>	Nine Months Ended			
	September 29, 2019	September 30, 2018	\$ Change	% Change
General and administrative expenses	\$ 7,547	\$ 5,922	\$ 1,625	27.4 %

General and administrative expenses for the three months ended September 29, 2019 and September 30, 2018 represented approximately 11.2% and 13.8% of total revenues, respectively. General and administrative expenses for the nine months ended September 29, 2019 and September 30, 2018 represented approximately 12.8% and 14.3% of total revenues, respectively. The increase to general and administrative expenses primarily related savings in the prior year that did not recur during the three and nine month periods ended September 29, 2019 and acquisition costs.

BBQ HOLDINGS, INC. AND SUBSIDIARIES***Asset Impairment, Estimated Lease Termination and Other Closing Costs***

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

<i>(dollars in thousands)</i>	Three Months Ended		Nine Months Ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Asset impairments, net	\$ 129	\$ 21	\$ 479	\$ 173
Lease termination charges (income) and related costs	65	(11)	156	(354)
Restaurant closure expenses	20	21	83	324
Asset impairment, estimated lease termination charges and other closing costs	\$ 214	\$ 31	\$ 718	\$ 143

During the nine months ended September 29, 2019, we recognized an impairment charge on the lease right-of-use asset for a restaurant that is expected to close during fiscal 2019 of approximately \$344,000. Asset impairments, net are expenses incurred for other charges related to closing restaurants, as well as ongoing expenses incurred after a restaurant is fully closed. In the third quarter of fiscal 2019, we closed two restaurants.

Income Tax Expense

Income tax benefit for the three months ended September 29, 2019 was approximately \$174,000, or 77.7% of our pretax loss. Income tax expense for the three months ended September 30, 2018 was approximately \$196,000, or 12.3% of our pretax income. Income tax expense for the nine months ended September 29, 2019 was approximately \$25,000, or 2.3% of our pretax income. Income tax expense for the nine months ended September 30, 2018 was approximately \$937,000, or 19.8% of our pretax income.

Basic and Diluted Net Income (Loss) per Common Share Attributable to Shareholders

Net income attributable to shareholders for the three months ended September 29, 2019 was approximately \$17,000, or \$0.00 per basic and diluted share. The basic and diluted weighted-average number of common shares outstanding for the three months ended September 29, 2019 were approximately 9,105,000 and 9,279,000, respectively. Net income for the three months ended September 30, 2018 was approximately \$1.4 million, or \$0.15 per basic and diluted share. The basic and diluted weighted-average number of common shares outstanding for the three months ended September 30, 2018 was approximately 9,090,000 and 9,111,000, respectively.

Net income attributable to shareholders for the nine months ended September 29, 2019 was approximately \$1.1 million, or \$0.13 per basic and \$0.12 per diluted share. The basic and diluted weighted-average number of common shares outstanding for the nine months ended September 29, 2019 was approximately 9,095,000 and 9,193,000, respectively. Net income for the nine months ended September 30, 2018 was approximately \$3.8 million, or \$0.45 per basic and diluted share. The basic and diluted weighted-average number of common shares outstanding for the nine months ended September 30, 2018 was approximately 8,435,000 and 8,459,000, respectively.

Financial Condition, Liquidity and Capital Resources

Our balance of unrestricted cash and cash equivalents was approximately \$4.9 million and \$11.6 million September 29, 2019 and December 30, 2018, respectively. We used cash to purchase five stores in Colorado, six stores in the Michigan, Wisconsin, and Ohio markets, one store in Iowa, one store in Kentucky, and four stores in Arizona. We expect to utilize cash on hand to reinvest into our brand, including refreshing current corporate stores, repurchasing select franchisee owned stores, and developing a new concept. We have also been investing in the build out of the inaugural Clark Crew BBQ restaurant.

On June 20, 2019 we entered into a loan agreement with our lender, Choice Financial Group. The loan agreement provides for a term loan in the principal amount of up to \$24.0 million. The term loan has a maturity date of June 20, 2025. The first year of the term loan 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 will be payable in an amount equal to the Wall Street Journal Prime Rate, but in no circumstances will the rate of interest be less than 5.00%. The term loan may be prepaid, partially or in full, at any time and for no prepayment penalty.

Proceeds from the term loan were used to repay our previous real estate loan, dated December 2, 2016, which had an outstanding balance as of June 20, 2019 of approximately \$2.6 million.

BBQ HOLDINGS, INC. AND SUBSIDIARIES

Also on June 20, 2019, we also entered into a revolving promissory note with our lender. The revolving promissory note provides for a revolving line of credit from our lender in the principal amount of up to \$1.0 million. The revolving promissory note has a maturity date of December 2, 2019, which provides for monthly payments of interest only, with a balloon payment of the remaining outstanding balance and applicable interest due on the maturity date. Interest will be payable in an amount equal to the 30-day London Interbank Offer Rate (“LIBOR”) plus 325 basis points, but in no circumstances will the rate of interest be less than 3.75%. The revolving promissory note may be prepaid, partially or in full, at any time and for no prepayment penalty. Proceeds from the revolving line of credit may be used at our discretion.

Our current ratio, which measures our immediate short-term liquidity, was 1.02 as of September 29, 2019, compared to 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 increases in our current liabilities related to the current portion of lease liabilities and cash paid for the acquisitions in the Colorado, Michigan, Ohio, Wisconsin, Iowa, Kentucky, and Arizona markets as well as capital expenditures.

Net cash provided by operating activities for the nine months ended September 29, 2019 was approximately \$3.5 million, which reflects net income of approximately \$1.1 million increased by non-cash charges of approximately \$2.4 million. Changes in operating assets and liabilities for the nine months ended September 29, 2019 primarily included cash inflows from an increase in accounts payable of \$1.4 million. These cash inflows were partially offset by cash outflows related to a decrease in accounts receivable of \$495,000 and an increase in other assets of \$580,000.

Net cash provided by operating activities for the nine months ended September 30, 2018 was approximately \$3.8 million, reflecting net income of approximately \$3.8 million increased by non-cash charges of approximately \$369,000. Changes in operating assets and liabilities included cash outflows from a decrease in accounts payable of \$183,000 and a decrease in accrued and other liabilities of \$1.0 million. These cash outflows were partially offset by a decrease in other assets of \$918,000.

Net cash used for investing activities was approximately \$10.1 million for the nine months ended September 29, 2019, related to payments for acquired restaurants of \$6.2 million, advances on notes receivable of \$150,000 and the purchase of property, equipment and leasehold improvements of \$3.8 million. Net cash provided by investing activities was \$7.2 million for the nine months ended September 30, 2018, related to proceeds from the sale of assets of \$1.2 million, partially offset by the purchases of property and equipment of \$597,000 and purchases of held-to-maturity securities of \$7.0 million.

Net cash used for financing activities for the nine months ended September 30, 2019 of \$230,000, primarily related to the debt repayments of \$176,000 and payments for debt issuance costs of \$54,000. Net cash used for financing activities for the nine months ended September 30, 2018 of \$985,000, primarily related to debt repayments of \$6.6 million partially offset by proceeds from the sales of common stock of \$5.1 million and the proceeds from exercise of stock options of \$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 September 29, 2019, we were in compliance with all of our covenants.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that either have, or are reasonably likely to have, a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Critical Accounting Policies

Our significant accounting policies are described in Note 1 – *Nature of Business and Significant Accounting Policies* to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 30, 2018. Except as disclosed in Note 1 “Basis of Presentation” to the accompanying notes to the consolidated financial statements, there have been no updates to our critical accounting policies.

BBQ HOLDINGS, INC. AND SUBSIDIARIES

Forward-Looking Information

BBQ Holdings makes written and oral statements from time to time, including statements contained in this Quarterly Report on Form 10-Q regarding its business and prospects, such as projections of future performance, statements of management's plans and objectives, forecasts of market trends and other matters that are forward-looking statements within the meaning of Sections 27A of the Securities Act of 1933 and Section 21E of the Securities Act of 1934. Statements containing the words or phrases "will likely result", "anticipates", "are expected to", "will continue", "is anticipated", "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 Company representatives. For such statements, including those contained in this report, 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 that are difficult to predict, including but not limited to those identified herein under Part II, Item 1A. "Risk Factors" and under Part I, Item 1A. "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 30, 2018. No assurance can be given that the results reflected in any forward-looking statements will be achieved. Any forward-looking statements made by us or on our behalf speak only as of the date on which such statement is made. Our forward-looking statements are based upon assumptions that are sometimes based upon estimates, data, communications and other information from suppliers, government agencies and other sources that may be subject to revision. We do not undertake any obligation to update or keep current either (i) any forward-looking statements to reflect events or circumstances arising after the date of such statement, or (ii) the important factors that could cause our future results to differ materially from historical results or trends, results anticipated or planned by us, or which are reflected from time to time in any forward-looking statement which may be made by us or on our behalf.

Additional Information on BBQ Holdings

We are currently subject to the informational requirements of the Securities Exchange Act of 1934, as amended. As a result, we are required to file periodic reports and other information with the SEC, such as annual, quarterly and current reports, proxy and information statements. You are advised to read this Quarterly Report on Form 10-Q in conjunction with the other reports, proxy statements and other documents we file from time to time with the SEC. If you would like more information regarding BBQ Holdings, our SEC filings are also available to the public free of charge at the SEC's website. The address of this website is <http://www.sec.gov>. Our most current SEC filings, such as our annual, quarterly and current reports, proxy statements and press releases are available to the public free of charge on our website.

The address of our website is <http://www.bbqholdco.com>. Our website is not intended to be, and is not, a part of this Quarterly Report on Form 10-Q. We will provide electronic or paper copies of our SEC filings (excluding exhibits) to any BBQ Holdings shareholder free of charge upon receipt of a written request for any such filing. All requests for our SEC filings should be sent to the attention of Investor Relations at BBQ Holdings, Inc., 12701 Whitewater Drive, Suite 290, Minnetonka, MN 55343.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable to smaller reporting companies.

Item 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

There has been no change in our internal control over financial reporting during the quarterly period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting, except for the following.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

The information contained in Note 14 – *Litigation* of the notes to the accompanying consolidated financial statements included in this Quarterly Report on Form 10-Q is incorporated by reference into this Item 1. Except as set forth therein, as of the end of the period covered by this Quarterly Report on Form 10-Q, we are not a party to any material pending legal proceedings.

Item 1A. RISK FACTORS.

The most significant risk factors applicable to the Company are described in Part I, Item 1A. “Risk Factors” of our Annual Report on Form 10-K for the year ended December 30, 2018, filed with the SEC on March 4, 2019, as updated by this Part II, Item 1A “Risk Factors” and our subsequent filings with the Securities and Exchange Commission. There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K except as noted below.

Our business strategy of acquisitions may not achieve anticipated results.

We expect to continue to apply a business strategy that includes acquisition of stores from franchisees as the opportunity arises. Many of the stores that we reacquired have experienced declining same store sales and elevated operating costs. If we are unable to curtail the declining same store sales and reduce operating costs, we may not achieve our expected results from these acquisitions. We may also seek to add new brands to our portfolio through acquisitions. There can be no assurance that this business strategy of acquisitions will be suitable or will achieve favorable results. Additionally, our strategic initiatives may subject us and our franchisees to new and additional risks.

Item 5. OTHER INFORMATION

None.

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Item 6. EXHIBITS

Exhibit Number	Description
10.1	Intellectual Property License Agreement, dated October 2, 2019 between Clark Championship Products LLC and Mercury BBQ, LLC.
10.2	Amendment, dated October 2, 2019 among Travis Clark, Clark Championship Products LLC and BBO Oklahoma, Inc., to the Intellectual Property License Agreement, dated July 18, 2018.
10.3	Secured Promissory Note, dated October 2, 2019 between Mercury BBQ LLC and BBO Oklahoma, Inc.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Schema Document
101.CAL	Inline XBRL Calculation Linkbase Document
101.LAB	Inline XBRL Label Linkbase Document
101.PRE	Inline XBRL Presentation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document

SIGNATURES

Pursuant to the requirements 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: November 12, 2019

By: /s/ Jeffery Crivello
Jeffery Crivello
Chief Executive Officer and Director
(Principal Executive Officer)

Dated: November 12, 2019

/s/ Paul M. Malazita
Paul M. Malazita
Chief Financial Officer and Secretary
(Principal Financial Officer and Principal Accounting Officer)

INTELLECTUAL PROPERTY LICENSE AGREEMENT

This Intellectual Property License Agreement (the “**Agreement**”), between Clark Championship Products LLC, a limited liability company organized under the laws of Oklahoma (“**Licensor**”), and Mercury BBQ Products, LLC (“**Licensee**”), is effective _____ (the “**Effective Date**”).

RECITALS

WHEREAS, Licensor has developed and owns rights in certain Marks, trade secrets and Know-How (as hereinafter defined); and

WHEREAS, Licensee desires to obtain a license to utilize such Marks, trade secrets and Know-How on the terms and conditions set forth in this Agreement.

DEFINITIONS

“**Confidential Information**” shall mean all Know-How, trade secrets, internal documentation, designs, drawings, plans, technical data, pricing information, marketing information, or any other information provided by Licensor in relation to this Agreement, the IP Assets, or the Products. Confidential Information does not include any information which (i) is or becomes part of the public domain, (ii) is disclosed to Licensee by a third party not under an obligation of confidentiality to Licensor, or (iii) Licensee can document as having been in its possession prior to disclosure by Licensor.

“**Current Products**” shall mean seasoning products and barbeque sauces-that consist solely of seasonings and barbeque sauces developed by Licensor and exist on the Effective Date. Current Products do not include products that utilize such barbeque sauce and seasonings in combination with other food products.

“Future Products” shall mean seasoning products, barbeque sauces and any other product related to Licensor’s business other than the Current Products that are subsequently developed by Licensor and developed from, based on, or use any IP Assets. Future Products include products that utilize such barbeque sauce and/or seasonings in combination with other food products.

“Grocery Trade” shall mean any business engaged in (i) the retail sale of food products whether through grocery stores, convenience stores, wholesale clubs, specialty food stores, an Internet website, or other retail operations which sell food products primarily for consumption elsewhere, or (ii) the wholesale supply of any of the retail businesses described in (i).

“IP Assets” shall mean all Marks, trade secrets and Know-How licensed by under this Agreement.

“Know-How” shall mean all information, formulations, designs, drawings, operations manuals, compilations of technical information, research files and records, ingredient specifications, production methods and specifications, quality assurance specifications, know-how, processes, product formulas and recipes, product and packaging specifications and other proprietary information used in connection with the Products by the Licensor that are not trade

secrets, existing on the Effective Date.

“Losses” means losses, damages, liabilities, deficiencies, claims, actions, judgments, settlements, interest, awards, penalties, fines, costs, or expenses of whatever kind, including reasonable attorneys’ fees and the cost of enforcing any right to indemnification hereunder and the cost of pursuing any insurance providers.

“Marks” shall mean (i) those trademarks, service marks and trade names identified on the attached Exhibit A, together with any applications or registrations now or hereinafter issued on such trademarks, service marks, and trade names in the Territory, and (ii) any other trademarks, service marks or trade names which are utilized by Licensor in connection with the operation of its business at any time during the term of this Agreement, whether or not such subsequently utilized trademarks, service marks or trade names are registered.

“Products” shall mean Current Products and Future Products.

“Territory” shall mean worldwide.

AGREEMENT

In consideration of the above recitals and the promises set forth below, the parties agree as follows:

1. License to Intellectual Property.

- 1.1 Grant of License. Licensor grants Licensee and its affiliates an exclusive right and license to use the IP Assets in connection with the promotion, advertising, distribution and sale of the Products in and to the Grocery Trade and for other related commercial purposes anywhere in the Territory (the **“License”**). In consideration for the License, on the Effective Date, the Licensee shall pay the Licensor \$100,000.
 - 1.2 Sublicensing. Licensee may not sublicense the rights under this Agreement without the written consent of Licensor.
 - 1.3 Reservation of Rights. Licensor retains all right, title and interest in and to the IP Assets and reserves all rights not expressly granted to Licensee in the License and this Agreement. If at any time, Licensor determines that it is appropriate to change or cease use of any of the IP Assets or to substitute or add additional rights or assets, that the definition of IP Assets shall automatically, and without further action of the parties, be amended to reflect any further change, cessation, substitution or addition. This will not impact or cause to change the existing use and form of the IP already in use by Licensor.
 - 1.4 Copyright License. With regard to copyrights licensed under this Agreement, the License includes the right to use, reproduce, display, distribute, create derivative works of the creative works owned by Licensor. All derivative works created by
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Licensee will become and remain the sole and exclusive property of Licensor. Upon written request by Licensor, Licensee will execute any assignments, bills of sale or other documents necessary to confirm, assign or transfer any intellectual property rights in any derivative works created by or on behalf of Licensee.

1.5 Trademark License.

- A. *Use of the Marks.* With regard to Marks licensed under this Agreement, the License is inclusive of any trademarks in existence or to be developed in the future for the use for or in the connection with the distribution and sale of Products, and in connection with the advertising, marketing and promotion of the Products to the Grocery Trade. Licensee must use the Marks in accordance with sound trademark and trade name usage principles and in accordance with all applicable laws and regulations, including without limitation all laws and regulations relating to the maintenance of the validity and enforceability of the Marks. Licensee may not, during or after the term of this Agreement, engage in any conduct, directly or indirectly, that would infringe upon, harm or contest the rights of title of Licensor in or to the Marks, any associated goodwill or the validity of the Marks.
- B. *Quality Control.* In marketing the Products, Licensee will comply with the quality standards set forth by Licensor. The Licensor is responsible for the quality of the Product from manufacturing to sale and shall further be responsible for developing quality standards consistent with the first class, high-quality reputation of the Products.

- 1.6 Trade Secrets License. With regard to trade secrets licensed under this Agreement, Licensee will keep such trade secrets confidential, using the same degree of care it uses to protect its own confidential or proprietary information, but in no event less than a reasonable degree of care. Licensee will not disclose any trade secrets to any third party, except as necessary for business purposes and under similar confidentiality obligations. Licensee will limit access to trade secrets to those employees who need to know the information for business purposes.

2. **Other Obligations; Representations and Warranties.**

2.1 Restrictions on Licensor. Licensor shall not itself use or grant to any other person or entity any right or license to use any IP Assets or any materials similar to or derivative of any IP Assets in connection with the Products or any products similar to or competitive with the Products in the Territory.

2.2 Representations and Warranties.

- A. Each party represents and warrants to the other party that:
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i. it is duly organized, validly existing, and in good standing as a corporation or other entity as represented herein under the laws of its jurisdiction of incorporation or organization;

ii. it has the full right, power, and authority to enter into this Agreement and to perform its obligations hereunder;

iii. the execution of this Agreement by its representative whose signature is set forth at the end hereof has been duly authorized by all necessary organizational action of the party; and

iv. when executed and delivered by such party, this Agreement shall constitute the legal, valid, and binding obligation of such party, enforceable against such party in accordance with its terms. it is the sole and exclusive legal and beneficial owner of the entire right, title, and interest in and to the IP Assets in the Territory;

B. Licensor represents and warrants that:

i. it is the sole and exclusive legal and beneficial owner of the entire right, title, and interest in and to the IP Assets and it is the record owner of the registrations and applications set forth on Schedule __, and all such issued registrations are valid, subsisting, and in full force and effect;

ii. it has not granted and during the term will not grant any ;licenses, liens, security interests, or other encumbrances in, to, or under the IP Assets;

iii. the exercise by Licensee of the rights and license granted under this Agreement will not infringe or otherwise conflict with the rights of any other person or entity;

iv. there is no settled, pending, or, to its knowledge, threatened litigation, opposition, or other claim or proceeding challenging the validity, enforceability, ownership, registration, or use of any IP Assets in the Territory; and

v. it has not brought or threatened any claim against any third party alleging infringement of any IP Assets, nor, to its knowledge, is any third party infringing or threatening to infringe any IP Assets.

3. **Term.** The Agreement commences on the Effective Date and shall continue until terminated in accordance with Section 4 of this agreement.

4. **Termination.** Either party may terminate this Agreement in the event of a breach by the other party that remains uncured 30 days after written notice of the breach was provided. For purposes of this Agreement, it is a material breach of this Agreement if Licensee:

- (a) fails or refuses to perform any duty hereunder;
 - (b) attempts to transfer an interest in this Agreement in violation of Section 6 of this Agreement;
 - (c) becomes insolvent by reason of an inability to pay debts as they mature or makes an assignment for the benefit of creditors or any admission of inability to pay obligations as they become due;
 - (d) fails to submit when due reports or other information or supporting records required under Section 3; or
 - (e) fails or refuses to comply with any other provision of this Agreement or any instruction of Licensor concerning quality control standards for the Marks.
5. **Assignment.** Licensor may not directly or indirectly assign, transfer or delegate any of or all of its rights or obligations under this Agreement, voluntarily or involuntarily, including by Change of Control, merger (whether or not such party is the surviving corporation), operation of law, or any other manner, without the prior written consent of the Licensee. A “Change of Control” means a sale of more than 50% of the Licensor’s equity, a sale of substantially all the assets of Licensor, a change in a majority of Licensor’s governing body or limited liability company managers, or any combination of the foregoing. Licensee may freely assign or otherwise transfer all or any of its rights, or delegate or otherwise transfer all or any of its obligations or performance, under this Agreement without Licensor’s consent. Any purported assignment or delegation in violation of this Section shall be null and void and a material breach of this Agreement.
6. **Indemnification by Licensee.** Licensee will indemnify, defend and hold harmless Licensor and its directors, officers, employees, representatives and agents from and against, any third party claims of infringement, including attorney fees, arising from Licensee’s use of the IP Assets, except to the extent any such third-party claim relates to the use of the IP Assets in accordance with this Agreement or otherwise is covered by Licensor’s indemnity obligations in Section 7 below.
7. **Indemnification for Infringement.** Licensor will indemnify, defend and hold harmless Licensee and its affiliates and each of their respective past and present directors, officers, employees, representatives and agents from and against from and against all Losses arising out of or in connection with any third-party claim, suit, action, or proceeding relating to any actual or alleged: (a) breach by Licensor of any representation, warranty, covenant, or obligation under this Agreement, or (b) infringement, dilution, or other violation of any intellectual property or other personal or proprietary rights of any person or entity resulting from the use of the IP Assets by Licensee or any of its affiliates Agreement.
8. **Limitation of Liabilities.** TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, NEITHER PARTY SHALL BE LIABLE TO THE OTHER PARTY FOR ANY CONSEQUENTIAL, INCIDENTAL, INDIRECT, EXEMPLARY, SPECIAL,
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PUNITIVE, OR ENHANCED DAMAGES, OR FOR ANY LOSS OF ACTUAL OR ANTICIPATED PROFITS (REGARDLESS OF HOW THESE ARE CLASSIFIED AS DAMAGES), WHETHER ARISING OUT OF BREACH OF CONTRACT, TORT (INCLUDING NEGLIGENCE), OR OTHERWISE (INCLUDING THE ENTRY INTO, PERFORMANCE, OR BREACH OF THIS AGREEMENT), REGARDLESS OF WHETHER SUCH DAMAGE WAS FORESEEABLE AND WHETHER EITHER PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. THE FOREGOING LIMITATIONS SHALL NOT APPLY TO A PARTY'S INDEMNIFICATION OBLIGATIONS HEREUNDER.

9. **General.** This Agreement is governed by the laws of the State of Oklahoma without regard to conflicts of law principles. All claims or actions related to this Agreement must be brought in the state or federal courts located in Hennepin County, Minnesota. If any court of competent jurisdiction holds any provision of this Agreement invalid or unenforceable, the other provisions of this Agreement remain in full force and effect. Any provision of this Agreement held invalid or unenforceable only in part or degree remains in full force and effect to the extent not held invalid or unenforceable. The waiver or failure of either party to exercise in any respect any right provided for in this Agreement shall not be deemed a waiver of any further right under this Agreement. This Agreement contains the entire agreement and understanding of the parties concerning the subject matter of this Agreement.
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The parties are signing this Agreement to be effective as of the Effective Date.

Licensor

Licensee

**CLARK CHAMPIONSHIP PRODUCTS
LLC**

MERCURY BBQ PRODUCTS LLC

By: /s/ Travis Clark _____
Its: Owner _____

By: /s/ Jeffrey Crivello _____
Its: Chief Executive Officer _____

EXHIBIT A
TRADEMARKS

Exhibit 10.2

**AMENDMENT TO
THE INTELLECTUAL PROPERTY LICENSE AGREEMENT**

This Amendment to Agreement, dated as of October 2, 2019 (the “Amendment”), by and between Travis Clark, individually, and Clark Championship Products LLC, a limited liability company organized under the law of Oklahoma (collectively “Licensor”) and BBQ Oklahoma, Inc., a Minnesota corporation (“Licensee”). Licensor and Licensee each herein a “Party” and collectively, “Parties.”

WHEREAS, Pursuant to an Intellectual Property License Agreement dated July 18, 2019 (the “License Agreement”), the Licensor and Famous Dave’s of America Inc. (“Prior Licensee”), the Licensor provided the Prior Licensee a license for IP assets for various commercial purposes related to the Good and Services and sublicense rights;

WHEREAS, On October 1, 2019, the Prior Licensor assigned all its rights, interest and title in the Agreement to the Licensee;

WHEREAS, the Parties desire to amend the License Agreement on the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. **Definitions.** Capitalized terms used and not defined in this Amendment have the respective meanings assigned to them in the License Agreement.
2. **Amendments to the License Agreement.**
3. Section 1.1 of the License Agreement shall be deleted and replaced with the following:
 - a. Grant of License. Licensor grants Licensee an exclusive license to use and sublicense the IP Assets for various commercial purposes related to the Goods and Services in the Territory, including establishing franchising operations (the “License). The “Territory” is worldwide; provided that for as long as this Agreement remains in effect, Licensee will not operate or sublicense another party to operate a Clark Crew BBQ restaurant in the “Mercury Territory.” Mercury Territory is defined as the fifteen (15) mile radius around the Clark Crew BBQ location at 3510 Northwest Expressway, Oklahoma City, OK 73112 and four (4) additional locations to be mutually agreed upon between the Parties. With respect to the four (4) to be determined locations, provided that Travis Clark owns a minimum of sixty (60) percent of the locations, whether directly or via wholly owned entity of his, Clark shall not pay a royalty to the Licensee. If the location is not wholly owned by Clark directly or indirectly, Clark shall pay a royalty of 5% per location to the Licensee. Furthermore, Clark or Clark Championship Products LLC shall not perform or catering duties in the greater Oklahoma City, OK without the consent or participation of the Licensee.
 - b. Section 5(b) of the License Agreement is hereby modified to within three (3) years of the Effective Date.

4. **Date of Effectiveness; Limited Effect.** This Amendment will become effective on the date first written above. Except as expressly provided in this Amendment, all of the terms and provisions of the License Agreement are and will remain in full force and effect and are hereby ratified and confirmed by the parties. Without limiting the generality of the foregoing, the amendments contained herein will not be construed as an amendment to or waiver of any other provision of the License Agreement or as a waiver of or consent to any further or future action on the part of either party that would require the waiver or consent of the other party. On and after the date of this Amendment, each reference in the License Agreement to "this Agreement," "the Agreement," "hereunder," "hereof," "herein," or words of like import, and each reference to the License Agreement in any other agreements, documents, or instruments executed and delivered pursuant to, or in connection with, the License Agreement, will mean and be a reference to the License Agreement as amended by this Amendment.

5. **Miscellaneous.**

- a. Successors and Assigns. This Amendment shall inure to the benefit of and be binding upon each of the parties and each of their respective permitted successors and permitted assigns.
- b. Headings. The headings in this Amendment are for reference only and do not affect the interpretation of this Amendment.
- c. Counterparts. This Amendment may be executed in counterparts, each of which is deemed an original, but all of which constitute one and the same agreement. Delivery of an executed counterpart of this Amendment electronically or by facsimile shall be effective as delivery of an original executed counterpart of this Amendment.
- d. Entire Agreement. This Amendment constitutes the sole and entire agreement between the parties with respect to the subject matter contained herein, and supersedes all prior and contemporaneous understandings, agreements, representations, and warranties, both written and oral, with respect to such subject matter. Any terms not defined herein, shall be defined in the Agreement. If any terms between the Amendment and the License Agreement conflict, the License Agreement shall govern.
- e. Fees and Costs. Each party shall pay its own costs and expenses in connection with this Amendment (including the fees and expenses of its advisors, accountants, and legal counsel).

[signature page follows]

IN WITNESS WHEREOF, the parties have signed this Amendment as of the date first above written.

/s/ Travis Clark
Travis Clark, Individually

CLARK CHAMPIONSHIP PRODUCTS, LLC

BBQ OKLAHOMA, INC.

By /s/ Travis Clark

B y /s/ Jeff
Crivello

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Exhibit 10.3

SECURED PROMISSORY NOTE

FOR VALUE RECEIVED, and subject to the terms and conditions set forth herein, MERCURY BBQ LLC, a Delaware limited liability company (the "**Borrower**"), hereby unconditionally promises to pay to the order of BBQ Oklahoma, Inc., a Minnesota corporation, or its assigns (the "**Noteholder**", and together with the Borrower, the "**Parties**"), the principal amount of \$2,500,000 (the "**Loan**") or the aggregate of such amounts the Noteholder has disbursed to the Co-Borrowers pursuant to Section 2.2, together with all accrued interest thereon, as provided in this Promissory Note (the "**Note**").

1. Definitions. Capitalized terms used herein shall have the meanings set forth in this Section 1.

"**Affiliate**" means as to any Person, any other Person that, directly or indirectly through one or more intermediaries, is in control of, is controlled by, or is under common control with, such Person. For purposes of this definition, "control" of a Person means the power, directly or indirectly, either to (a) vote 10% or more of the securities having ordinary voting power for the election of directors (or persons performing similar functions) of such Person or (b) direct or cause the direction of the management and policies of such Person, whether by contract or otherwise.

"**Anti-Terrorism Law**" means any Law related to money laundering or financing terrorism including the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (Title III of Pub. L. 107-56) (the "**USA PATRIOT Act**"), the Currency and Foreign Transactions Reporting Act (31 U.S.C. §§ 5311-5330 and 12 U.S.C. §§ 1818(s), 1820(b) and 1951-1959) (also known as the "**Bank Secrecy Act**"), the Trading With the Enemy Act (50 U.S.C. § 1 et seq., as amended) and Executive Order

13224 (effective September 24, 2001).

"Applicable Rate" means the rate equal to 8% per annum. **"Borrower"**

has the meaning set forth in the introductory paragraph.

"Business Day" means a day other than a Saturday, Sunday or other day on which commercial banks in New York, New York are authorized or required by law to close.

"Cash" means with respect to the Borrower, money, currency or a credit balance in any deposit account (as such term is defined in the UCC).

"Commitment Period" means the period from the date hereof to the date that is 30 days after the date hereof.

"Current Liabilities" means as at any date of determination, the total liabilities of the Borrower that may properly be classified as current liabilities in conformity with GAAP, excluding the current portion of long term debt.

"Debt" of the Borrower, means all (a) indebtedness for borrowed money; (b) obligations for the deferred purchase price of property or services, except trade payables arising in the ordinary course of business; (c) obligations evidenced by notes, bonds, debentures or other similar instruments; (d) obligations as lessee under capital leases; (e) obligations in respect of any interest rate swaps, currency exchange agreements, commodity swaps, caps, collar agreements or similar arrangements entered into by the Borrower providing for protection against fluctuations in interest rates, currency exchange rates or commodity prices or the exchange of nominal interest obligations, either generally or under specific contingencies; (f) obligations under acceptance facilities and letters of credit; (g) guaranties, endorsements (other than for collection or deposit in the ordinary course of business), and other contingent obligations to purchase, to provide funds for payment, to supply funds to invest in any Person, or otherwise to assure a creditor against loss, in each case, in respect of indebtedness set out in clauses (a) through (f) of a Person other than the Borrower; and (h) indebtedness set out in clauses (a) through (g) of any Person other than Borrower secured by any lien on any asset of the Borrower, whether or not such indebtedness has been assumed by the Borrower.

"Default" means any of the events specified in Section 9 which constitutes an Event of Default or which, upon the giving of notice, the lapse of time, or both pursuant to Section 9 would, unless cured or waived, become an Event of Default.

"Default Rate" means, at any time, 18% per annum. **"Event**

of Default" has the meaning set forth in Section 9.

"Excess Cash Flow" means, with respect to the Borrower, for any period, an amount equal to the excess, if any, of (a) Operating Cash at the end of such period over (b) the Operating Cash Requirement.

"GAAP" means generally accepted accounting principles in the United States of America as in effect from time to time.

"Governmental Authority" means the government of any nation or any political subdivision thereof, whether at the national, state, territorial, provincial, municipal or any other level, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of, or pertaining to, government.

"IP Developer" means Clark Championship Products LLC, an Oklahoma limited liability company.

"Law" as to any Person, means any law (including common law), statute, ordinance, treaty, rule, regulation, policy or requirement of any Governmental Authority and authoritative interpretations thereon, whether now or hereafter in effect, in each case, applicable to or binding on such Person or any of its properties or to which such Person or any of its properties is subject.

"Lien" means any mortgage, pledge, hypothecation, encumbrance, lien (statutory or other), charge or other security interest.

"Loan" has the meaning set forth in the introductory paragraph.

"Material Adverse Effect" means a material adverse effect on (a) the business, assets, properties, liabilities (actual or contingent), operations, condition (financial or otherwise) or prospects of the Borrower; (b) the validity or enforceability of the Note or Security Agreement; (c) the perfection or priority of any Lien purported to be created under the Security Agreement; (d) the rights or remedies of the Noteholder hereunder or under the Security Agreement; or (e) the Borrower's ability to perform any of its material obligations hereunder or under the Security Agreement.

"Maturity Date" means the earlier of (a) November 30, 2025 and (b) the date on which all amounts under this Note shall become due and payable pursuant to Section 3.

"Note" has the meaning set forth in the introductory paragraph.

"Noteholder" has the meaning set forth in the introductory paragraph.

"Operating Cash" means with respect to the Borrower, at any time, an amount equal to (a) Cash plus equivalents (including, credit card receivables) minus (b) the sum of (i) any amount accrued to pay taxes and (ii) those portions of Current Liabilities that are overdue or otherwise aged beyond thirty (30) days.

"Operating Cash Requirement" means \$ 250,000.

"Order" as to any Person, means any order, decree, judgment, writ, injunction, settlement agreement, requirement or determination of an arbitrator or a court or other Governmental Authority, in each case, applicable to or binding on such Person or any of its properties or to which such Person or any of its properties is subject.

"Parties" has the meaning set forth in the introductory paragraph.

"Permitted Debt" means Debt (a) existing or arising under this Note and any refinancing thereof; (b) existing as of the date of this Note; (c) which may be deemed to exist with respect to swap contracts; (d) owed in respect of any netting services, overdrafts and related liabilities arising from treasury, depository and cash management services in connection with any automated clearinghouse transfers of funds; and (e) unsecured insurance premiums owing in the ordinary course of business.

"Person" means any individual, corporation, limited liability company, trust, joint venture, association, company, limited or general partnership, unincorporated organization, Governmental Authority or other entity.

"Sanctions" means, sanctions administered or enforced by the US Department of the Treasury's Office of Foreign Assets Control (OFAC), US Department of State, or other relevant sanctions authority.

"Security Agreement" means the Security Agreement, dated as of the date hereof, by the Borrower and IP Developer in favor of Noteholder, as may be amended, restated, supplemented or otherwise modified from time to time in accordance with its terms.

"USA PATRIOT Act" has the meaning set forth in the definition of Anti-Terrorism Law.

2. Loan Disbursement Mechanics.

2.1 Commitment. Subject to Section 2.2, the Noteholder shall loan Borrower an aggregate principal amount not to exceed the amount of the Loan.

2.2 Condition Precedent to Disbursement. As a condition precedent to the making of the Loan pursuant to this Note, Noteholder and Borrower shall negotiate and execute a mutually acceptable license agreement regarding the license and use by Noteholder of certain CLARK CREW BBQ intellectual property developed by IP Developer and other terms deemed necessary and customary by Noteholder and Borrower. The acceptance by Borrower of funds constituting the Loan, when and if such Loan is made by Noteholder, shall be deemed a representation and warranty by Borrower that since the date of this Note there has been no Material Adverse Effect and all of Borrower's representations and warranties herein remain and in the Security Agreement are true and correct as if made on the date of the disbursement of the proceeds representing the Loan. Noteholder shall have no obligation to make the Loan if the condition precedent described in this Section 2.2 is not satisfied on or before the expiration of the Commitment Period.

2.3 Use of Proceeds. The Borrower shall use the proceeds of the Loan solely for build-out of the CLARK CREW BBQ restaurant located at 3510 Northwest Expressway, Oklahoma City, OK 73112 (the "**Restaurant**") using trade dress and other intellectual property developed by IP Developer for the CLARK'S CREW BBQ restaurant brand and working capital needed for the operation of such business.

1. Payment Terms; Optional Prepayments.

3.1 Payment. Payment on the note shall be payable by utilizing 100% of operating cash flow from Restaurant minus operating expenses and Clark's management fee set forth in section 9.1 of the Mercury BBQ LLC Agreement (the "Agreement") and the management fee set forth in the Services Agreement the between BBQ Holdings, Inc. and Mercury BBQ LLC (the "Services Agreement"). If the Loan is not paid off within six (6) years of the date of execution of this Note, the remaining Loan balance shall be amortized for three (3) years which will be paid monthly prior to any management fees from any agreement.

3.2 Prepayments.

(a) Mandatory Prepayments. In the event there shall be Excess Cash Flow for any one-month period, commencing with the one-month period beginning on the date that is one month after the date on which the Restaurant opens for business, the

Borrower shall prepay the Loan in an aggregate amount equal to 100% of such Excess Cash Flow. No prepaid amount may be reborrowed.

(b) Optional Prepayments. The Borrower may prepay the Loan in whole or in part at any time or from time to time without penalty or premium by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment. No prepaid amount may be reborrowed.

3.3 Security Agreement. The Borrower's performance of its obligations hereunder is secured by a first priority security interest in the collateral specified in the Security Agreements (the "**Collateral**").

4. Interest.

4.1 Interest Rate. Except as otherwise provided herein, the outstanding principal amount of the Loan made hereunder shall bear interest at the Applicable Rate from the date the Loan was made until the Loan is paid in full, whether at maturity, upon acceleration, by prepayment or otherwise.

4.2 Interest Payment Dates. All accrued and unpaid interest shall be due and payable on the Maturity Date.

4.3 Default Interest. If any amount payable hereunder is not paid when due (without regard to any applicable grace periods), whether at stated maturity, by acceleration or otherwise, such overdue amount shall bear interest at the Default Rate from the date of such non-payment until such amount is paid in full.

4.4 Computation of Interest. All computations of interest shall be made on the basis of a year of 365/366 days, as the case may be, and the actual number of days elapsed. Interest shall accrue on the Loan on the day on which such Loan is made, and shall not accrue on the Loan for the day on which it is paid.

4.5 Interest Rate Limitation. If at any time and for any reason whatsoever, the interest rate payable on the Loan shall exceed the maximum rate of interest permitted to be charged by the Noteholder to the Borrower under applicable Law, such interest rate shall be reduced automatically to the maximum rate of interest permitted to be charged under applicable Law and that portion of each sum paid attributable to that portion of such interest rate that exceeds the maximum rate of interest permitted by applicable Law shall be deemed a voluntary prepayment of principal.

5. Payment Mechanics

5.1 Manner of Payments. All payments of interest and principal shall be made in lawful money of the United States of America no later than 12:00 PM on the date on which such payment is due by wire transfer of immediately available funds to the Noteholder's account at a bank specified by the Noteholder in writing to the Borrower from time to time.

5.2 Application of Payments. All payments made hereunder shall be applied first to the payment of any fees or charges outstanding hereunder, second to accrued interest, and third to the payment of the principal amount outstanding under the Note.

5.3 Business Day Convention. Whenever any payment to be made hereunder shall be due on a day that is not a Business Day, such payment shall be made on the next succeeding Business Day and such extension will be taken into account in calculating the amount of interest payable under this Note.

5.4 Rescission of Payments. If at any time any payment made by the Borrower under this Note is rescinded or must otherwise be restored or returned upon the insolvency, bankruptcy or reorganization of the Borrower or otherwise, the Borrower's obligation to make such payment shall be reinstated as though such payment had not been made.

6. Representations and Warranties. The Borrower hereby represents and warrants to the Noteholder on the date hereof as follows:

6.1 Existence; Compliance with Laws. The Borrower is (a) a limited liability company duly formed in Delaware, validly existing and in good standing under the laws of the state of its jurisdiction of organization and has the requisite power and authority, and the legal right, to own, lease and operate its properties and assets and to conduct its business as it is now being conducted and (b) in compliance with all Laws and Orders except to the extent that the failure to comply therewith would not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

6.2 Power and Authority. The Borrower has the power and authority, and the legal right, to execute and deliver this Note and the Security Agreement and to perform its obligations hereunder and thereunder.

6.3 Authorization; Execution and Delivery. The execution and delivery of this Note by the Borrower and the performance of its obligations hereunder have been duly authorized by all necessary limited liability company action in accordance with all applicable Laws. The Borrower has duly executed and delivered this Note.

6.4 No Approvals. No consent or authorization of, filing with, notice to or other act by, or in respect of, any Governmental Authority or any other Person is required in order for the Borrower to execute, deliver, or perform any of its obligations under this Note.

6.5 No Violations. The execution and delivery of this Note and the Security Agreement and the consummation by the Borrower of the transactions contemplated hereby and thereby do not and will not (a) violate any provision of the Borrower's organizational documents; (b) violate any Law or Order applicable to the Borrower or by which any of its properties or assets may be bound; or (c) constitute a default under any material agreement or contract by which the Borrower may be bound.

6.6 Enforceability. Each of the Note and the Security Agreement is a valid, legal and binding obligation of the Borrower, enforceable against the Borrower in accordance with

its terms except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law).

6.7 No Litigation. No action, suit, litigation, investigation or proceeding of, or before, any arbitrator or Governmental Authority is pending or, to the knowledge of the Borrower, threatened by or against the Borrower or any of its property or assets (a) with respect to the Note, the Security Agreement or any of the transactions contemplated hereby or thereby or (b) that could be expected to materially adversely affect the Borrower's financial condition or the ability of the Borrower to perform its obligations under the Note or the Security Agreement.

6.8 USA PATRIOT Act, OFAC and Other Regulations.

(a) Neither the Borrower nor, to the knowledge of the Borrower, any of its Affiliates or any of their respective officers, directors, brokers or agents (i) has violated any Anti-Terrorism Laws or (ii) has engaged in any transaction, investment, undertaking or activity that conceals the identity, source or destination of the proceeds from any category of prohibited offenses designated by the Organization for Economic Cooperation and Development's Financial Action Task Force on Money Laundering.

(b) Neither the Borrower nor, to the knowledge of the Borrower, any of its Affiliates or any of their respective officers, directors, brokers or agents is a Person that is, or is owned or controlled by Persons that are: (i) the subject of any Sanctions, or (ii) located, organized or resident in a country or territory that is, or whose government is, the subject of Sanctions, including currently, Cuba, Iran, North Korea, Sudan and Syria.

(c) Neither the Borrower nor, to the knowledge of the Borrower any of its Affiliates or any of their respective officers, directors, brokers or agents acting or benefiting in any capacity in connection with the Loan (i) conducts any business or engages in making or receiving any contribution of goods, services or money to or for the benefit of any Person, or in any country or territory, that is the subject of any Sanctions, (ii) deals in, or otherwise engages in any transaction related to, any property or interests in property blocked pursuant to any Anti-Terrorism Law or (iii) engages in or conspires to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in any Anti-Terrorism Law.

7. Affirmative Covenants. Until all amounts outstanding in this Note have been paid in full, the Borrower shall:

7.1 Maintenance of Existence. (a) Preserve, renew and maintain in full force and effect its corporate or organizational existence and (b) take all reasonable action to maintain all rights, privileges and franchises necessary or desirable in the normal conduct of its

business, except, in each case, where the failure to do so could not reasonably be expected to have a Material Adverse Effect.

7.2 Compliance. Comply with (a) all of the terms and provisions of its organizational documents; (b) its obligations under its material contracts and agreements; and (c) all Laws and Orders applicable to it and its business, except where the failure to do so could not reasonably be expected to have a Material Adverse Effect.

7.3 Payment Obligations. Pay, discharge or otherwise satisfy at or before maturity or before they become delinquent, as the case may be, all its material obligations of whatever nature, except where the amount or validity thereof is currently being contested in good faith by appropriate proceedings, and reserves in conformity with GAAP with respect thereto have been provided on its books.

7.4 Notice of Events of Default. As soon as possible and in any event within two 2 Business Days after it becomes aware that a Default or an Event of Default has occurred, notify the Noteholder in writing of the nature and extent of such Default or Event of Default and the action, if any, it has taken or proposes to take with respect to such Default or Event of Default.

7.5 Further Assurances. Upon the request of the Noteholder, promptly execute and deliver such further instruments and do or cause to be done such further acts as may be necessary or advisable to carry out the intent and purposes of this Note and the Security Agreement.

8. Negative Covenants. Until all amounts outstanding under this Note have been paid in full, the Borrower shall not:

8.1 Indebtedness. Incur, create or assume any Debt, other than Permitted Debt.

8.2 Liens. Incur, create, assume or suffer to exist any Lien on any of its property or assets, whether now owned or hereinafter acquired except for (a) Liens for taxes not yet due or which are being contested in good faith by appropriate proceedings; and (b) non-consensual Liens arising by operation of law, arising in the ordinary course of business, and for amounts which are not overdue for a period of more than 30 days or that are being contested in good faith by appropriate proceedings; and (c) Liens created pursuant to the Security Agreement.

8.3 Line of Business. Enter into any business, directly or indirectly, except for those businesses in which the Borrower is engaged on the date of this Note or that are reasonably related thereto.

8.4 Compliance with Anti-Terrorism Regulations.

(a)(i) Violate any Anti-Terrorism Laws (ii) engage in any transaction, investment, undertaking or activity that conceals the identity, source or destination of the proceeds from any category of prohibited offenses designated by the Organization for Economic Co-operation and Development's Financial Action Task Force on Money

Laundering or (iii) permit any of its Affiliates to violate these laws or engage in these actions.

(b) (i) Use, directly or indirectly, the proceeds of the Loans, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other Person, (x) to fund any activities or business of or with any Person, or in any country or territory, that, is, or whose government is, the subject of Sanctions at the time of such funding, or (y) in any other manner that would result in a violation of Sanctions by any Person (including any Person participating in the Loans, whether as underwriter, advisor, investor, or otherwise).

(d) (i) Deal in, or otherwise engage in any transaction related to, any property or interests in property blocked pursuant to any Anti-Terrorism Law, (ii) engage in or conspire to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempt to violate, any of the prohibitions set forth in any Anti-Terrorism Law or (iii) permit any of its Affiliates to do any of the foregoing.

9. Events of Default. The occurrence and continuance of any of the following shall constitute an Event of Default hereunder:

9.1 Failure to Pay. The Borrower fails to pay (a) any principal amount of the Loan when due or (b) interest or any other amount when due and such failure continues for 5 days.

9.2 Breach of Representations and Warranties. Any representation or warranty made or deemed made by the Borrower to the Noteholder herein or in the Security Agreement is incorrect in any material respect on the date as of which such representation or warranty was made or deemed made.

9.3 Breach of Covenants. The Borrower fails to observe or perform (a) any covenant, condition or agreement contained in Section 7 or Section 8, or (b) any other covenant, obligation, condition or agreement contained in this Note or the Security Agreement other than those specified in clause (a) and Section 9.1 and such failure continues for 15 days.

9.4 Debt Cross-Defaults. The Borrower fails to pay when due any of its Debt (other than Debt arising under this Note) or any interest or premium thereon when due (whether by scheduled maturity, acceleration, demand or otherwise) and such failure continues after the applicable grace period, if any, specified in the agreement or instrument relating to such Debt.

9.5 Bankruptcy.

(a) the Borrower commences any case, proceeding or other action (i) under any existing or future Law relating to bankruptcy, insolvency, reorganization, or other relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it as bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts or (ii) seeking appointment of a receiver, trustee, custodian,

conservator or other similar official for it or for all or any substantial part of its assets, or the Borrower makes a general assignment for the benefit of its creditors;

(b) there is commenced against the Borrower any case, proceeding or other action of a nature referred to in Section 9.5(a) above which (i) results in the entry of an order for relief or any such adjudication or appointment or (ii) remains undismissed, undischarged or unbonded for a period of 45 days;

(a) there is commenced against the Borrower any case, proceeding or other action seeking issuance of a warrant of attachment, execution or similar process against all or any substantial part of its assets which results in the entry of an order for any such relief which has not been vacated, discharged, or stayed or bonded pending appeal within 45 days from the entry thereof;

(b) the Borrower takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in Section 9.5(a), Section 9.5(b) or Section 9.5(c) above; or

(c) the Borrower is generally not, or shall be unable to, or admits in writing its inability to, pay its debts as they become due.

9.6 Judgments. One or more judgments or decrees shall be entered against the Borrower and all of such judgments or decrees shall not have been vacated, discharged, stayed or bonded pending appeal within 45 days from the entry thereof.

10. Remedies. Upon the occurrence of any Event of Default and at any time thereafter during the continuance of such Event of Default, the Noteholder may at its option, by written notice to the Borrower (a) declare the entire principal amount of this Note, together with all accrued interest thereon and all other amounts payable hereunder, immediately due and payable; and/or (b) exercise any or all of its rights, powers or remedies under the Security Agreement or applicable Law; *provided, however* that, if an Event of Default described in Section 9 shall occur, the principal of and accrued interest on the Loan shall become immediately due and payable without any notice, declaration or other act on the part of the Noteholder.

11. Miscellaneous.

11.1 Notices.

(a) All notices, requests or other communications required or permitted to be delivered hereunder shall be delivered in writing, in each case to the address specified below or to such other address as such Party may from time to time specify in writing in compliance with this provision:

(i) If to the Borrower:

Mercury BBQ LLC
12701 Whitewater Drive, Suite 290

Minnetonka, MN 55343
Attn: Manager

(ii) If to the Noteholder:

BBQ Oklahoma, Inc.
12701 Whitewater Drive, Suite 290
Minnetonka, MN 55343
Attn: CEO

(b) Notices if (i) mailed by certified or registered mail or sent by hand or overnight courier service shall be deemed to have been given when received; (ii) sent by facsimile during the recipient's normal business hours shall be deemed to have been given when sent (and if sent after normal business hours shall be deemed to have been given at the opening of the recipient's business on the next business day); and (iii) sent by e-mail shall be deemed received upon the sender's receipt of an acknowledgment from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgment).

11.2 Expenses. The Borrower shall reimburse the Noteholder on demand for all reasonable out-of-pocket costs, expenses and fees (including reasonable expenses and fees of its external counsel) incurred by the Noteholder in connection with the transactions contemplated hereby including the negotiation, documentation and execution of this Note and the Security Agreement and the enforcement of the Noteholder's rights hereunder and thereunder.

11.3 Governing Law. This Note, the Security Agreement and any claim, controversy, dispute or cause of action (whether in contract or tort or otherwise) based upon, arising out of or relating to this Note, the Security Agreement and the transactions contemplated hereby and thereby shall be governed by the laws of the State of Minnesota.

11.4 Submission to Jurisdiction.

(e) The Borrower hereby irrevocably and unconditionally (i) agrees that any legal action, suit or proceeding arising out of or relating to this Note or the Security Agreement may be brought in the courts of the State of or of the United States of America for the District of Minnesota and (ii) submits to the exclusive jurisdiction of any such court in any such action, suit or proceeding. Final judgment against one or more of the Borrowers in any action, suit or proceeding shall be conclusive and may be enforced in any other jurisdiction by suit on the judgment.

(f) Nothing in this Section 11.4 shall affect the right of the Noteholder to (i) commence legal proceedings or otherwise sue the Borrower in any other court having jurisdiction over the Borrower or (ii) serve process upon the Borrower in any manner authorized by the laws of any such jurisdiction.

11.5 Venue. The Borrower irrevocably and unconditionally waives, to the fullest extent permitted by applicable Law, any objection that it may now or hereafter have to the laying of venue of any action or proceeding arising out of or relating to this Note or the Security Agreement in any court referred to in Section 11.4 and the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

11.6 Waiver of Jury Trial. THE BORROWER HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY RELATING TO THIS NOTE, THE SECURITY AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY.

11.7 Counterparts; Integration; Effectiveness. This Note, the Security Agreement and any amendments, waivers, consents or supplements hereto and thereto may be executed in counterparts, each of which shall constitute an original, but all taken together shall constitute a single contract. This Note and the Security Agreement constitute the entire contract between the Parties with respect to the subject matter hereof and supersede all previous agreements and understandings, oral or written, with respect thereto. Delivery of an executed counterpart of a signature page to this Note or the Security Agreement by facsimile or in electronic (i.e., "pdf" or "tif") format shall be effective as delivery of a manually executed counterpart of this Note or the Security Agreement, as applicable.

11.8 Successors and Assigns. This Note may be assigned or transferred by the Noteholder to any Person. The Borrower may not assign or transfer this Note or any of its rights hereunder without the prior written consent of the Noteholder. This Note shall inure to the benefit of, and be binding upon, the Parties and their permitted assigns.

11.9 Waiver of Notice. The Borrower hereby waives demand for payment, presentment for payment, protest, notice of payment, notice of dishonor, notice of nonpayment, notice of acceleration of maturity and diligence in taking any action to collect sums owing hereunder.

11.10 USA PATRIOT Act. The Noteholder hereby notifies the Borrower that pursuant to the requirements of the USA PATRIOT Act, it is required to obtain, verify, and record information that identifies the Borrower, which information includes the name of the Borrower and other information that will allow the Noteholder to identify the Borrower in accordance with the US PATRIOT Act, and the Borrower agrees to provide such information from time to time to the Noteholder.

11.11 Interpretation. For purposes of this Note (a) the words "include," "includes" and "including" shall be deemed to be followed by the words "without limitation"; (b) the word "or" is not exclusive; and (c) the words "herein," "hereof," "hereby," "hereto" and "hereunder" refer to this Note as a whole. The definitions given for any defined terms in this Note shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. Unless the context otherwise requires, references herein: (x) to Sections

mean the Sections of this Note; (y) to an agreement, instrument or other document means such agreement, instrument or other document as amended, supplemented and modified from time to time to the extent permitted by the provisions thereof; and (z) to a statute means such statute as amended from time to time and includes any successor legislation thereto and any regulations promulgated thereunder. This Note shall be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting an instrument or causing any instrument to be drafted.

11.12 Amendments and Waivers. No term of this Note may be waived, modified or amended except by an instrument in writing signed by both of the parties hereto. Any waiver of the terms hereof shall be effective only in the specific instance and for the specific purpose given.

11.13 Headings. The headings of the various Sections and subsections herein are for reference only and shall not define, modify, expand or limit any of the terms or provisions hereof.

11.14 No Waiver; Cumulative Remedies. No failure to exercise and no delay in exercising on the part of the Noteholder, of any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by Law.

11.15 Electronic Execution. The words "execution," "signed," "signature," and words of similar import in the Note shall be deemed to include electronic or digital signatures or the keeping of records in electronic font", each of which shall be of the same effect, validity and enforceability as manually executed signatures or a paper-based recordkeeping system, as the case may be, to the extent and as provided for under applicable law, including the Electronic Signatures in Global and National Commerce Act of 2000 (15 USC § 7001 et seq.), the Electronic Signatures and Records Act of 1999 (N.Y. State Tech. Law §§ 301-309), or any other similar state laws based on the Uniform Electronic Transactions Act.

11.16 Severability. If any term or provision of this Note or the Security Agreement is invalid, illegal or unenforceable in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other term or provision of this Note or the Security Agreement or invalidate or render unenforceable such term or provision in any other jurisdiction. Upon such determination that any term or other provision is invalid, illegal or unenforceable, the parties hereto shall negotiate in good faith to modify this Note so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the greatest extent possible.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Borrower has executed this Note as of October , 2019.

MERCURY BBQ LLC

By /s/ Jeff Crivello

Name: Jeff Crivello

Title: Chief Executive Officer

By its acceptance of this Note, the Noteholder acknowledges and agrees to be bound by the provisions of Sections 2.1 and 2.2.BBQ Oklahoma Inc.

By: /s/ Travis Clark

Name: Travis Clark

Title: Owner

Exhibit 31.1

CERTIFICATIONS

I, Jeffery Crivello, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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: November 12, 2019

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

Exhibit 31.2

CERTIFICATIONS

I, Paul M. Malazita, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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: November 12, 2019

By: /s/ Paul M. Malazita
Paul M. Malazita
Chief Financial Officer and Secretary

Exhibit 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of BBQ Holdings, Inc. does hereby certify that:

- a) The Quarterly Report on Form 10-Q of BBQ Holdings, Inc. for the quarter ended September 29, 2019 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

- b) Information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of BBQ Holdings, Inc.

Dated: November 12, 2019

By: /s/ Jeffery Crivello
Jeffery Crivello
Chief Executive Officer and Director
(Principal Executive Officer)

Dated: November 12, 2019

By: /s/ Paul M. Malazita
Paul M. Malazita
Chief Financial Officer and Secretary
(Principal Financial Officer and Principal Accounting Officer)
