

**Granite City Food & Brewery Ltd.**  
**(OTC Pink: GCFB)**  
**A Minnesota Corporation**



***Cadillac Ranch***  
THE GREAT ALL-AMERICAN BAR & GRILL

**Quarterly Report for Period Ended**  
**September 26, 2017**

Prepared in accordance with OTC Pink Basic Disclosure Guidelines  
Current Information Tier

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**Item 1: Name of the Issuer and its Predecessors (if any)**

Granite City Food & Brewery Ltd.

**Item 2: Address of the Issuer's Principal Executive Offices**

Company headquarters: 3600 American Boulevard West, Suite 400  
Minneapolis, MN 55431  
Tel: (952) 215-0660  
Email: [corporate@gcfb.net](mailto:corporate@gcfb.net)  
Website: [www.gcfb.net](http://www.gcfb.net)

IR contact: N/A

**Item 3: Security Information**

Trading symbol: GCFB  
Exact title and class of securities outstanding: Common Stock  
CUSIP: 38724Q404  
Par or stated value: \$0.01 (par value)  
Total shares authorized: 90,000,000  
Total shares outstanding as of 9/26/17: 14,360,981

Additional class of securities (if necessary):  
Trading symbol: N/A  
Exact title and class of securities outstanding: N/A  
CUSIP: N/A  
Par or stated value: \$0.01 (par value)  
Total shares authorized: 6,998,000 (Preferred Stock)  
3,000,000 (Series A Convertible Preferred Stock)  
2,000 (Redeemable Preferred Stock)  
Total shares outstanding as of 9/26/17: 0

Transfer Agent: Wells Fargo Bank Minnesota, N.A.  
1110 Centre Pointe Curve, Suite 101  
Mendota Heights, MN 55120  
(800) 689-8788

Is the Transfer Agent registered under the Exchange Act?<sup>1</sup>

Yes

List any restrictions on the transfer of security:

No securities of this Issuer are subject to any additional restrictions unless otherwise noted by way of restrictive legend. Neither the Issuer nor any recognized regulatory body has imposed additional restrictions on the transfer of securities aside from required registration and/or exemption for resale of securities which bear a restrictive legend.

Describe any trading suspension orders issued by the SEC in the past 12 months:

None

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<sup>1</sup> To be included in the OTC Pink Current Information tier, the transfer agent must be registered under the Exchange Act.

List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off or reorganization either currently anticipated or that occurred within the past 12 months:

N/A

**Item 4: Issuance History**

N/A

**Item 5: Financial Statements**

The following unaudited condensed consolidated financial statements for the quarters ended September 26, 2017 and September 27, 2016 are attached hereto as Exhibit A:

- A. Condensed Consolidated Balance Sheets
- B. Condensed Consolidated Statements of Operations
- C. Condensed Consolidated Statements of Cash Flows
- D. Notes to Condensed Consolidated Financial Statements

**Item 6: Description of the Issuer's Business, Products and Services**

A. Description of the Issuer's business operations:

We operate two casual dining concepts: Granite City Food & Brewery® and Cadillac Ranch All American Bar & Grill®. The Granite City restaurant theme is upscale casual dining with a wide variety of menu items that are prepared fresh daily, including Granite City's award-winning signature line of hand-crafted beers finished on-site. The extensive menu features contemporary American fare made in our scratch kitchens. Granite City's attractive price point, high service standards, and great food and beer combine for a memorable dining experience. Cadillac Ranch restaurants feature freshly prepared, authentic, All-American cuisine in a fun, dynamic environment. Patrons enjoy a warm, Rock N' Roll inspired atmosphere, with plenty of room for friends, music and dancing. The Cadillac Ranch menu is diverse with offerings ranging from homemade meatloaf to pasta dishes, all freshly prepared using quality ingredients.

In addition to operating our restaurants, we operate a centralized beer production facility in Ellsworth, Iowa which facilitates the initial stages of our brewing process. The product produced at our beer production facility is then transported to the fermentation vessels at each of our Granite City restaurants where the brewing process is completed. We believe that this brewing process improves the economics of microbrewing as it eliminates the initial stages of brewing and storage at multiple locations. We have been granted patents by the United States Patent and Trademark Office for our brewing process and for an apparatus for distributed production of beer.

As of December 27, 2016, our company failed to meet certain financial covenants under our credit facility agreement with Citizens Bank, N.A. (f/k/a RBS Citizens, N.A.) ("Citizens Bank"), and on January 31, 2017, we failed to make our then required \$5.0 million principal payment. We are, therefore, in default under the terms of the agreement. Such default also constitutes an event of default under our subordinated debt agreement. Therefore, we have classified all debt as current. On April 28, 2017, we entered into a forbearance agreement with Citizens Bank pursuant to which Citizens Bank agreed for a specified period of time to forbear from exercising its rights and remedies under the credit agreement, the other loan documents and applicable law. During the forbearance period, which continued through October 2, 2017, we agreed (a) to provide Citizens Bank with certain budget deliverables, (b) to take specified steps to enable payoff of the development line of credit, including raising \$7.0 million of new capital, and (c) to comply with certain financial covenants. Scheduled principal and interest were required to be paid on the term and credit line loan during the forbearance period. Interest as of April 28, 2017 accrued on the

development line of credit and was to be paid along with the principal at the end of the forbearance period. On June 5, 2017, in accordance with the terms and conditions of the forbearance agreement with Citizens Bank, we engaged Lincoln Partners Advisors LLC to act as our exclusive financial advisor in connection with our pursuit of new equity and/or debt financing. During the forbearance period, we were unable to successfully consummate a financing transaction and did not pay off the principal or interest associated with the development line of credit. As of the filing of this report, the initial forbearance agreement has expired and, although our negotiations with Citizens Bank continue, given our failure to satisfy the requirements of Citizens Bank during the forbearance period, Citizens Bank may exercise its rights under the credit agreement without notice.

Our company's ability to continue funding our operations and meet our debt service obligations continues to depend upon our operating performance and operating margins, both of which will be affected by prevailing economic conditions in the retail and casual dining industries and other factors, which may be beyond our control. Increased competition and uncertainty in the casual dining industry continue to make it more difficult to accurately forecast our results of operations and cash position, so our revenues may deteriorate beyond what we anticipate. Along with many others in the industry, we experienced decreases in comparable restaurant sales in 2016 and these decreases have continued in 2017. Seeking to offset the negative impact of these sales trends, we have been implementing several initiatives that are expected to increase sales and reduce costs. Such initiatives include new marketing designed to increase brand awareness which are intended to generate additional guest traffic, menu pricing adjustments, reduction of food costs, management par level reductions at selected restaurants, changes to the senior management team and a reduction in corporate overhead expenses. We have also engaged a firm to work with our landlords in an attempt to restructure leases through a variety of means in order to reduce total occupancy costs. Additionally, we closed one of our lower performing restaurants in March 2017, closed four of our lower performing restaurants in October 2017, and may close additional unprofitable locations. Our management believes positive results from these initiatives will be realized in the future, but can give no assurance that such initiatives will offset the negative impact of these sales trends. Furthermore, our company will require additional liquidity including, but not limited to, additional equity and/or debt financing, in order to meet our current liabilities, including the repayment of our credit facility and our subordinated debt. To date, efforts to raise additional capital have been unsuccessful. We can give no assurance that we will successfully execute a financing transaction or any other transaction, and our ability to do so could be adversely affected by numerous factors, including changes in the economic or business environment, financial market volatility, and the performance of our business, and the terms and conditions of our credit agreement with Citizens Bank.

B. Date and state (or jurisdiction) of incorporation:

Granite City Food & Brewery Ltd. was incorporated June 26, 1997, as a Minnesota corporation.

C. Issuer's Primary SIC Code: 5812  
Issuer's Secondary SIC Code: N/A

D. Issuer's fiscal year end date: December 26, 2017

E. Principal products or services, and their markets:

As of September 26, 2017, we operated 35 Granite City restaurants in 14 states and five Cadillac Ranch restaurants in five states. As noted above, we closed four of our lower performing restaurants (three Granite City restaurants and one Cadillac Ranch restaurant) in October 2017. Our concepts target a broad guest base by offering high quality, made-from-scratch, polished casual food, and fresh, handcrafted, quality beers.

Our prototypical Granite City restaurant consists of an approximately 9,800 square foot facility conveniently located just off one or more interstate highways and/or centrally located within the respective

area's retail, lodging and transportation activity. Granite City restaurants have open atmospheres as well as floor-to-ceiling window systems creating, where designs permit, expansive views of outdoor patio areas used for dining during warm weather months. This window treatment allows activity to be viewed both inside and outside the restaurant and creates a bright, open environment. We use granite and other rock materials along with natural woods and glass to create a balanced, clean, natural interior feel. We believe our design creates a fun and energetic atmosphere that promotes a destination dining experience.

The average size of our Cadillac Ranch restaurants is approximately 10,000 square feet. The atmospheres are warm, Rock N' Roll-inspired with plenty of room for friends, music and dancing in a fun, dynamic environment. Classic Rock, Modern Rock and more play through our state of the art sound system, with multiple large-screen televisions throughout. The spacious floor plan allows for catered events such as wedding receptions, corporate events, or any other private party. The Indianapolis location, while similar in appearance to our other Cadillac Ranch locations, is a 20,000 square foot unit that has a much higher percentage of alcohol sales than our other Cadillac Ranch locations.

The following is a listing of the location of each of our restaurants in operation as of September 26, 2017:

Granite City Food & Brewery				Cadillac Ranch
St. Cloud, MN	Eagan, MN	Rockford, IL	Franklin, TN	Bloomington, MN
Sioux Falls, SD	Kansas City, MO	East Peoria, IL	Indianapolis, IN	Miami, FL
Fargo, ND	Kansas City, KS	Orland Park, IL	Lyndhurst, OH	Oxon Hill, MD
Des Moines, IA	Olathe, KS	St. Louis, MO	Naperville, IL	Indianapolis, IN*
Cedar Rapids, IA	West Wichita, KS*	Ft. Wayne, IN	Schaumburg, IL	Pittsburgh, PA
Davenport, IA	Omaha, NE	Toledo, OH	Northville, MI	
Lincoln, NE	Roseville, MN	South Bend, IN	National Harbor, MD	
Maple Grove, MN	Madison, WI*	Carmel, IN	Detroit, MI	
East Wichita, KS*		Troy, MI	Northbrook, IL	

\*Represent a location that closed during October 2017.

#### Item 7: Description of the Issuer's Facilities

Our property and equipment consists of the following:

	September 26, 2017	December 27, 2016
Land	\$ 18,000	\$ 18,000
Buildings	32,325,415	35,205,544
Leasehold improvements	17,644,223	18,720,270
Equipment and furniture	58,395,401	59,029,397
	108,383,039	112,973,211
Less accumulated depreciation	(66,116,515)	(63,721,160)
	42,266,524	49,252,051
Construction-in-progress	110,334	310,188
	\$ 42,376,858	\$ 49,562,239

Property owned:

We own our beer production facility located in Ellsworth, Iowa.

Property capital leases:

As of September 26, 2017, we operated 14 Granite City restaurants under capital lease agreements with expiration dates ranging from 2020 through 2033, all with renewable options for additional periods. Under certain of the leases, we may be required to pay additional contingent rent based upon restaurant sales. At the inception and the amendment date of each of these leases, we evaluated the fair value of the land and building separately pursuant to the FASB guidance on accounting for leases. The land portion of these leases is classified as an operating lease as the fair value of the land is 25% or more of the total fair value of the lease. The building portion of these leases is classified as a capital lease because its present value was greater than 90% of the estimated fair value at the beginning or amendment date of the lease and/or the lease term represents 75% or more of the expected life of the property.

Property operating leases:

The land portions of the 14 property leases referenced above are classified as operating leases because the fair value of the land was 25% or more of the leased property at the inception of each lease. All scheduled rent increases for the land during the initial term of each lease are recognized on a straight-line basis. We have additional obligations under operating leases for 21 Granite City restaurants and five Cadillac Ranch restaurants. The expiration of the initial terms of the ground leases upon which we operate these restaurants range from 2019 through 2036. All but one of these leases include options for additional terms. Under certain of the leases, we may be required to pay additional contingent rent based upon restaurant sales.

We lease approximately 11,000 square feet of office space for our corporate offices in Minneapolis, Minnesota. Annual rent is \$157,368 with scheduled increases throughout the initial term which expires in March 2022.

**Item 8: Officers, Directors, and Control Persons**

A. Names of Officers, Directors and Control Persons

Executive Officers:	Richard H. Lynch, Chief Executive Officer Jeffrey L. Rager, Chief Financial Officer	
Directors:	Fouad Z. Bashour, Chairman Robert J. Doran H. G. Carrington, Jr.	Richard H. Lynch Eugene E. McGowan Michael H. Staenberg
Control Persons:	Concept Development Partners LLC Eugene E. McGowan DHW Leasing, L.L.C.	

B. Legal/Disciplinary History:

None of the Issuer's officers, directors, or control persons has, in the past five years, been the subject of any of the following:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);
2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;
3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator

of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred suspended or otherwise limited such person's involvement in any type of business or securities activities.

C. Beneficial Shareholders:

Concept Development Partners LLC<sup>2</sup>  
3879 Maple Avenue, Suite 400  
Dallas, TX 75201-6995  
78.5% common stock

Eugene E. McGowan<sup>3</sup>  
101 North Main Avenue, Suite 325  
Sioux Falls, SD 57104  
14.5% common stock

DHW Leasing, L.L.C.<sup>4</sup>  
101 North Main Avenue, Suite 325  
Sioux Falls, SD 57104  
11.6% common stock

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<sup>2</sup> As set forth in the Schedule 13D filed on July 9, 2012 by Concept Development Partners LLC, a Delaware limited liability company ("CDP"), CIC Partners Firm LP, a Delaware limited partnership ("CIC Partners"), CIC II LP, a Delaware limited partnership ("CIC Fund II"), CIC II GP LLC, a Delaware limited liability company ("CIC II GP"), CDP-ME Holdings, LLC, a Delaware limited liability company ("CDP-ME"), and CDP Management Partners, LLC, a Delaware limited liability company ("CDP Management") (collectively, the "Reporting Persons"). CDP is a limited liability company organized under the laws of the State of Delaware and is primarily in the business of investing in the restaurant industry. CDP's board of directors consists of Fouad Z. Bashour, Michael S. Rawlings, Dean S. Oakey and Robert J. Doran. CDP is minority owned by CDP-ME and CDP Management. Both CDP-ME and CDP Management are investment companies jointly owned and managed by Messrs. Oakey and Doran. The present principal occupation of Mr. Oakey is Managing Member of CDP Management Partners, LLC and CDP ME Holdings, LLC, and the present principal occupation of Mr. Doran is Director of Granite City. Each of CDP, CDP-ME and CDP Management has a principal place of business at 1275 North Channel Dr., Harsens Island, MI 48028. CDP is majority owned by CIC CDP LLC, a Delaware limited liability company ("CIC CDP LLC"), which is itself a wholly-owned subsidiary of CIC Fund II. CIC Fund II is an investment fund managed by its general partner, CIC II GP, and ultimately owned and controlled by CIC Partners, a mid-market private equity firm headquartered in Dallas, Texas. The principal business of CIC CDP LLC is the investment in Granite City. The principal business of CIC Fund II is to be an investment fund in CIC Partners, and the principal business of CIC II GP is to act as the general partner of CIC Fund II. CIC Partners is jointly owned and managed by Marshall Payne, Amir Yoffe, Michael S. Rawlings, Fouad Z. Bashour and James C. Smith. The present principal occupation of Messrs. Payne, Yoffe, Rawlings, Bashour and Smith is serving as a director of CIC Partners, and together with CIC Partners, CIC Fund II and CIC II GP, each have a principal place of business at 3879 Maple Avenue, Suite 400, Dallas, Texas 75219. Messrs. Payne, Yoffe, Rawlings, Bashour, Smith, Oakey and Doran, as well as CIC Partners, CIC Fund II, CIC II GP, CDP-ME and CDP Management disclaim beneficial ownership of such securities. Represents beneficial ownership of 11,273,539 shares of common stock, including 9,606,873 shares of common stock and 1,666,666 shares of common stock over which CDP has voting power pursuant to a shareholder and voting agreement and irrevocable proxy between CDP and DHW Leasing, L.L.C. ("DHW"), dated May 10, 2011, as amended. The Reporting Persons have shared voting power over all of the reported shares and shared dispositive power over 9,606,873 shares of common stock.

<sup>3</sup> Includes 17,310 shares of common stock purchasable by Mr. McGowan upon the exercise of options and 91,603 shares held directly by Mr. McGowan. Because Mr. McGowan may be deemed to be an indirect beneficial owner of the securities held by Harmony Equity Income Fund, L.L.C. (133,558 shares), Harmony Equity Income Fund II, L.L.C. (133,558 shares), Harmony VII, L.L.C. (45,944 shares), and DHW (1,666,666 shares), the number of shares of common stock reported herein as beneficially owned by Mr. McGowan, including shares of common stock owned by the aforementioned entities, totals 2,088,639.

<sup>4</sup> DHW retains the right to dispose of such shares of common stock; however, it has granted an irrevocable proxy to vote such shares of common stock to CDP.



**Item 9: Third Party Providers**

Legal Counsel: Brett D. Anderson  
Briggs and Morgan, P.A.  
2200 IDS Center  
80 South 8<sup>th</sup> Street  
Minneapolis, MN 55402  
(612) 977-8417  
[banderson@briggs.com](mailto:banderson@briggs.com)

Accountant or Auditor: Charles Selcer  
Schechter, Dokken, Kanter, Andrews & Selcer, Ltd.  
100 Washington Avenue South, Suite 1600  
Minneapolis, MN 55401  
(612) 332-9319  
[cselcer@sdkcpa.com](mailto:cselcer@sdkcpa.com)

Investor Relations Consultant: None

Other Advisor: None

**Item 10: Issuer Certifications**

I, Richard H. Lynch, certify that:

1. I have reviewed this quarterly disclosure statement of Granite City Food & Brewery Ltd.;
2. Based on my knowledge, this disclosure statement 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 disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Dated: November 9, 2017

By: /s/ Richard H. Lynch  
Richard H. Lynch  
Chief Executive Officer

I, Jeffrey L. Rager, certify that:

1. I have reviewed this quarterly disclosure statement of Granite City Food & Brewery Ltd.;
2. Based on my knowledge, this disclosure statement 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 disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Dated: November 9, 2017

By: /s/ Jeffrey L. Rager  
Jeffrey L. Rager  
Chief Financial Officer

EXHIBIT A

**Granite City Food & Brewery Ltd.**  
**(OTC Pink: GCFB)**  
**A Minnesota Corporation**



**Cadillac Ranch**  
THE GREAT ALL-AMERICAN BAR & GRILL

**Condensed Consolidated Financial Statements**  
**for the Quarters Ended September 26, 2017 and September 27,**  
**2016**

Prepared in accordance with OTC Pink Basic Disclosure Guidelines  
Current Information Tier

**GRANITE CITY FOOD & BREWERY LTD.  
CONDENSED CONSOLIDATED BALANCE SHEETS**

	September 26, 2017	December 27, 2016
<b>ASSETS:</b>		
Current assets:		
Cash and cash equivalents	\$ 3,456,751	\$ 4,414,045
Inventory	1,813,081	1,949,712
Prepays and other, current portion	1,654,481	3,661,028
Total current assets	6,924,313	10,024,785
Prepaid rent, net of current portion	245,931	260,649
Property and equipment, net	42,376,858	49,562,239
Intangible and other assets, net	2,439,069	2,602,477
Deferred loss on sale leaseback	11,008,182	12,203,519
Total assets	\$ 62,994,353	\$ 74,653,669
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT:</b>		
Current liabilities:		
Accounts payable	\$ 2,052,590	\$ 3,174,969
Accrued expenses	9,247,839	11,931,068
Deferred rent, current portion	937,455	417,611
Line of credit, current portion	10,273,000	9,273,000
Long-term debt, current portion	28,214,454	29,283,037
Capital lease obligations, current portion	1,214,059	1,243,107
Total current liabilities	51,939,397	55,322,792
Deferred rent, net of current portion	5,668,558	5,683,590
Other liabilities - interest rate swap	63,800	180,107
Capital lease obligations, net of current portion	19,550,289	22,614,243
Total liabilities	77,222,044	83,800,732
Shareholders' deficit:		
Common stock, \$0.01 par value, 90,000,000 shares authorized; 14,360,981 shares issued and outstanding at 9/26/17 and 12/27/16	143,610	143,610
Additional paid-in capital	82,557,899	82,209,927
Accumulated deficit	(96,929,200)	(91,500,600)
Total shareholders' deficit	(14,227,691)	(9,147,063)
Total liabilities and shareholders' deficit	\$ 62,994,353	\$ 74,653,669

The accompanying notes are an integral part of the condensed consolidated financial statements.

**GRANITE CITY FOOD & BREWERY LTD.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 26, 2017	September 27, 2016	September 26, 2017	September 27, 2016
Restaurant revenue	\$ 33,059,594	\$ 35,908,344	\$ 107,372,495	\$ 114,170,594
Cost of sales:				
Food, beverage and retail	8,861,876	9,558,414	28,284,121	30,062,832
Labor	11,566,024	12,506,126	36,404,663	39,039,629
Direct restaurant operating	5,992,479	6,092,713	18,098,615	18,020,433
Occupancy	3,928,705	3,789,293	12,021,948	11,386,950
Cost of sales and occupancy	30,349,084	31,946,546	94,809,347	98,509,844
General and administrative	2,948,847	3,145,957	8,518,306	8,371,366
Depreciation and amortization	1,935,004	1,772,334	6,038,607	5,444,177
Pre-opening	-	234,819	23,288	701,868
Acquisition costs	-	-	-	1,419
Loss on disposal of assets	13,703	19,557	147,483	(563,841)
Exit or disposal activities	708	-	44,564	-
Total costs and expenses	35,247,346	37,119,213	109,581,595	112,464,833
Operating (loss) income	(2,187,752)	(1,210,869)	(2,209,100)	1,705,761
Interest:				
Income	-	1,717	23	3,627
Expense on capital leases	(512,207)	(542,352)	(1,579,305)	(1,663,210)
Other interest expense	(370,152)	(330,869)	(1,590,776)	(1,436,349)
Net interest expense	(882,359)	(871,504)	(3,170,058)	(3,095,932)
Loss before income tax	(3,070,111)	(2,082,373)	(5,379,158)	(1,390,171)
Income tax expense	632	16,129	49,442	60,614
Net loss	\$ (3,070,743)	\$ (2,098,502)	\$ (5,428,600)	\$ (1,450,785)
Loss per common share, basic	\$ (0.21)	\$ (0.15)	\$ (0.38)	\$ (0.10)
Weighted average shares outstanding, basic	14,360,981	14,360,981	14,360,981	14,360,981

The accompanying notes are an integral part of the condensed consolidated financial statements.

**GRANITE CITY FOOD & BREWERY LTD.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Thirty-nine Weeks Ended	
	September 26, 2017	September 27, 2016
Cash flows from operating activities:		
Net loss	\$ (5,428,600)	\$ (1,450,785)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	6,038,607	5,444,177
Amortization of deferred loss	949,569	764,458
Stock option expense	347,971	193,055
Non-cash interest expense	30,751	198,781
Loss on disposal of assets	147,483	(563,841)
Deferred rent	488,485	(27,263)
Changes in operating assets and liabilities:		
Inventory	136,631	308,689
Prepays and other	709,901	777,843
Accounts payable	(425,457)	(181,759)
Accrued expenses	(2,175,727)	(3,777,121)
Net cash provided by operating activities	<u>819,614</u>	<u>1,686,234</u>
Cash flows from investing activities:		
Purchase of:		
Property and equipment	(1,988,907)	(6,860,624)
Proceeds from sale leaseback	1,311,364	-
Intangible and other assets	(21,432)	(5,724)
Net cash used in investing activities	<u>(698,975)</u>	<u>(6,866,348)</u>
Cash flows from financing activities:		
Proceeds from line of credit	1,000,000	4,250,000
Payments on capital lease obligations	(878,619)	(882,670)
Payments on long-term debt	(1,199,314)	(995,711)
Net cash (used in) provided by financing activities	<u>(1,077,933)</u>	<u>2,371,619</u>
Net decrease increase in cash	(957,294)	(2,808,495)
Cash and cash equivalents, beginning	<u>4,414,045</u>	<u>3,659,509</u>
Cash and cash equivalents, ending	<u>\$ 3,456,751</u>	<u>\$ 851,014</u>

Supplemental disclosure of non-cash investing and financing activities:

Capital lease liabilities extinguished upon lease termination/amendments	\$ 2,214,383	\$ 600,147
Deferred gain on lease amendment	\$ 382,468	\$ -
Change in fair value of interest rate swap	\$ (116,307)	\$ 111,120
Property and equipment, intangibles and equity costs included in accounts payable and accrued expenses	\$ 2,992	\$ 109,975
Proceeds from sale leaseback included in prepaids and other	\$ -	\$ 157,777
Deferred loss on sale leaseback	\$ -	\$ 79,955
Line of credit refinanced to long-term debt	\$ -	\$ 6,812,500
Refinancing costs paid with financing	\$ -	\$ 85,500

The accompanying notes are an integral part of the condensed consolidated financial statements.

**GRANITE CITY FOOD & BREWERY LTD.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Summary of significant accounting policies**

**Background**

Granite City Food & Brewery Ltd. (the “Company”) develops and operates two casual dining concepts: Granite City Food & Brewery® and Cadillac Ranch All American Bar & Grill®.

As of September 26, 2017, the Company operated 35 restaurants of its original concept, which is a polished casual American restaurant known as Granite City Food & Brewery. The Granite City restaurant theme is upscale casual dining with a wide variety of menu items that are prepared fresh daily, including Granite City’s award-winning signature line of hand-crafted beers finished on-site. See Note 7 regarding the post-period closures of lower performing Granite City restaurants.

The Company also operates five Cadillac Ranch restaurants featuring freshly prepared, authentic, All-American cuisine in a fun, dynamic environment. Its patrons enjoy a warm, Rock N’ Roll inspired atmosphere, with plenty of room for friends, music and dancing.

The Company operates a centralized beer production facility which facilitates the initial stages of its brewing process. The product created at its beer production facility is then transported to the fermentation vessels at each of the Company’s Granite City restaurants where the brewing process is completed. The Company believes this proprietary brewing process enables the Company to control the quality and consistency of its beers and improves the economics of microbrewing by eliminating the initial stages of brewing and storage at each restaurant, as well as third-party distribution costs. The Company was granted patents by the United States Patent Office for its brewing process and for an apparatus for distributed production of beer.

**Basis of presentation**

As of December 27, 2016, the Company failed to meet certain financial covenants under its credit facility agreement with Citizens Bank, N.A. (f/k/a RBS Citizens, N.A.) (“Citizens Bank”), and on January 31, 2017, it failed to make its then required \$5.0 million principal payment. The Company is, therefore, in default under the terms of the agreement. Such default also constitutes an event of default under the Company’s subordinated debt agreement. Therefore, the Company has classified all debt as current. On April 28, 2017, the Company entered into a forbearance agreement with Citizens Bank pursuant to which Citizens Bank agreed for a specified period of time to forbear from exercising its rights and remedies under the credit agreement, the other loan documents and applicable law. During the forbearance period, which continued through October 2, 2017, the Company agreed (a) to provide Citizens Bank with certain budget deliverables, (b) to take specified steps to enable payoff of the development line of credit, including raising \$7.0 million of new capital, and (c) to comply with certain financial covenants. Scheduled principal and interest were required to be paid on the term and credit line loan during the forbearance period. Interest as of April 28, 2017 accrued on the development line of credit and was to be paid along with the principal at the end of the forbearance period. On June 5, 2017, in accordance with the terms and conditions of the forbearance agreement with Citizens Bank, the Company engaged Lincoln Partners Advisors LLC to act as the Company’s exclusive financial advisor in connection with the Company’s pursuit of new equity and/or debt financing. During the forbearance period, the Company was unable to successfully consummate a financing transaction and did not pay off the principal or interest associated with the development line of credit. As of the filing of this report, the initial forbearance agreement has expired and, although the Company’s negotiations with Citizens Bank continue, given the Company’s failure to satisfy the requirements of Citizens Bank during the forbearance period, Citizens Bank may exercise its rights under the credit agreement without notice.

The Company's ability to continue funding its operations and meet its debt service obligations continues to depend upon its operating performance and operating margins, both of which will be affected by prevailing economic conditions in the retail and casual dining industries and other factors, which may be beyond the Company's control. Increased competition and uncertainty in the casual dining industry continue to make it more difficult to accurately forecast the Company's results of operations and cash position, so the Company's revenues may deteriorate beyond what it anticipates. Along with many others in the industry, the Company experienced decreases in comparable restaurant sales in 2016 and these decreases have continued in 2017. Seeking to offset the negative impact of these sales trends, the Company has been implementing several initiatives that are expected to increase sales and reduce costs. Such initiatives include new marketing designed to increase brand awareness which are intended to generate additional guest traffic, menu pricing adjustments, reduction of food costs, management par level reductions at selected restaurants, changes to the senior management team and a reduction in corporate overhead expenses. The Company has also engaged a firm to work with its landlords in an attempt to restructure leases through a variety of means in order to reduce total occupancy costs. Additionally, the Company closed one of its lower performing restaurants in March 2017, closed four of its lower performing restaurants in October 2017 (see Note 7), and may close additional unprofitable locations. The Company's management believes positive results from these initiatives will be realized in the future, but can give no assurance that such initiatives will offset the negative impact of these sales trends. Furthermore, the Company will require additional liquidity including, but not limited to, additional equity and/or debt financing, in order to meet its current liabilities, including the repayment of its credit facility and its subordinated debt. To date, efforts to raise additional capital have been unsuccessful. The Company can give no assurance that it will successfully execute a financing transaction or any other transaction, and its ability to do so could be adversely affected by numerous factors, including changes in the economic or business environment, financial market volatility, the performance of its business, and the terms and conditions of its credit agreement with Citizens Bank.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are described above. In the opinion of management, the financial statements presented herein include all adjustments, consisting of normal recurring adjustments, which are necessary for a fair statement of the Company's financial position as of September 26, 2017, and its results of operations for the interim periods ended September 26, 2017 and September 27, 2016. The results of operations for the 39 weeks ended September 26, 2017 are not necessarily indicative of the results to be expected for the entire year.

Certain information and footnote disclosures normally included in consolidated financial statements in accordance with U.S. GAAP have been condensed or omitted. A description of the Company's accounting policies and other financial information is included in its audited consolidated financial statements for the year ended December 27, 2016 as filed with OTC Markets (the "Annual Report"). Management believes that the disclosures included in the Company's accompanying interim financial statements and footnotes are adequate to make the information not misleading, but should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report. The accompanying balance sheet at December 27, 2016 has been derived from the Company's audited financial statements at that date.

#### Derivatives

The Company utilizes an interest rate swap agreement with a financial institution to fix interest rates on a portion of its variable rate debt, which reduces exposure to interest rate fluctuations (Note 3). The Company accounts for this derivative using fair value accounting and measurements described in Note 2. The fair value of the interest rate swap is recorded on the condensed consolidated balance sheet in other assets or other liabilities, depending on the fair value of the swap. The change in the fair value of the swap is recorded on the condensed consolidated statements of operations in other interest expense.



The Company has not used derivatives for trading or speculative purposes and has procedures in place to monitor and control the use of such instruments.

**Related parties**

Concept Development Partners LLC (“CDP”) is the Company’s controlling shareholder. As of September 26, 2017, CDP beneficially owned approximately 78.5% of the Company’s common stock.

**Fiscal year**

The Company utilizes a 52/53-week fiscal year ending on the last Tuesday in December for financial reporting purposes. Fiscal years 2017 and 2016 each consist of 52 weeks.

**Subsequent events**

The Company has evaluated subsequent events through November 9, 2017, the date the financial statements were available for issuance.

**2. Fair value measurements**

The guidance of ASC 820, *Fair Value Measurements and Disclosures*, defines fair value 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. Valuation techniques under such accounting guidance related to fair value measurements are based on observable inputs which reflect readily obtainable data from independent sources, and unobservable inputs which reflect internal market assumptions. The Company uses the following three-tier fair value hierarchy, which prioritizes these inputs as follows:

Level 1—Quoted market prices in active markets for identical assets and liabilities.

Level 2—Inputs, other than quoted prices included in Level 1 that are either directly or indirectly observable.

Level 3—Inputs that are unobservable for the assets or liabilities where there is little or no market data. These inputs require significant management judgment or estimation.

As of September 26, 2017 and December 27, 2016, respectively, the fair value of cash and cash equivalents, receivables, accounts payable and accrued expenses approximates their carrying value due to the short-term nature of these financial instruments. The fair value of the capital lease obligations and long-term debt is estimated at its carrying value based upon current rates available to the Company.

The fair value of the Company’s interest rate swap is determined based on information provided by the Company’s bank counterparty that is model-driven and where inputs were observable or where significant value drivers were observable. Such models utilize quoted interest rate curves to calculate the forward values and then discount the forward values to present values. The Company classifies its interest rate swap as a Level 2 measurement as these securities are not actively traded in the market, but are observable based on current market rates (Notes 1 and 3).

The following table presents the fair value of liabilities measured on a recurring basis as of September 26, 2017:

Description	Level 1	Level 2	Level 3	Total Liability
Interest rate swap fair value	\$ -	(\$63,800)	\$ -	(\$63,800)

The following table presents the fair value of liabilities measured on a recurring basis as of December 27, 2016:

Description	Level 1	Level 2	Level 3	Total Liability
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Interest rate swap fair value	\$	-	(\$180,107)	\$	-	(\$180,107)
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There were no transfers between levels of the fair value hierarchy during the first three quarters of fiscal years 2017 and 2016.

### 3. Credit facility and long-term debt

In May 2014, the Company entered into a \$40.0 million credit agreement with Citizens Bank, which was amended in September 2016. The credit advanced under such agreement is secured by liens on the Company's subsidiaries, personal property, fixtures and real estate owned or to be acquired. The credit agreement, as amended, provided for a secured term loan in the amount of \$29.0 million, a revolving line of credit of \$6.0 million, and a development line of credit of \$5.0 million. Subject to the terms and conditions of the credit agreement, Citizens Bank also agreed to issue standby letters of credit in an aggregate undrawn face amount up to \$1.0 million. As of September 26, 2017, the Company had outstanding a total of \$37.8 million under this credit agreement, including the full \$5.0 million of the development line of credit as well as \$5.3 million under the revolving line of credit. Due to the existing event of default (described below), Citizens Bank has no obligation to extend further credit to the Company. The Company is required to make regular interest and, with respect to the term loan only, quarterly amortizing principal payments. In the event that the Total Leverage Ratio of the Company, as defined in the credit agreement, is greater than 3.00 to 1.00, the Company, commencing with the fiscal year ending December 26, 2017, must make an annual excess cash flow payment in an amount equal to the lesser of (x) 50% of the Company's excess cash flow for each fiscal year (as calculated under the credit agreement) or (y) an amount necessary to cause the Total Leverage Ratio to be 3.00 to 1.00, in either case less the amount of voluntary principal payments during such fiscal year. At the time of the amendment, the term and credit line loan required the payment of interest at a fluctuating rate per annum equal to 4.0% plus LIBOR. The Company pays a line of credit commitment fee equal to the difference between the total line of credit commitment and the amount outstanding under the line of credit, plus outstanding letters of credit, equal to 0.25% of the unused line. The term and revolving credit facilities mature on May 15, 2019. The development line of credit matured on January 31, 2017, but the Company did not make the \$5.0 million principal payment required under the development line of credit on January 31, 2017 and is, therefore, in default under the terms of the agreement.

On April 28, 2017, the Company entered into a forbearance agreement with Citizens Bank pursuant to which Citizens Bank agreed for a specified period of time to forbear from exercising its rights and remedies under the credit agreement, the other loan documents and applicable law. During the forbearance period, which continued through October 2, 2017, the Company agreed (a) to provide Citizens Bank with certain budget deliverables, (b) to take specified steps to enable payoff of the development line of credit, including raising \$7.0 million of new capital, and (c) to comply with certain financial covenants. Scheduled principal and interest at a fluctuating rate per annum equal to 7% as of April 28, 2017, were required to be paid on the term and credit line loan during the forbearance period. Interest at a fluctuating rate per annual equal to 9% as of April 28, 2017 accrued on the development line of credit and was to be paid along with the principal at the end of the forbearance period. On June 5, 2017, in accordance with the terms and conditions of the forbearance agreement with Citizens Bank, the Company engaged Lincoln Partners Advisors LLC to act as the Company's exclusive financial advisor in connection with the Company's pursuit of new equity and/or debt financing. During the forbearance period, the Company was unable to successfully consummate a financing transaction and did not pay off the principal or interest associated with the development line of credit. As of the filing of this report, the initial forbearance agreement has expired and, although the Company's negotiations with Citizens bank continue, given the Company's failure to satisfy the requirements of Citizens Bank during the forbearance period, Citizens Bank may exercise its rights under the credit agreement without notice.

In June 2014, the Company entered into a five-year interest rate swap agreement to fix interest rates on a portion of this debt (Notes 1 and 2) pursuant to the terms of the credit agreement with Citizens Bank. Under the swap agreement, the Company pays a fixed rate of 1.79% and receives interest at the one-month LIBOR on a notional

amount of \$18.75 million. This effectively makes the Company's interest rate 5.44% on \$18.75 million of its debt. The Company did not elect to apply hedge accounting for this interest rate swap agreement. As such, the fair value of the interest rate swap is recorded in other assets or other liabilities on the consolidated balance sheet, depending on the fair value of the swap, and any changes in the fair value of the swap agreement will be accounted for as non-cash adjustments to interest expense and recognized in current earnings. The fair value of the swap agreement increased \$116,307 in the first three quarters of 2017 and was recorded as a credit to interest expense in the condensed consolidated statements of operations.

In December 2013, the Company entered into a binding agreement with Great Western Bank whereby the Company agreed that if Great Western Bank acquired GC Omaha LP's interest in the ground lease of the Omaha, Nebraska Granite City restaurant either by foreclosure or voluntary surrender, it would acquire the building and improvements and assume the ground lease from Great Western Bank. In April 2014, Great Western Bank acquired GC Omaha LP's interest in the ground lease and, following receipt of the required landlord consent, on September 30, 2015, the Company purchased the building and improvements and assumed the ground lease from Great Western Bank. To facilitate the transaction, the Company entered into a loan agreement with Great Western Bank in the amount of \$1.08 million with an annual interest at a rate of 5.5%. Such loan matures on September 30, 2020 and requires monthly principal and interest payments. Because the Company is in default under the terms of its agreement with Citizens Bank, the Company is, therefore, in default under the terms of the Great Western Bank agreement. As of September 26, 2017, all the debt of the Company was classified as current.

#### **4. Leases**

The lease agreement under which the Company leased the land and building for its St. Louis Park, Minnesota restaurant expired March 31, 2017. The Company did not renew this lease and ceased operations at this location on March 26, 2017.

In May 2017, the Company entered into an amendment to its lease agreement with the landlord of its Granite City restaurant in Orland Park, Illinois. Pursuant to the lease amendment, the annual base rent was reduced from \$300,000 to \$260,000. Additionally, the amendment includes an early termination option whereby the Company, at its option, may terminate the lease as of January 1, 2021 upon payment of a termination fee of \$43,000. The Company classified the original lease as a capital lease. However, due the change in terms under the amendment, the lease is now classified as an operating lease.

In June 2017, the Company entered into an amendment to its lease agreement with the landlord of its Granite City restaurant in Carmel, Indiana. Pursuant to the lease amendment, the Company obtained a rent credit of \$84,064 in exchange for relinquishing its employee overflow parking rights under the original agreement.

In June 2017, the Company entered into an amendment to its lease agreement with the landlord of its Granite City restaurant in Lyndhurst, Ohio. Pursuant to the lease amendment, the annual base rent was reduced from \$456,840 to \$350,000 with annual increases of \$25,000 each year through July 2024. Additionally, the amendment includes a landlord termination option whereby the landlord may terminate the lease at any time upon written 90-day notice.

In August 2017, the Company entered into an amendment to its lease agreement with the landlord of its Granite City restaurant in Ft. Wayne, Indiana which will become effective January 1, 2018. Pursuant to the lease amendment, the lease will be extended for five years and the annual base rent will be reduced by \$74,230 from the amount in the original lease agreement.

In August 2017, the Company entered into an amendment to its lease agreement with the landlord of its Granite City restaurant in Maumee, Ohio which will become effective February 1, 2018. Pursuant to the lease amendment, the lease will be extended for five years and the annual base rent will be reduced by \$58,692 from the amount in the original lease agreement.

In September 2017, the Company entered into an amendment to its lease agreement with the landlord of its Granite City restaurant in Kansas City, Kansas. Pursuant to the lease amendment, the term was extended for two years and the annual base rent was reduced by \$45,744 for two years beginning September 1, 2017.

## **5. Commitments and contingencies**

### Legal proceedings

On August 22, 2016, Domonik Greene, one of the Company's former employees in Ohio, filed a collective action under the Fair Labor Standards Act ("FLSA") against the Company in the United States District Court for the District of Minnesota. The complaint alleged that the Company required Granite City servers and bartenders who, in states other than Minnesota, receive compensation in part through tip credits, to perform work that was ineligible for tip credit compensation at a tip credit rate in violation of the minimum wage provisions of the FLSA. In late January, plaintiffs' counsel advised that they did not intend to seek collective action certification of the named plaintiff's claims, and the parties agreed to resolve the claims alleged by the named plaintiff and four opt-in plaintiffs for a total payment of \$25,000, inclusive of plaintiffs' attorneys' fees, pending documentation of the settlement and submission of it to the court for approval. On April 20, 2017, the court ordered all claims to be dismissed with prejudice, and judgment was entered the same day.

On September 9, 2016, Chelsea Koenig, one of the Company's former employees in Pittsburgh, filed a collective action under the FLSA and a putative class action under Pennsylvania state law against the Company (and as yet unidentified "John Doe" defendants) in the United States District Court for the Western District of Pennsylvania. The complaint alleged that the Company required all tipped employees of Granite City and Cadillac Ranch in states other than Minnesota, to perform work that was ineligible for tip credit compensation at a tip credit rate, required "off the clock" work, required tipped employees to participate in a tip pool that included "expeditors," failed to provide sufficient notice of the application of the tip credit, and required tipped employees to cover walk-outs and shortages, in violation of the minimum wage provisions of the FLSA. The claim further alleged violation of the Pennsylvania Minimum Wage Act, the Pennsylvania Wage Payment Collection Law, and a Pennsylvania common law claim. Following motion practice regarding the fact that similar claims involving the Granite City brand were pending in Minnesota, the plaintiff agreed to limit her claims to Cadillac Ranch employees. Following her deposition, she further agreed to limit her claims to an alleged failure to provide sufficient notice of the application of the tip credit, her off-the-clock claim and her claim that employees were required to cover walk-outs and shortages. Following briefing by both parties, on May 11, 2017, the federal court granted plaintiff's motion for class certification of a Pennsylvania state law class, as well as plaintiff's motion for conditional certification of a nationwide collective action under the FLSA, relating to the sufficiency of notice provided to employees at Cadillac Ranch restaurants regarding the use of the tip credit. As of November 2, 2017, 57 Cadillac Ranch employees have filed consent to join the litigation and assert claims for unpaid minimum wages under the FLSA. As of that same date, 8 of the 230 Cadillac Ranch employees in Pennsylvania had opted-out of the litigation relating to the Pennsylvania law claims. See Note 7 regarding the post-period entry into a settlement agreement.

In addition to the litigation described above, the Company is occasionally a defendant in litigation arising in the ordinary course of its business, including claims arising from personal injuries, contract claims, wage and hour claims, dram shop claims, employment-related claims, claims related to landlord/tenant disputes and claims from customers or employees alleging injury, illness or other food quality, health or operational concerns. Because the outcome of litigation is inherently uncertain, a loss of one or more of the claims is possible. To date, none of these types of litigation, most of which are typically covered by insurance, has had a material effect on the Company. The Company has insured and continues to insure against many of these types of claims. A judgment on any claim not covered by or in excess of the Company's insurance coverage could adversely affect its financial condition or results of operations.

## Employment agreements

*Chief Executive Officer:* Pursuant to an employment agreement, Richard H. Lynch began as Chief Executive Officer of the Company on May 15, 2017. Mr. Lynch's employment will continue until the third anniversary of such date, at which time, unless notice to the contrary has been provided, the term will renew for successive 12-month periods. If, during the term, the Company terminates Mr. Lynch without cause, or Mr. Lynch terminates his employment for good reason, each as defined in the agreement, Mr. Lynch would be entitled to severance benefits including 12 months of base salary (18 months in connection with a change of control), and a partial performance bonus, if earned, through the date of termination. The agreement provides for an annual base salary, which may be increased by the Company's compensation committee, of \$425,000. In addition, Mr. Lynch is eligible for an annual bonus of up to 60% of base salary based on achieving performance targets determined by the Company's compensation committee, as well as participation in the Company's other employee benefit plans, expense reimbursement, relocation expenses, gross-ups to cover taxes on such relocation expenses, and a \$250,000 retention bonus payable over the second year of employment. Mr. Lynch has also agreed to certain nondisclosure provisions during the term and any time thereafter, and certain non-competition and non-recruitment provisions during the term and for a certain period thereafter. In connection with his employment agreement, the Company granted Mr. Lynch a ten-year nonqualified stock option to purchase 1,000,000 shares of the Company's common stock at \$1.25 per share pursuant to the Company's 2014 Non-Qualified Plan (the "NQ Plan"). The Company will cause such option to remain exercisable for a period of three to 36 months following the date of termination of Mr. Lynch's employment, depending upon his length of service.

*Chief Financial Officer:* Effective March 20, 2017, the Company entered into an employment agreement with Jeffrey L. Rager, who has served as the Company's Chief Financial Officer since July 2014, which provides for Mr. Rager's continued employment in such capacity through September 19, 2019. If, during the term, the Company terminates Mr. Rager without cause, or Mr. Rager terminates his employment for good reason, each as defined in the agreement, Mr. Rager would be entitled to severance benefits including six months of base salary, a partial performance bonus, if earned, through the date of termination, and accelerated vesting on a certain portion of the below-described stock option. The agreement provides for an annual base salary, which may be increased by the Company's compensation committee, of \$280,000. In addition, Mr. Rager is eligible for an annual bonus of up to 50% of base salary based on achieving performance targets determined by the Company's compensation committee, as well as participation in the Company's other employee benefit plans, expense reimbursement, gross ups to cover his taxes on such reimbursements, and payment in lieu of unused vacation time. Mr. Rager has also agreed to certain nondisclosure provisions during the term and any time thereafter, and certain non-competition and non-recruitment provisions during the term and for a certain period thereafter. In connection with his July 2014 employment agreement, the Company granted Mr. Rager a ten-year nonqualified stock option to purchase 225,000 shares of the Company's common stock at \$2.10 per share pursuant to the NQ Plan. Provided that Mr. Rager adheres to the terms and conditions of the employment agreement, including the 30-day notice requirement for voluntary termination set forth therein, the Company will cause such option to remain exercisable for a period of 36 months following the date of termination of Mr. Rager's employment.

*Key Non-Executive Officers:* Effective March 20, 2017, the Company began employing certain key non-executive officer employees pursuant to two-year employment agreements. If, during the term, the Company terminates the employee without cause, or the employee terminates his or her employment for good reason, each as defined in the respective agreement, the employee would be entitled to severance benefits including six to twelve months of base salary. Each agreement provides for an annual base salary, bonus eligibility, participation in the Company's employee benefits plans, and expense reimbursement. Each employee has also agreed to certain nondisclosure provisions during the term and any time thereafter, and certain non-recruitment provisions during the term and for a certain period thereafter.

## Separation agreements

Robert J. Doran, the Company's former Chief Executive Officer, served as Interim Chief Executive Officer of the Company pursuant to an employment agreement from January 20, 2017 through May 15, 2017, at which time Mr. Doran became Senior Advisor to the Company. Mr. Doran remained employed in a Senior Advisor capacity, for which he received a base salary of \$7,500 per week, through July 14, 2017, at which time his employment ceased. Prior to his service as Interim Chief Executive Officer, he had been receiving severance payments equal to one year of his final base salary (\$355,000) paid over a 12-month period and a partial performance bonus (of up to 50% of base salary paid to him during his employment), if earned, through the original date of termination (July 31, 2016). Such severance payments were suspended during Mr. Doran's service as Interim Chief Executive Officer. Because Mr. Doran signed and did not revoke a separation agreement and release effective July 14, 2017, unpaid severance payments resumed. CIC Partners has agreed to nominate Mr. Doran for election to the board of directors of the Company in connection with any election of directors held during any period in which severance payments are being made, and Mr. Doran shall serve as a director for at least a one-year period beginning on the date that severance payments recommence. Through the end of calendar year 2017, Mr. Doran has agreed to be reasonably available for telephone conferences with the Company's Chief Executive Officer for no additional compensation. Mr. Doran also has agreed to certain nondisclosure provisions, and certain non-competition and non-recruitment provisions for 12 months following his employment.

On July 9, 2017, the employment of Jeffery M. Dean, who began serving as the Company's Chief Operating Officer on February 1, 2016, ceased. Consistent with his employment agreement and conditioned upon his execution of a separation agreement and release, which he executed on July 9, 2017, Mr. Dean will receive severance payments including one year of his final base salary (\$222,000) paid over a 12-month period and a partial performance bonus (of up to 50% of base salary paid to him during his employment), if earned, through the date of termination. Mr. Dean also has agreed to certain nondisclosure provisions, certain non-competition provisions for 12 months following his employment, and certain nonrecruitment provisions for 24 months following his employment.

On January 20, 2017, Philip L. Costner, who began serving as the Company's Chief Executive Officer on July 1, 2016, commenced working in a non-officer capacity with duties as assigned by the Company's Chairman of the Board. His employment with the Company ceased February 19, 2017. Consistent with his employment agreement and conditioned upon his execution of a separation agreement and release, which he executed on February 9, 2017, Mr. Costner will receive severance payments including one year of his final base salary (\$355,000) paid over a 12-month period and a partial performance bonus (of up to 50% of base salary paid to him during his employment), if earned, through the date of termination. Mr. Costner also has agreed to certain nondisclosure provisions, certain non-competition provisions for 12 months following his employment, and certain nonrecruitment provisions for 24 months following his employment.

## **6. Stock-based compensation**

The Company measures and recognizes all stock-based compensation under the fair value method using the Black-Scholes option-pricing model. Share-based compensation expense recognized is based on awards ultimately expected to vest, and as such, it is reduced for estimated or actual forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company used the following assumptions within the Black-Scholes option-pricing model for the first three quarters of fiscal years 2017 and 2016:

	Thirty-nine Weeks Ended	
	September 26, 2017	September 26, 2016
Weighted average risk-free interest rate	2.10% - 2.51%	1.20% - 2.01%
Expected life of options	10 years	10 years
Expected stock volatility	89.58%-99.83%	87.27% -89.28%
Expected dividend yield	None	None

As of September 26, 2017, there were options outstanding for the purchase of 508,568 and 344,322 shares under the Company's Amended and Restated Equity Incentive Plan and Long-Term Incentive Plan, respectively. Although vesting schedules vary, option grants under these plans generally vest over a three or four-year period and options are exercisable for no more than ten years from the date of grant. The Amended and Restated Equity Incentive Plan expired in February 2012. As of September 26, 2017, 55,678 shares remained available for issuance of awards under the Long-Term Incentive Plan.

The 2014 Non-Qualified Plan ("NQ Plan") was created to accommodate the continued issuance of annual stock option awards to the Company's non-employee directors and periodic stock option awards to select employees. In March 2017, the NQ Plan was amended to increase the number of shares authorized for issuance from 1,250,000 to 1,750,000. During the first quarter of 2017, the Company granted ten-year nonqualified stock options to purchase an aggregate of 903,000 shares of the Company's common stock at \$1.25 per share to various operations and restaurant support center employees pursuant to the NQ Plan. Such options vest cumulatively to the extent of 50% on the first anniversary of the date of grant and 25% annually thereafter. These options were issued pursuant to the exemption set forth in Securities Act Rule 701 and the securities issuable upon their exercise will be "restricted securities" as defined in Securities Act Rule 144. Such transferability restriction is set forth on the agreements evidencing the options. Also in the first quarter of 2017, options for the purchase of 550,000 shares were forfeited upon the termination of employment of the Company's chief executive officer and reentered the pool of available shares. During the second quarter of 2017, the NQ Plan was amended to increase the number of shares authorized for issuance from 1,750,000 to 2,750,000 to accommodate the issuance of options for the purchase of 1,000,000 shares of common stock at \$1.25 per share to the Company's current chief executive officer. Such options vest cumulatively to the extent of 50% on the first anniversary of the date of grant and 25% annually thereafter. As of September 26, 2017, options for the purchase of 2,189,025 shares were outstanding, and 560,975 shares remained available for issuance of awards, under the NQ Plan.

A summary of the Company's stock options as of September 26, 2017 is presented below:

Fixed Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at December 27, 2016	1,921,127	\$ 2.51	7.0 years	\$ 847
Granted	2,091,000	1.26	9.3 years	
Exercised	-	-		
Forfeited	(970,212)	2.60		
Outstanding at September 26, 2017	3,041,915	\$ 1.62	7.7 years	\$ -
Options exercisable at December 27, 2016	1,079,079	\$ 2.47	5.4 years	\$ 847

Options exercisable at September 26, 2017	922,815	\$	2.21	4.2 years	\$	-
Weighted-average fair value of options granted during 2017	\$	0.91				

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the closing price of the Company's stock on September 26, 2017 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on September 26, 2017. As of September 26, 2017, there was approximately \$1,208,270 of total unrecognized compensation cost related to unvested share-based compensation arrangements, of which \$241,762 is expected to be recognized during the remainder of fiscal year 2017, \$675,513 in fiscal year 2018, \$234,580 in fiscal year 2019, \$54,891, in fiscal year 2020 and \$1,524 in fiscal year 2021.

The following table summarizes information about stock options outstanding at September 26, 2017:

Range of Exercise Prices	Options			Options Exercisable	
	Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
\$1.00 - \$2.00	2,098,987	8.7 years	\$ 1.31	204,487	\$ 1.84
\$2.01 - \$3.00	896,013	5.6 years	\$ 2.25	671,413	\$ 2.21
\$3.01 - \$6.00	46,915	3.1 years	\$ 3.71	46,915	\$ 3.71
Total	<u>3,041,915</u>	7.7 years	\$ 1.62	<u>922,815</u>	\$ 2.21

As of September 26, 2017, a warrant for the purchase of 175,000 shares of common stock at an exercise price of \$1.50 per share was outstanding and exercisable. Such five-year option was issued to an accredited investor in December 2013 in connection with a financing transaction.

## 7. Subsequent events

In October 2017, the Company entered into lease termination agreements with the landlords of its Granite City restaurants in Madison, Wisconsin; East Wichita, Kansas; and West Wichita, Kansas. Pursuant to these agreements, the Company ceased operations at those locations on October 31, 2017. In consideration of these lease terminations, the Company paid certain past due rent and unpaid rent-related obligations, relinquished possession of non-branded furniture, fixtures and equipment, paid or agreed to pay certain termination fees (substantially all of which are payable over the next 30 months), and paid or agreed to make certain payments to its lease restructuring consulting firm. Such payments will be reflected in occupancy costs and general and administrative expenses in the Company's fourth quarter of 2017.

In November 2017, the Company and Ms. Koenig executed a settlement agreement that is intended to resolve all outstanding claims asserted in the litigation on behalf of Ms. Koenig, the class asserting claims under Pennsylvania law, and the opt-in plaintiffs asserting claims under the FLSA. Pursuant to the agreement, the Company has agreed to pay the total amount of \$305,000 in settlement, inclusive of plaintiff's attorneys' fees and associated costs. The settlement remains subject to judicial approval. The Company continues to deny any liability associated with these claims but has agreed to the settlement in order to avoid the cost and expense of further litigation.



**EXHIBIT B**

**INFORMATION AND DISCLOSURE STATEMENT PURSUANT TO RULE 15C2-11**

Sections (a)(5)(i) through (a)(5)(xvi)  
of the  
Securities Exchange Act of 1934, as amended

- i. **The exact name of the issuer and its predecessor (if any):**  
  
Granite City Food & Brewery Ltd.
- ii. **The address of its principal executive offices:**  
  
3600 American Boulevard West, Suite 400  
Minneapolis, MN 55431
- iii. **The state of incorporation (if it is a corporation):**  
  
Minnesota
- iv. **The exact title and class of the securities:**  
  
Common Stock
- v. **The par or stated value of the securities:**  
  
\$0.01 (par value)
- vi. **The number of shares or total amount of the securities outstanding as of the end of the issuer's most recent fiscal year:**  
  
14,360,981
- vii. **The name and address of the transfer agent:**  
  
Wells Fargo Bank Minnesota, N.A.  
1110 Centre Pointe Curve, Suite 101  
Mendota Heights, MN 55120
- viii. **The nature of the issuer's business:**  
  
See Item 6 of Quarterly Report for Period Ended September 26, 2017.
- ix. **The nature of products or services offered:**  
  
See Item 6 of Quarterly Report for Period Ended September 26, 2017.
- x. **The nature and extent of the issuer's facilities:**  
  
See Item 7 of Quarterly Report for Period Ended September 26, 2017.

- x. **The name of the chief executive officer and members of the board of directors:**

See Item 8 of Quarterly Report for Period Ended September 26, 2017.
- xi. **The issuer's most recent balance sheet and profit and loss and retained earnings statements:**

See Item 5 of Quarterly Report for Period Ended September 26, 2017.
- xii. **Similar financial information for such part of the two preceding fiscal years as the issuer or its predecessor has been in existence:**

See Item 5 of Quarterly Report for Period Ended September 26, 2017.
- xiii. **Whether the broker or dealer or any associated person is affiliated, directly or indirectly, with the issuer:**

N/A
- xiv. **Whether the quotation is being published or submitted on behalf of any other broker or dealer, and, if so, the name of such broker or dealer:**

N/A
- xv. **Whether any quotation is being submitted or published directly or indirectly on behalf of the issuer, or any director, officer or any person, directly or indirectly the beneficial owner of more than 10 percent of the outstanding units or shares of any equity security of the issuer, or at the request of any promoter for the issuer, and, if so, the name of such person, and the basis for any exemption under the federal securities laws for any sales of such securities on behalf of such person:**

N/A