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

Annual Report for the Fiscal Year Ended
December 27, 2016

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 Bloomington, MN 55431 Tel: (952) 215-0660 Email: corporate@gcfb.net Website: 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 12/27/16:	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 12/27/16:	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?[1]

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

[1] 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 audited consolidated financial statements for the fiscal years ended December 27, 2016 and December 29, 2015 are attached hereto as Exhibit A:

A. Report of Independent Registered Public Accounting Firm
B. Consolidated Balance Sheets
C. Consolidated Statements of Operations
D. Consolidated Statements of Shareholdersô Deficit
E. Consolidated Statements of Cash Flows
F. Notes to Consolidated Financial Statements

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

A. Description of the Issuerøs 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 Cityøs award-winning signature line of hand-crafted beers finished on-site. The extensive menu features contemporary American fare made in our scratch kitchens. Granite Cityøs 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 NôRoll 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, the Company failed to meet certain financial covenants under the credit facility agreement with Citizens Bank, N.A. (f/k/a RBS Citizens, N.A.) (ñCitizens Bankò), and failed to make its required $5.0 million principal payment due on January 31, 2017. The Company is, therefore, in default under the terms of the agreement. Such default also constitutes an event of default under the Companyøs subordinated debt agreement. Therefore, the Company has classified all debt as current. On March 20, 2017, the Company received correspondence from Citizens Bank indicating that Citizens Bank is reserving its rights to, among other things, accelerate and demand payment of the loan and other obligations without notice. As a result of the existing event of default, Citizens Bank has no obligation to extend further credit to the Company. The Companyøs ability to continue funding its operations and meet its renegotiated 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 Companyôs control. Along with many others in the industry, the Company experienced decreases in comparable restaurant sales in 2016 and these decreases have continued into 2017. To offset the negative impact of these sales trends, the Company has begun implementing several initiatives that are expected to increase sales and reduce costs. Such initiatives include new marketing designed to increase brand awareness and help 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 current leases through a variety of means in order to reduce total occupancy costs. Additionally, the Company will close one of its lower performing restaurants early in the second quarter of 2017. The Companyôs management believes positive results from these initiatives will be realized in the future. However, if current trends persist, 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. The amount of any such required funding would depend upon the outcome of the Companyôs negotiations with its banks as well as the Companyôs ability to generate working capital.

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

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

C. Issuerôs Primary SIC Code: 5812
Issuerôs Secondary SIC Code: N/A

D. Issuerôs fiscal year end date: December 27, 2016

E. Principal products or services, and their markets:

As of December 27, 2016, we operated 36 Granite City restaurants in 14 states and five Cadillac Ranch restaurants in five states. 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 areaôs 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 NôRoll-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 December 27, 2016:

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	St. Louis Park, MN	Toledo, OH	Northville, MI	
Lincoln, NE	Omaha, NE	South Bend, IN	National Harbor, MD	
Maple Grove, MN	Roseville, MN	Carmel, IN	Detroit, MI	
East Wichita, KS	Madison, WI	Troy, MI	Northbrook, IL	

Item 7: Description of the Issuer's Facilities

Our property and equipment consists of the following:

	December 27, 2016	December 29, 2015
Land	$ 18,000	$ 18,000
Buildings *	35,205,544	35,558,158
Leasehold improvements	18,720,270	19,398,427
Equipment and furniture	59,029,397	53,895,187
	112,973,211	108,869,772
Less accumulated depreciation **	(63,721,160)	(56,438,884)
	49,252,051	52,430,888
Construction-in-progress	310,188	3,063,842
	$ 49,562,239	$ 55,494,730

*Includes $27,474,412 and $28,606,788 of buildings under capital lease in fiscal years 2016 and 2015, respectively.
** Total depreciation expense was $8,600,140 and $8,314,356 in fiscal years 2016 and 2015, respectively. In the fourth quarter of 2016, the Company recorded $3,223,941 of depreciation expense, of which $326,802, $384,023, and $395,676 related to first, second and third quarters of 2016, respectively.

Property owned:

We own the land and building from which we operate our beer production facility in Ellsworth, Iowa.

Property capital leases:

As of December 27, 2016, we operated the following 15 Granite City restaurants under capital lease agreements with expiration dates ranging from 2020 through 2030, 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.

Sioux Falls, SD	East Wichita, KS	West Wichita, KS
Des Moines, IA	Eagan, MN	East Peoria, IL
Cedar Rapids, IA	Kansas City, MO	Orland Park, IL
Davenport, IA	Kansas City, KS	Troy, MI
Maple Grove, MN	Olathe, KS	Northville, MI

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 15 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 the following operating leases for 21 Granite City restaurants and five Cadillac Ranch restaurants.

Granite City Food & Brewery			Cadillac Ranch
St. Cloud, MN	Rockford, IL	Indianapolis, IN	Bloomington, MN
Fargo, ND	St. Louis, MO	Lyndhurst, OH	Miami, FL
Lincoln, NE	Ft. Wayne, IN	Naperville, IL	Oxon Hill, MD
St. Louis Park, MN	Toledo, OH	Schaumburg, IL	Indianapolis, IN
Omaha, NE	South Bend, IN	National Harbor, MD	Pittsburgh, PA
Roseville, MN	Carmel, IN	Detroit, MI	
Madison, WI	Franklin, TN	Northbrook, IL	

The expiration of the initial terms of the ground leases upon which we operate these restaurants range from 2017 through 2031. 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.

In April 2016, we entered into a 67-month lease agreement for approximately 11,000 square feet of office space for our corporate offices in Minneapolis, Minnesota. Annual rent starts at $157,368 with scheduled increases throughout the term.

Item 8: Officers, Directors, and Control Persons

A. Names of Officers, Directors and Control Persons

Executive Officers:
Robert J. Doran, Interim Chief Executive Officer[2]
Jeffrey L. Rager, Chief Financial Officer
Jeffery M. Dean, Chief Operating Officer

Directors:
Fouad Z. Bashour, Chairman
Robert J. Doran
H. G. Carrington, Jr.
Eugene E. McGowan
Joel C. Longtin[3]
Richard H. Lynch
Michael S. Rawlings
Michael H. Staenberg

Control Persons:
Concept Development Partners LLC
Eugene E. McGowan
DHW Leasing, L.L.C.

B. Legal/Disciplinary History:

None of the Issuerôs 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] Mr. Doran, the Companyôs former Chief Executive Officer, began serving as Interim Chief Executive Officer of the Company on January 20, 2017.
[3] Mr. Longtin has notified the Company that he intends to resign from the board of directors effective March 31, 2017.

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 personô 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 personô s involvement in any type of business or securities activities.

C. Beneficial Shareholders:

Concept Development Partners LLC[4]
3879 Maple Avenue, Suite 400, Dallas, TX 75219
78.5% common stock

Eugene E. McGowan[5]
101 North Main Avenue, Suite 325, Sioux Falls, SD 57104
14.5% common stock

DHW Leasing, L.L.C.[6]
101 North Main Avenue, Suite 325, Sioux Falls, SD 57104
11.6% common stock

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[4] As set forth in the Schedule 13D filed on July 9, 2012 by Concept Development Partners LLC, a Delaware limited liability company (ñCDPò), CIC Partners Firm LP, a Delaware limited partnership (ñCIC Partnersò), CIC II LP, a Delaware limited partnership (ñCIC Fund IIò), CIC II GP LLC, a Delaware limited liability company (ñCIC II GPò), CDP-ME Holdings, LLC, a Delaware limited liability company (ñCDP-MEò), and CDP Management Partners, LLC, a Delaware limited liability company (ñCDP Managementò) (collectively, the ñReporting Personsò). 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. CDPô 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 Interim Chief Executive Officer 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 (ñCIC CDP LLCò), 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. (ñDHWò), 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.

[5] Includes 9,310 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 2,080,639.

[6] 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 8th Street Minneapolis, MN 55402 (612) 977-8417 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
Investor Relations Consultant:	None
Other Advisor:	None

Item 10: Issuer Certifications

I, Robert J. Doran, certify that:

1. I have reviewed this annual 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: March 27, 2017

by:/s/ Robert J. Doran
Robert J. Doran
Interim Chief Executive Officer

I, Jeffrey L. Rager, certify that:

1. I have reviewed this annual 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: March 27, 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

Consolidated Financial Statements for the Fiscal Years Ended December 27, 2016 and December 25, 2015

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Granite City Food & Brewery Ltd.
Minneapolis, Minnesota

We have audited the accompanying consolidated balance sheets of Granite City Food & Brewery Ltd. (the ñCompanyò) as of December 27, 2016 and December 29, 2015, and the related consolidated statements of operations, shareholdersô deficit, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Companyõs internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Granite City Food & Brewery Ltd. as of December 27, 2016 and December 29, 2015, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, 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. Managementõs plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

/s/ Schechter, Dokken, Kanter, Andrews & Selcer Ltd.

Minneapolis, Minnesota
March 27, 2017

GRANITE CITY FOOD & BREWERY LTD.
CONSOLIDATED BALANCE SHEETS

	December 27, 2016	December 29, 2015
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 4,414,045	$ 3,659,509
Inventory	1,949,712	2,154,227
Prepaids and other	3,661,028	2,006,518
Total current assets	10,024,785	7,820,254
Prepaid rent, net of current portion	260,649	293,607
Property and equipment, net	49,562,239	55,494,730
Intangible and other assets, net	2,602,477	2,710,842
Deferred loss on sale leaseback	12,203,519	9,924,646
Total assets	$ 74,653,669	$ 76,244,079
LIABILITIES AND SHAREHOLDERS' DEFICIT:		
Current liabilities:		
Accounts payable	$ 3,174,969	$ 3,053,478
Accrued expenses	11,931,068	12,531,390
Deferred rent, current portion	417,611	458,511
Line of credit, current portion	9,273,000	-
Long-term debt, current portion	29,283,037	1,334,481
Capital lease obligations, current portion	1,243,107	1,178,346
Total current liabilities	55,322,792	18,556,206
Deferred rent, net of current portion	5,683,590	5,409,331
Other liabilities - interest rate swap	180,107	298,119
Line of credit, net of current portion	-	10,000,000
Long-term debt, net of current portion	-	22,538,377
Capital lease obligations, net of current portion	22,614,243	24,225,051
Total liabilities	83,800,732	81,027,084
Shareholders' deficit:		
Common stock, $0.01 par value, 90,000,000 shares authorized; 14,360,981 shares issued and outstanding at 12/27/16 and 12/29/15	143,610	143,610
Additional paid-in capital	82,209,927	81,854,149
Accumulated deficit	(91,500,600)	(86,780,764)
Total shareholders' deficit	(9,147,063)	(4,783,005)
Total liabilities and shareholders' deficit	$ 74,653,669	$ 76,244,079

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

GRANITE CITY FOOD & BREWERY LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Year Ended	
	December 27, 2016	December 29, 2015
Restaurant revenue	$ 150,301,535	$ 150,640,949
Cost of sales:		
Food, beverage and retail	39,691,010	39,987,064
Labor	51,143,723	50,001,886
Direct restaurant operating	24,075,164	23,023,503
Occupancy	15,138,637	13,611,623
Cost of sales and occupancy	130,048,534	126,624,076
General and administrative	10,420,009	9,128,106
Depreciation and amortization	8,697,917	8,517,823
Pre-opening	1,718,648	2,204,350
Acquisition costs	1,419	127,997
Loss (gain) on disposal/impairment of assets	305,852	(40,202)
Exit or disposal activities	-	33,636
Total costs and expenses	151,192,379	146,595,786
Operating (loss) income	(890,844)	4,045,163
Interest:		
Income	8,862	35
Expense on capital leases	(2,074,656)	(2,420,196)
Other interest expense	(1,706,346)	(1,803,199)
Net interest expense	(3,772,140)	(4,223,360)
Loss before income tax	(4,662,984)	(178,197)
Income tax expense	56,852	84,418
Net loss	$ (4,719,836)	$ (262,615)
Loss per common share, basic	$ (0.33)	$ (0.02)
Weighted average shares outstanding, basic	14,360,981	14,360,981

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

GRANITE CITY FOOD & BREWERY LTD.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIT

	Shares		Amount		Additional Paid-in Capital		Accumulated Deficit		Shareholdersô Deficit
Balance at December 30, 2014	14,360,981	$	143,610	$	81,577,802	$	(86,518,149)	$	(4,796,737)
Compensation expense on options					276,347				276,347
Net loss							(262,615)		(262,615)
Balance at December 29, 2015	14,360,981		143,610		81,854,149		(86,780,764)		(4,783,005)
Compensation expense on options					355,778				355,778
Net loss							(4,719,836)		(4,719,836)
Balance at December 27, 2016	14,360,981	$	143,610	$	82,209,927	$	(91,500,600)	$	(9,147,063)

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

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

	Fiscal Year Ended	
	December 27, 2016	December 29, 2015
Cash flows from operating activities:		
Net loss	$ (4,719,836)	$ (262,615)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	8,697,917	8,517,823
Amortization of deferred loss	1,075,275	888,545
Stock option expense	355,778	276,347
Non-cash interest expense	9,024	49,575
Loss (gain) on disposal/impairment of assets	305,852	(40,202)
Deferred rent	211,434	(227,665)
Changes in operating assets and liabilities:		
Inventory	204,515	(282,123)
Prepaids and other	(326,890)	(355,510)
Accounts payable	(525,239)	(392,138)
Accrued expenses	(930,415)	2,000,326
Net cash provided by operating activities	4,357,415	10,172,363
Cash flows from investing activities:		
Purchase of:		
Property and equipment	(10,250,052)	(17,915,610)
Proceeds from sale leaseback	3,284,128	6,315,709
Intangible and other assets	10,588	(15,703)
Net cash used in investing activities	(6,955,336)	(11,615,604)
Cash flows from financing activities:		
Proceeds from line of credit	6,000,000	9,650,000
Payments on line of credit	-	(4,150,000)
Payments on capital lease obligations	(1,225,611)	(1,241,977)
Payments on long-term debt	(1,421,932)	(1,269,510)
Proceeds from long-term debt	-	140,000
Net cash provided by financing activities	3,352,457	3,128,513
Net increase in cash	754,536	1,685,272
Cash and cash equivalents, beginning	3,659,509	1,974,237
Cash and cash equivalents, ending	$ 4,414,045	$ 3,659,509

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Supplemental disclosure of cash flow information:		
Cash paid for interest	3,878,184	4,045,465
Cash paid for state minimum fees	118,555	74,511
Supplemental disclosure of non-cash investing and financing activities:		
Land/buildings acquired under capital lease/long term debt agreements	279,711	2,678,396
Change in fair value of interest rate swap	(118,012)	27,650
Property and equipment, intangibles and equity costs included in accounts payable and accrued expenses	1,207,415	230,592
Proceeds from sale leaseback included in prepaids and other	1,294,662	-
Deferred loss on sale leaseback	3,328,765	4,951,338
Non-cash debt transfer from line of credit to long-term debt	6,727,000	-
Non-cash draw on line of credit to cover debt costs included in long-term debt	85,500	-
Acquisition cost paid with financing	-	15,000

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

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

1. Summary of significant accounting policies

Background

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

As of December 27, 2016, the Company operated 36 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 Cityôs award-winning signature line of hand-crafted beers finished on-site.

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 NôRoll 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 Companyôs 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.

Principles of consolidation and basis of presentation

As of December 27, 2016, the Company failed to meet certain financial covenants under the credit facility agreement with Citizens Bank, N.A. (f/k/a RBS Citizens, N.A.) (ñCitizens Bankò), and failed to make its required $5.0 million principal payment due on January 31, 2017. The Company is, therefore, in default under the terms of the agreement. Such default also constitutes an event of default under the Companyôs subordinated debt agreement. On March 20, 2017, the Company received correspondence from Citizens Bank indicating that Citizens Bank is reserving its rights to, among other things, accelerate and demand payment of the loan and other obligations without notice. As a result of the existing event of default, Citizens Bank has no obligation to extend further credit to the Company. The Companyôs ability to continue funding its operations and meet its renegotiated 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 Companyôs control. Along with many others in the industry, the Company experienced decreases in comparable restaurant sales in 2016 and these decreases have continued into 2017. To offset the negative impact of these sales trends, the Company has begun implementing several initiatives that are expected to increase sales and reduce costs. Such initiatives include new marketing designed to increase brand awareness and help 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 current leases through a variety of means in order to reduce total occupancy costs. Additionally, the Company will close one of its lower performing restaurants early in the second quarter of 2017. The Companyôs management believes positive results from these initiatives will be realized in the future. However, if current trends persist, 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. The amount of any such required funding would depend upon the outcome of the Companyôs negotiations with its banks as well as the Companyôs ability to generate working capital.

The Companyôs consolidated financial statements include the accounts and operations of the Company and its subsidiary corporation under which its four Kansas locations are operated. By Kansas state law, 50% of the stock of the subsidiary corporation must be owned by a resident of Kansas. Granite City Restaurant Operations, Inc., a wholly-owned subsidiary of the Company, owns the remaining 50% of the stock of the subsidiary corporation. The resident-owner of the stock of that entity has entered into a buy-sell agreement with the subsidiary corporation providing, among other things, that transfer of the shares is restricted and that the resident-owner must sell his shares to the subsidiary corporation upon certain events, or any event that disqualifies the resident-owner from owning the shares under applicable laws and regulations of the state of Kansas. The Company has entered into a master agreement with the subsidiary corporation that permits the operation of the restaurants and leases to the subsidiary corporation the Companyôs property and facilities. The subsidiary corporation pays all of its operating expenses and obligations, and the Company retains, as consideration for the operating arrangements and the lease of property and facilities, all the net profits, as defined, if any, from such operations. The foregoing ownership structure was set up to comply with the licensing and ownership regulations related to microbreweries within the state of Kansas. The Company has determined such ownership structure will cause the subsidiary corporation to be treated as a variable interest entity in which the Company has a controlling financial interest for the purpose of Financial Accounting Standards Boardôs (ñFASBò) accounting guidance on accounting for variable interest entities. As such, the subsidiary corporation is consolidated with the Companyôs financial statements and the Companyôs financial statements do not reflect a minority ownership in the subsidiary corporation. Also included in the Companyôs consolidated financial statements are other wholly-owned subsidiaries. All references to the Company in these notes to the consolidated financial statements relate to the consolidated entity, and all intercompany balances have been eliminated.

Related parties

In May 2011, Concept Development Partners LLC (ñCDPò) became the Companyôs controlling shareholder through its purchase of Series A Convertible Preferred Stock (ñSeries A Preferredò) and a related shareholder and voting agreement with DHW Leasing, L.L.C. (ñDHWò). As of December 27, 2016, CDP beneficially owned approximately 78.5% of the Companyôs common stock, representing 6,000,000 shares issued in December 2014 upon conversion of its 3,000,000 shares of Series A Preferred, 1,666,666 shares over which CDP has voting power pursuant to a shareholder and voting agreement and irrevocable proxy between CDP and DHW, 3,125,000 shares of common stock purchased in June 2012, and 481,873 shares of common stock issued to CDP as dividends.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Significant estimates include estimates related to depreciable asset useful lives and gift card liability included in accrued expenses. Actual results could differ from these estimates.

Fiscal year

The Company utilizes a 52/53-week fiscal year ending on the last Tuesday in December for financial reporting purposes. Fiscal year 2016 ended on December 27, 2016 and fiscal year 2015 ended on December 29, 2015. Fiscal years 2016 and 2015 each consisted of 52 weeks.

Cash and cash equivalents

The Company considers all highly liquid instruments with original maturities of three months or less to be cash equivalents. Amounts receivable from credit/debit card processors are considered cash equivalents because they are both short-term and highly liquid in nature and are typically converted to cash within three to six days of the sales transaction. The Company maintains cash accounts at financial institutions where at times the cash balances exceed the federally insured limit of $250,000. The Company has not experienced any loss with this practice.

Inventory

Inventory, consisting of food, beverages, retail items and beer production supplies, is stated at the lower of cost or market with cost determined using the first-in, first-out (FIFO) method.

Prepaid expenses and other current assets

The Company has cash outlays in advance of expense recognition for items such as rent, insurance, fees and service contracts. Installment payments on the Company©s workers compensation and general liability insurance packages, which are financed at rates ranging from 3.3% to 3.7%, are included in prepaid expense at the time of payment and recorded in income from operations on a pro rata basis throughout the policy period. Other current assets consist primarily of receivables of amounts due from third-party gift card sales, third-party delivery services, rebate amounts due from certain vendors and tenant improvement allowances due from landlords. All amounts identified as prepaid expenses and other current assets are expected to be utilized during the twelve-month period after the balance sheet dates presented.

Property and equipment

Property and equipment is recorded at cost and depreciated over the estimated useful lives of the assets. Leasehold improvements are depreciated over the term of the related lease or the estimated useful life, whichever is shorter. Depreciation and amortization of assets are computed on the straight-line method for financial reporting purposes. Interest is capitalized during the period of development based upon applying the Company©s borrowing rate to the actual development costs incurred.

The estimated useful lives are as follows:

Computer hardware and software	3-5 years
Furniture and restaurant equipment	3-8 years
Brewery equipment	20 years
Building and leasehold improvements	10-30 years

The Company capitalizes direct and certain related indirect costs in conjunction with site selection for new restaurants, acquiring restaurant properties and other real estate development projects. These costs are included in property and equipment in the accompanying consolidated balance sheets and are amortized, upon completion of the property, over the life of the related building and leasehold interest. Costs related to abandoned site selections are expensed at time of abandonment.

The Company accumulates construction costs, including contractor fees and architecture fees as well as equipment it has purchased, but not yet placed in service in its construction-in-progress account. Such equipment includes, but is not limited to, kitchen equipment, audio visual equipment, brewing equipment, computers and technical equipment.

Management reviews property and equipment, including leasehold improvements for impairment when events or circumstances indicate these assets might be impaired pursuant to the FASB accounting guidance on impairment or disposal of long-lived assets. The Company©s management considers such factors as the Company©s history of losses and the disruptions in the overall economy in preparing an analysis of its property, including leasehold improvements, to determine if events or circumstances have caused these assets to be impaired. Management bases this assessment upon the carrying value versus the fair market value of the asset and whether or not that difference is recoverable. Such assessment is performed on a restaurant-by-restaurant basis and includes other relevant facts and circumstances including the physical condition of the asset. If management determines the carrying value of the restaurant assets exceeds the projected future undiscounted cash flows, an impairment charge would be recorded to reduce the carrying value of the restaurant assets to their fair value.

The Company has seen an adverse change in the financial performance of its two Wichita, Kansas restaurants, evidenced by a history of negative cash flow as well as a downturn in sales trends. In 2015, the Company recorded an asset impairment loss of $235,198 for the assets at its West Wichita location. Although labor cost and direct operating expenses were reduced at the West Wichita location through a change in operating hours, it was not able to generate positive cash flow in 2016. The Company believes the carrying value of the assets at both restaurants will continue to exceed cash flow. As such, in 2016 the Company recorded an additional impairment loss of $372,277 for its West Wichita assets and an impairment loss of $173,013 for assets at its East Wichita location. Such losses are included in ñloss (gain) on disposal/impairment of assetsò on the Companyôs consolidated statements of operations. The carrying value of the restaurantôs assets were reduced as follows:

Long-lived assets	Impairment Recorded	Weighted Average Remaining Life
West Wichita		
FY 2015		
Building lease	$206,840	10.6 years
Leasehold Improvements	$15,795	10.6 years
Equipment & Furniture	$12,563	4.8 years
FY 2016		
Building lease	$325,860	9.3 years
Leasehold Improvements	$27,512	3.6 years
Equipment & Furniture	$18,905	8.5 years
East Wichita		
FY 2016		
Building lease	$91,695	12.5 years
Leasehold Improvements	$35,235	4.4 years
Equipment & Furniture	$46,083	3.9 years

Intangible and other assets

Intangible assets are recorded at cost and reviewed annually for impairment. Included in intangible assets are trademarks for which registrations continue indefinitely. However, the Company expects the value derived from these trademarks will decrease over time, and therefore amortizes them under the straight-line method over 20 years. Also included in intangible assets are transferable liquor licenses that were purchased through open markets in jurisdictions with a limited number of authorized liquor licenses. These liquor licenses are renewable every year if the Company complies with basic applicable rules and policies governing the sale of liquor in the respective states. As a result, the Company expects the cash flows from these licenses to continue indefinitely. Because there is an observable market for transferable liquor licenses and the Company expects them to generate cash flow indefinitely, pursuant to the FASB guidance on intangible assets, the Company does not amortize capitalized liquor licenses as they have indefinite lives. The cost of non-transferable liquor licenses that are directly issued by local government agencies for nominal fees are not capitalized, but rather expensed as incurred. The annual renewal fees for each of the Companyôs liquor licenses, whether capitalized or expensed, are nominal and are expensed as incurred.

Other assets are made up of security deposits.

Deferred loss on sale leaseback

The Company has entered into lease agreements whereby the landlord agreed to pay the Company a tenant improvement allowance. Some of the Companyôs leases have a cap on the construction allowance which places the Company at risk for cost overruns and causes the Company to be deemed the owner during the construction period. In cases where the Company is deemed to be the owner during the construction period, a sale and leaseback of the asset occurs when construction of the asset is complete and the lease term begins, if relevant sale-leaseback accounting criteria are met. Any gain or loss from the transaction is deferred and amortized as rent expense on a straight-line basis over the base term of the lease.

Leases and deferred rent payable

The Company leases substantially all of its restaurant properties. Leases are accounted for under the FASB guidance on accounting for leases. For leases that contain rent escalation clauses, the Company records the total rent payable during the lease term and recognizes expense on a straight-line basis over the initial lease term, including the ñbuild-outò or ñrent-holidayò period where no rent payments are typically due under the terms of the lease. Any difference between minimum rent and straight-line rent is recorded as deferred rent payable. Additionally, contingent rent expense based on a percentage of revenue is accrued and recorded to the extent it is expected to exceed minimum base rent per the lease agreement, based on estimates of probable levels of revenue during the contingency period. Deferred rent payable also included a tenant improvement allowance the Company received and amortized to reduce rent expense on a straight-line basis over the initial term of the lease. The Company fully amortized the incentive when the lease was terminated in December 2016.

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 in other assets or other liabilities on the consolidated balance sheet, depending on the fair value of the swap. The change in the fair value of the swap is recorded in other interest expense on the consolidated statements of operations.

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.

Revenue recognition

Revenue is derived from the sale of prepared food, beverage and select retail items. Revenue is recognized at the time of sale and is reported on the Companyôs consolidated statements of operations net of sales taxes collected. The amount of sales tax collected is included in other accrued expenses until the taxes are remitted to the appropriate taxing authorities. Revenue derived from gift card sales is recognized at the time the gift card is redeemed. Until the redemption of gift cards occurs, the outstanding balances on such cards are included in accrued expenses in the accompanying consolidated balance sheets. When the Company determines there is no legal obligation to remit the value of unredeemed gift cards to the relevant jurisdictions, the Company periodically recognizes gift card breakage which represents the portion of its gift card obligation for which management believes the likelihood of redemption by the customer is remote, based upon historical redemption patterns. Such amounts are included as a reduction to general and administrative expense.

Advertising costs

Advertising costs are expensed as incurred. Total amounts incurred during fiscal years 2016 and 2015 were $492,413 and $562,202, respectively. Advertising costs are included as a component of direct restaurant operating expense when the costs are specific to a particular restaurant or market, or in corporate-level general and administrative expense when the costs are not specific to a given restaurant.

Pre-opening costs

Pre-opening costs are expensed as incurred and include direct and incremental costs incurred in connection with the opening of each restaurantôs operations. Pre-opening costs consist primarily of travel, food and beverage, employee payroll and related training costs. Pre-opening costs also include cash and non-cash rental costs under operating leases incurred during a construction period.

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 fiscal years 2016 and 2015:

	Fiscal Year 2016	Fiscal Year 2015
Weighted average risk-free interest rate	1.46% - 2.57%	1.73% - 2.43%
Expected life of options	10 years	10 years
Expected stock volatility	87.27% - 89.52%	85.8% - 87.2%
Expected dividend yield	None	None

Income taxes

The Company utilizes the liability method of accounting for income taxes. Deferred tax assets and liabilities are computed at each balance sheet date for temporary differences between the consolidated financial statements and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on tax rates in effect in the years in which the temporary differences are expected to affect taxable income. Valuation allowances are established to reduce deferred tax assets to the amounts that will more likely than not be realized. Management has evaluated the Companyȏs tax positions and concluded that the Company had taken no uncertain tax positions that require adjustment to the financial statements. The Company is generally subject to United States federal and state tax examinations for all tax years subsequent to 1999 due to its net operating loss carryforwards and the utilization of the carryforwards in years still open under statute.

Net loss per share

Basic net loss per share is calculated by dividing net loss less the sum of preferred stock dividends declared by the weighted average number of common shares outstanding during the period. Diluted net loss per share is not presented since the effect would be anti-dilutive due to the losses in the respective fiscal periods. Stock options and warrants for the purchase of 2,096,127 and 1,598,988 common shares at December 27, 2016 and December 29, 2015, respectively, were not used for the calculation of loss per common share or weighted average shares outstanding on a fully diluted basis because they were anti-dilutive.

Recent accounting pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. In July 2015, the FASB approved a one-year deferral of the effective date of the new revenue standard. ASU 2014-09 is now effective for fiscal years beginning on or after December 15, 2017, including interim periods within those annual periods, with early adoption permitted in the first quarter of 2017. The standard permits the use of either the retrospective or cumulative effect transition method. In March and April 2016, the FASB issued the following amendments to clarify the implementation guidance: ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* and ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*. Additionally, on December 21, 2016, the FASB issued ASU No. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*, which provides disclosure relief, and clarifies the scope and application of the new revenue standard and related cost guidance. The Company does not expect that the adoption of this ASU will have a material impact on the Companyȏs financial condition, liquidity or results of operations.

In April 2015, the FASB issued ASU No. 2015-03, "Interestô Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The Company adopted ASU 2015-03 in the first quarter of fiscal 2016 on a retrospective basis resulting in a $312,632 reduction of other assets and long-term debt within the Company's consolidated balance sheet as of December 29, 2015.

On February 25, 2016, the FASB issued its new lease accounting guidance in ASU No. 2016-02, "Leases (Topic 842)." Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (i) a lease liability, which is a lesseeǿs obligation to make lease payments arising from a lease, measured on a discounted basis; and (ii) a right-of-use asset, which is an asset that represents the lesseeǿs right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged and lessees will no longer be provided with a source of off-balance sheet financing. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. While early adoption is permitted, the Company does not plan to elect this option. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company is currently evaluating the impact this ASU will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which is intended to simplify several aspects of the accounting for share-based payment transactions. The amendments in this update cover such areas as the recognition of excess tax benefits and deficiencies, the classification of those excess tax benefits on the statement of cash flows, an accounting policy election for forfeitures, the amount an employer can withhold to cover income taxes and still qualify for equity classification and the classification of those taxes paid on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption is permitted. The Company does not expect that the adoption of this ASU will have a material impact on the Companyǿs financial condition, liquidity or results of operations.

In March 2016, the FASB issued ASU No. 2016-04, *Liabilities - Extinguishment of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products*, which specifies how prepaid stored-value product liabilities, such as gift cards, should be derecognized. The standard, among other things, requires derecognition of such liabilities through expected breakage in proportion to the pattern of rights expected to be exercised by the holder, but only to the extent that it is probable that a significant reversal of the recognized breakage amount will not subsequently occur. The ASU is effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The amendments in this update should be applied under a modified retrospective approach or a retrospective approach to each period presented. The Company does not expect that the adoption of this ASU will have a material impact on the Companyǿs financial condition, liquidity or results of operations.

Quarterly adjustments and reclassifications

Total depreciation expense was $8,600,140 and $8,314,356 in fiscal years 2016 and 2015, respectively. In the fourth quarter of 2016, the Company recorded $3,223,941 of depreciation expense, of which $326,802, $384,023, and $395,676 related to first, second and third quarters of 2016, respectively. Had the Company recorded these amounts in the appropriate quarters, the loss per share would have increased by less than $0.03 each quarter.

Certain minor reclassifications have been made to the consolidated financial statements for fiscal year 2015 for them to conform to the presentation of the consolidated financial statements for fiscal year 2016. These reclassifications have no effect on the accumulated deficit or net loss previously reported.

Subsequent events

The Company has evaluated subsequent events through March 27, 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 1ð Quoted market prices in active markets for identical assets and liabilities.

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

Level 3ð 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 December 27, 2016 and December 29, 2015, 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 Companyôs interest rate swap is determined based on information provided by the Companyôs 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 December 27, 2016:

Description	Level 1	Level 2	Level 3	Total Liability
Interest rate swap fair value	$ -	($180,107)	$ -	($180,107)

The following table presents the fair value of liabilities measured on a recurring basis as of December 29, 2015:

Description	Level 1	Level 2	Level 3	Total Liability
Interest rate swap fair value	$ -	($298,119)	$ -	($298,119)

There were no transfers between levels of the fair value hierarchy during fiscal years 2016 or 2015.

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 Companyŏs subsidiaries, personal property, fixtures and real estate owned or to be acquired. The credit agreement, as amended, provides 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 December 27, 2016, the Company has borrowed a total of $37.9 million under this credit agreement, including the full $5.0 million of the development line of credit as well as $4.3 million under the revolving line of credit. In January 2017, the Company borrowed an additional $1.0 million under the revolving line of credit. The term and revolving credit facilities mature on May 15, 2019. 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 March 20, 2017, the Company received correspondence from Citizens Bank indicating that Citizens Bank is reserving its rights to, among other things, accelerate and demand payment of the loan and other obligations without notice. As a result of the existing event of default, Citizens Bank has no obligation to extend further credit to the Company. The proceeds of the development line of credit were used solely to (1) refinance existing indebtedness of the Company and (2) fund capital expenditures and payment of fees, costs and expenses related to the Northbrook, Illinois and Lincoln, Nebraska locations and the build-out of the Companyŏs corporate offices. 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 Companyŏs 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.

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 Companyŏs 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 $118,012 in fiscal year 2016 and decreased $27,651 in fiscal year 2015. The difference in the value was recorded as interest expense in the 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 LPŏs 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 LPŏs 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 December 27, 2016, all the debt of the Company was classified as current.

During fiscal years 2016 and 2015, the Company incurred $1,757,453 and $1,889,506, respectively, in interest expense related to long-term debt. Of such interest, $46,909 and $87,870, was capitalized in fiscal years 2016 and 2015, respectively, as the Company constructed new restaurants.

4. Property and equipment

Property and equipment, including that under capital leases, consisted of the following:

	December 27, 2016	December 29, 2015
Land	$ 18,000	$ 18,000
Buildings	35,205,544	35,558,158
Leasehold improvements	18,720,270	19,398,427
Equipment and furniture	59,029,397	53,895,187
	112,973,211	108,869,772
Less accumulated depreciation	(63,721,160)	(56,438,884)
	49,252,051	52,430,888
Construction-in-progress *	310,188	3,063,842
	$ 49,562,239	$ 55,494,730

*Construction-in-progress includes the following approximate amounts for items yet to be placed in service:

	2016	2015
Prototype/Leasehold improvements/Equipment for future locations	$ -	$3,054,000
Enhancements/Equipment for existing locations	$ 310,000	$ 10,000

Total depreciation expense was $8,600,140 and $8,314,356 in fiscal years 2016 and 2015, respectively. In the fourth quarter of 2016, the Company recorded $3,223,941 of depreciation expense of which $326,802, $384,023, and $395,676 related to first, second and third quarters of 2016, respectively.

5. Intangible and other assets

Intangible assets and other assets consisted of the following:

	December 27, 2016	December 29, 2015
Intangible assets:		
Liquor licenses	$ 953,471	$ 948,471
Trademarks	1,777,607	1,777,607
Other:		
Security deposits	364,224	388,147
	3,095,302	3,114,225
Less accumulated amortization	(492,825)	(403,383)
	$ 2,602,477	$ 2,710,842

Management estimates amortization expense of $89,466 in each of fiscal years 2017 and 2018, $89,060 in fiscal year 2019, $88,653 in fiscal year 2020 and $88,585 in fiscal year 2021. Total amortization expense was $97,777 and $203,467 in fiscal years 2016 and 2015, respectively.

6. Accrued expenses

Accrued expenses consisted of the following:

	December 27, 2016		December 29, 2015	
Payroll and related	$	4,254,823	$	5,324,638
Deferred revenue from gift card sales		4,233,590		3,833,100
Sales taxes		646,092		717,534
Income tax		-		38,589
Interest		354,855		461,060
Real estate taxes		333,852		508,480
Credit card fees		300,936		305,758
Legal fees		179,671		65,440
Marketing		-		370,806
Property and equipment		507,502		177,408
Other		1,119,747		728,577
	$	11,931,068	$	12,531,390

7. Deferred rent

Under the terms of the lease agreement the Company entered into regarding its Lincoln, Nebraska property, the Company received a lease incentive of $450,000, net. This lease incentive was recorded as deferred rent and was amortized to reduce rent expense over the term of the lease. The Company fully amortized the incentive when the lease was terminated in December 2016.

Also included in deferred rent is the difference between minimum rent payments and straight-line rent over the initial lease term including the ñbuild outò or ñrent-holidayò period. Deferred rent also includes amounts certain of the Companyôs landlords agreed to defer for specified periods of time. The deferrals are offset in part by the fair value of the warrants issued to certain landlords in consideration of rent reductions. Contingent rent expense, which is based on a percentage of revenue, is also recorded to the extent it exceeds minimum base rent per the lease agreement. Deferred rent payable consisted of the following:

	December 27, 2016		December 29, 2015	
Difference between minimum rent and straight-line rent	$	5,999,570	$	5,737,568
Warrant fair value		(101,008)		(122,812)
Deferred lease payments		1,350		2,479
Contingent rent based on restaurant revenue		201,289		131,718
Tenant improvement allowance		-		118,889
	$	6,101,201	$	5,867,842

8. Leases

Capital leases

As of December 27, 2016, the Company operated 15 restaurants under capital lease agreements with expiration dates ranging from 2020 through 2030, all with renewable options for additional periods. Under certain of the leases, the Company may be required to pay additional contingent rent based upon restaurant sales. At the inception and the amendment date of each of these leases, the Company 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.

In July 2013, the Company entered into a 15-year lease agreement for a site in Northville, Michigan where it constructed a Granite City restaurant which opened in April 2015. Per the terms of the lease, the landlord paid the Company a tenant improvement allowance of approximately $2.1 million. Because the Company incurred all the construction costs and risk of loss, the Company accounted for the transaction as a sale leaseback, pursuant to guidance in ASC 840 Leases. Management evaluated the fair value of the property and determined it to be equal to the undepreciated costs, and therefore, recorded a deferred loss of approximately $1.5 million. The lease, which may be extended at the Companyǿs option for up to two additional five-year periods, calls for annual base rent starting at $419,640. Under the terms of the lease, the Company may be required to pay additional contingent rent based upon restaurant sales.

In November 2015, the Company entered into an amendment to its lease with the landlord of its Kansas City, Kansas restaurant. Such amendment extended the term of the lease five years, eliminated the requirement to pay additional contingent rent based upon restaurant sales and set the annual base rent at $450,000 throughout the lease term.

We previously operated our beer production facility under a land and building lease agreement. This ten-year lease allowed us to purchase the facility at any time for $1.00 plus the unamortized construction costs. In May 2015, we exercised our option to purchase the facility for $1.00.

In December 2015, the Company terminated its capital lease agreement with the landlord of its St. Cloud, Minnesota restaurant upon the landlordǿs sale of the property to Store Capital Acquisitions, LLC (ñStore Capitalò). The Company then entered into an amendment to its master lease agreement with Store Capital, whereby it leases the property for an initial term of 13 years to coincide with the expiration dates of our other leases with Store Capital. This lease is classified as an operating lease (see below).

Included in property and equipment are the following assets held under capital leases:

	December 27, 2016	December 29, 2015
Building	$ 27,474,412	$ 28,606,788
Less accumulated depreciation	(11,830,382)	(10,842,638)
	$ 15,644,030	$ 17,764,150

Amortization expense related to the assets held under capital leases is included with depreciation expense on the Companyǿs consolidated statements of operations.

Operating leases

The land portions of the 15 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. In addition to such property leases, as of December 27, 2016, the Company had 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 the Company operates these restaurants range from 2017 through 2031. All but one of these leases include options for additional terms. Under certain of the leases, the Company may be required to pay additional contingent rent based upon restaurant sales.

In March 2006, the Company entered into a lease agreement for the land and building for its St. Louis Park, Minnesota restaurant. Such agreement was amended in December 2015 extending the term of the lease through March 2017. The Company will not renew this lease and will cease operations at this location.

In November 2013, the Company entered into an agreement to purchase approximately three acres of property in Schaumburg, Illinois where it opened a Granite City restaurant in February 2015. In May 2014, the Company closed on the purchase of such land and, pursuant to a sale leaseback agreement with Store Capital, Store Capital took title to the land. The Company purchased the site for approximately $2.1 million and sold it to Store Capital for the same amount. Pursuant to the sale leaseback agreement, Store Capital purchased the improvements for up to approximately $2.7 million. Because the Company incurred all the construction costs and risk of loss, the Company accounted for the transaction as a sale leaseback, pursuant to guidance in ASC 840 Leases. Management evaluated the fair value of the property and determined it to be equal to undepreciated costs, and therefore recorded a deferred loss of approximately $2.1 million which will be amortized to rent expense over the life of the lease. In February 2015 and June 2015, the parties entered into amendments to the lease agreement whereby the Company is leasing the property for an initial term of 15 years at an annual rental amount of approximately $394,140. Such agreement includes options for additional terms and provisions for rental adjustments.

In June 2014, the Company entered into a 10-year lease agreement for a site in National Harbor, Maryland where it constructed a Granite City restaurant which it opened in May 2015. Per the terms of the lease, the landlord paid the Company a tenant improvement allowance of approximately $1.3 million. Because the Company incurred all the construction costs and risk of loss, the Company accounted for the transaction as a sale leaseback, pursuant to guidance in ASC 840 Leases. Management evaluated the fair value of the property and determined it to be equal to the undepreciated costs, and therefore, recorded a deferred loss of approximately $2.8 million. The lease, which may be extended for two additional five-year periods, calls for an annual base rent starting at $419,898. Under the terms of the lease, the Company may be required to pay additional contingent rent based upon restaurant sales.

In July 2014, the Company entered into a 20-year lease agreement for site at the Renaissance Center in Detroit, Michigan where it opened a Granite City restaurant in February 2016. Per the terms of the lease, the landlord will pay the Company a tenant improvement allowance totaling approximately $2.0 million. Because the Company incurred the construction costs and risk of loss, the Company accounted for the transaction as a sale leaseback, pursuant to guidance in ASC 840 Leases. Management evaluated the fair value of the property and determined it to be equal to the undepreciated costs, and therefore, recorded a deferred loss of approximately $800,000. Annual rent is $222,870 with scheduled increases every five years. Under the terms of the lease, the Company may be required to pay additional contingent rent based upon restaurant sales.

In August 2015, the Company entered into an agreement with the landlord of its Granite City restaurant in Lincoln, Nebraska. Pursuant to such agreement, the landlord assigned its interest in the shopping center lease and ownership of the building and improvements to the Company for a fee of approximately $1.1 million, the Company directly assumed the former landlordôs obligations under the shopping center lease, and the Company terminated the lease with the previous landlord. At the same time, the Company entered into a 10-year lease agreement for a different site in Lincoln, Nebraska where it relocated its Granite City restaurant in the fourth quarter of 2016. Per the terms of the new lease, the landlord agreed to reimburse the Company for the $1.1 million fee paid to the previous landlord. In return, upon the opening of the new restaurant, the Company relinquished to the new landlord, the building and improvements on the previous site resulting in a loss on disposal of assets of approximately $250,000. Because the Company was relieved of its capital lease obligations under the original lease, a gain of approximately $600,000 was recorded. Under the terms of the new lease, the landlord will pay the Company a tenant improvement allowance of approximately $3.6 million. Because the Company incurred all the construction costs and risk of loss, the Company accounted for the transaction as a sale leaseback, pursuant to guidance in ASC 840 Leases. Management evaluated the fair value of the property and determined it to be equal to the undepreciated costs, and therefore, recorded a deferred loss of approximately $108,000. Annual base rent will be approximately $238,000 with scheduled increases throughout the term, additional contingent rent based upon restaurant sales may be required, and the Company has the option to extend the lease for two five-year periods.

In September 2015, the Company entered into a 15-year lease agreement for a site in Northbrook, Illinois where it opened a Granite City restaurant in October 2016. Per the terms of the lease, the landlord paid the Company a tenant improvement allowance of $750,000. Because the Company incurred all the construction costs and risk of loss, the Company accounted for the transaction as a sale leaseback, pursuant to guidance in ASC 840 Leases. Management evaluated the fair value of the property and determined it to be equal to the undepreciated costs, and therefore, recorded a deferred loss of approximately $2.4 million. Per the terms of the lease, the annual rent starts at $265,000 with scheduled increases every five years. Under the terms of the lease, the Company may be required to pay additional contingent rent based upon restaurant sales and has the option to extend the lease for two five-year terms.

In December 2015, the Company terminated its capital lease agreement with the landlord of its St. Cloud, Minnesota restaurant upon the landlordôs sale of the property to Store Capital. The Company recorded a non-cash net gain related to the lease termination of approximately $600,000. The Company then entered into a 13-year lease agreement for the property which may be extended at the Companyôs option for up to four additional five-year periods. The new lease is classified as an operating lease and calls for annual base rent starting at $298,559 with annual incremental increases. Such lease includes a disbursement agreement whereby the landlord provided $510,000 to renovate certain of the Companyôs restaurant properties. Such disbursement amounts were multiplied by a capitalization rate of 7.5% and added to the base rent of the related properties.

In April 2016, the Company entered into a 67-month lease agreement for approximately 11,000 square feet of office space for its corporate offices in Minneapolis, Minnesota. Annual rent starts at $157,368 with scheduled increases throughout the term.

Minimum future lease payments under all capital and operating leases as of December 27, 2016 are as follows:

Fiscal Year ending:	Capital Leases	Operating Leases
2017	$ 3,393,559	$ 9,294,580
2018	3,479,894	8,931,914
2019	3,498,904	8,651,932
2020	3,524,953	8,646,094
2021	3,359,288	8,089,452
Thereafter	21,639,034	40,057,505
Total minimum lease payments	38,895,632	$ 83,671,477
Less amount representing interest	(15,038,282)	
Present value of net minimum lease payments	23,857,350	
Less current portion	(1,243,107)	
Long-term portion of obligations	$ 22,614,243	

Rental expense for fiscal years 2016 and 2015 on all operating leases was $11,809,870 and $10,447,217, respectively. Included in rent expense at December 27, 2016 and December 29, 2015, was $410,079 and $307,145, respectively, of contingent rent expense based on restaurant revenue.

At December 27, 2016, the annual implicit interest rates on the land and building leases were between 5.3% and 13.0%. The average interest rate on the building capital leases was 10.1%. Interest expense on these leases was $2,074,656 and $2,420,196 for fiscal years 2016 and 2015, respectively. Total future minimum lease payments do not include contingent rent that is based on restaurant revenue.

9. Income taxes

The income tax benefit (expense) consists of the following:

	Fiscal Year Ended	
	December 27, 2016	December 29, 2015
Current income taxes:		
Federal	$ -	$ -
Prior year state	(13,127)	(15,551)
Current year state	(43,725)	(68,867)
Current tax expense	(56,852)	(84,418)
Deferred income taxes:		
Federal	2,781,339	799,642
State	68,427	(192,217)
Deferred income tax benefit	2,849,766	607,425
Net change to valuation allowance	$ (2,849,766)	$ (607,425)
Total income tax expense	$ (56,852)	$ (84,418)

A reconciliation of the federal income tax provision at the statutory rate with actual taxes provided on loss from continuing operations is as follows:

	2016	2015
Statutory U.S. tax rate	34.0%	34.0%
State Taxes, net of federal benefit	3.7%	(27.5%)
Stock option compensation	(0.6%)	(21.9%)
Permanent differences	(0.6%)	(17.5%)
U.S. business credits	21.3%	478.6%
Expired state NOLs	(2.1%)	-
All others, net	4.2%	(142.6%)
Valuation allowance	(61.1%)	(351.6%)
Effective tax rate	(1.2%)	(48.5%)

Deferred taxes were calculated using enacted tax rates of 34% for federal and an estimate based on the mix of income and applicable rates by jurisdiction for state. For the years ended December 27, 2016 and December 29, 2015, the state estimated tax rate was 7.1%.

The components of deferred tax assets and liabilities are as follows:

	Fiscal Year Ended	
	December 27, 2016	December 29, 2015
Deferred tax assets:		
Share-based compensation	$ 1,524,009	$ 1,405,345
Net operating loss carryforwards	16,652,457	15,612,470
General business credit carryforwards	11,443,003	9,592,101
Deferred rent payable	2,363,218	2,274,700
Property and equipment	534,268	713,033

Amortization	58,709	138,302
Other future deductible items	681,876	596,034
	33,257,540	30,331,985
<u>Deferred tax liabilities:</u>		
Smallwares	(1,103,972)	(1,028,183)
Net deferred tax assets	32,153,568	29,303,802
Valuation Allowance	(32,153,568)	(29,303,802)
Net deferred tax assets, net of valuation allowance	$ -	$ -

For income tax return purposes, the Company had federal net operating loss carryforwards of approximately $44,552,000 and $41,590,000 as of December 27, 2016, and December 29, 2015, respectively. The Company also had federal general business credit carryforwards of approximately $11,439,000 and $9,817,000, respectively. These carryforwards are limited due to changes in control of the Company during 2009 and 2011 and, if not used, portions of these carryforwards will begin to expire in 2020. As a result of these limitations, the carryforwards for federal net operating losses, credits, and other items is limited to approximately $26,054,000 and $22,508,000 as of December 27, 2016, and December 29, 2015, respectively.

The Company has determined, based upon its history, that it is probable that future taxable income may be insufficient to fully realize the benefits of the net operating loss carryforwards and other deferred tax assets. As such, the Company has determined that a full valuation allowance is needed at this time.

10. Commitments and contingencies

Legal proceedings

On August 22, 2016, Domonik Greene, one of the Companyôs former employees in Ohio, filed a collective action under the Fair Labor Standards Act (ñFLSAò) against the Company in the United States District Court for the District of Minnesota. The complaint alleges that the Company requires Granite City servers and bartenders who, in states other than Minnesota, receive compensation in part through tip credits, to perform work that is ineligible for tip credit compensation at a tip credit rate in violation of the minimum wage provisions of the FLSA. In late January, plaintiffsô counsel advised that they did not intend to seek collective action certification of the named plaintiffôs 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 plaintiffsô attorneysô fees, pending documentation of the settlement and submission of it to the court for approval.

On September 9, 2016, Chelsea Koenig, one of the Companyôs 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 ñJohn Doeò defendants) in the United States District Court for the Western District of Pennsylvania. The complaint alleges that the Company requires all tipped employees of Granite City and Cadillac Ranch in states other than Minnesota, to perform work that is ineligible for tip credit compensation at a tip credit rate, requires ñoff the clockò work, requires tipped employees to participate in a tip pool that included ñexpeditors,ò fails to provide sufficient notice of the application of the tip credit, and requires tipped employees to cover walk-outs and shortages, in violation of the minimum wage provisions of the FLSA. The claim further alleges violation of the Pennsylvania Minimum Wage Act, the Pennsylvania Wage Payment Collection Law, and a Pennsylvania common law claim.

The Company intends to vigorously defend itself against the Koenig lawsuit. Because the outcome of litigation is inherently uncertain, a loss on one or more of the claims is possible. At this stage of the litigation, the Company is unable to reasonably determine the probability of a loss or the amount of a loss if liability were established on a given claim.

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 and claims from customers or employees alleging injury, illness or other food quality, health or operational concerns. 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 Companyôs insurance coverage could adversely affect its financial condition or results of operations.

Employment agreements

Chief Executive Officer: Pursuant to an employment agreement, Robert J. Doran, the Companyôs former Chief Executive Officer, began serving as Interim Chief Executive Officer of the Company on January 20, 2017. Mr. Doranôs employment will continue until terminated by the Board (the ñTermò). During the Term, the agreement provides Mr. Doran with a base salary calculated at the gross amount of $1,500 per day worked plus an amount representing the differential in marginal income tax rates between Illinois and Minnesota. Mr. Doran is entitled to reimbursement of the premium cost of his health insurance, expense reimbursement, and gross ups to cover his taxes on such reimbursements. Mr. Doran 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. Mr. Doranôs former employment with the Company ceased on July 31, 2016. Consistent with his former employment agreement, he had been receiving severance payments equal to one year of his final base salary paid ($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. Pursuant to the currently operative employment agreement, such severance payments will be suspended during the Term. Provided that Mr. Doran signs and does not revoke a release after his last day of employment, such severance payments will resume after the Term. 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.

Chief Financial Officer: Effective March 20, 2017, the Company entered into an employment agreement with Jeffrey L. Rager, who has served as the Companyôs Chief Financial Officer since July 2014, which provides for Mr. Ragerôs 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 Companyôs 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 Companyôs compensation committee, as well as participation in the Companyôs 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 Companyôs common stock at $2.10 per share pursuant to the Companyôs 2014 Non-Qualified Plan (the ñNQ Planò). 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. Ragerôs employment.

Chief Operating Officer: Effective February 1, 2016, the Company entered into an employment agreement with Jeffery M. Dean, which provides for Mr. Deanôs employment as the Companyôs Chief Operating Officer through February 1, 2018. If, during the term, the Company terminates Mr. Dean without cause, as defined in the agreement, he would be entitled to severance benefits including one year of base salary 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 Companyôs compensation committee, of $222,000. In addition, Mr. Dean is eligible for an annual bonus of up to 50% of base salary based on achieving performance targets determined by the Companyôs compensation committee, as well as participation in the Companyôs other employee benefit plans and expense reimbursement. Mr. Dean 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. Dean ten-year nonqualified stock options to purchase an aggregate of 110,000 shares of the Companyôs common stock at $2.75 per share pursuant to the NQ Plan.

Separation agreement

On January 20, 2017, Philip L. Costner, who began serving as the Companyôs Chief Executive Officer on July 1, 2016, commenced working in a non-officer capacity with duties as assigned by the Companyôs 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 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 date of termination. Pursuant to his former employment agreement, Mr. Costner was eligible to participate in the Companyôs employee benefit plans, and he received a relocation allowance and expense reimbursement. Mr. Costner agreed to certain nondisclosure provisions during the term of his employment and any time thereafter, and certain non-competition and non-recruitment provisions during the term of his employment and for a certain period thereafter. In connection with his employment agreement, the Company granted Mr. Costner ten-year nonqualified stock options to purchase (a) 400,000 shares of the Companyôs common stock at $2.75 per share and (b) 150,000 shares of the Companyôs common stock at $4.00 per share, pursuant to the NQ Plan. Because Mr. Costner was not entitled to exercise such options at the date of termination of his employment, such options expired unexercised.

Purchase commitments

The Company has entered into contracts through 2020 with certain suppliers of raw materials (primarily hops) for minimum purchases both in terms of quantity and in pricing. As of December 27, 2016, the Companyôs future obligations under such contracts aggregated approximately $1.2 million.

11. Common stock warrants

In the second quarter of 2011, the Company entered into lease amendments with certain of its landlords. In consideration of more favorable lease terms and conditions, the Company issued five-year warrants to purchase the Companyôs common stock to such landlords. The number of shares purchasable under these warrants was 40,000 and the exercise price was $3.32 per share. All such warrants expired unexercised in May 2016.

The Company issued a warrant to purchase 350,000 shares of common stock at an exercise price of $1.50 per share to MHS Trust in connection with the sale of Redeemable Preferred stock to such entity in December 2013. With the redemption of the Redeemable Preferred stock in May 2014, 175,000 shares underlying such warrant were forfeited. As of December 27, 2016, the remaining 175,000 shares underlying such warrant remain unexercised. Such warrant expires October 31, 2018.

A summary of the status of the Companyǿs stock warrants is presented in the table below:

	Number of common stock shares	Weighted average exercise price per share	Warrants exercisable
Outstanding December 30, 2014	215,000	$1.84	215,000
Exercised	-	NA	
Forfeited	-	NA	
Outstanding December 29, 2015	215,000	$1.84	215,000
Exercised	-	NA	
Forfeited	(40,000)	NA	
Outstanding December 27, 2016	175,000	$1.50	175,000

12. Stock option plans

In August 2002, the Company adopted the 2002 Equity Incentive Plan, now known as the Amended and Restated Equity Incentive Plan. As of December 27, 2016, there were options outstanding under the plan for the purchase of 574,064 shares. Although vesting schedules vary, option grants under this plan 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.

In October 2011, the Companyǿs shareholders approved its Long-Term Incentive Plan. This plan provides for flexible, broad-based incentive compensation in the form of stock-based awards of options, stock appreciation rights, warrants, restricted stock awards and restricted stock units, stock bonuses, cash bonuses, performance awards, dividend equivalents, and other equity-based awards. The issuance of up to 400,000 shares of common stock is authorized under the plan. All stock options issued under the plan must have an exercise price equal to or greater than the fair market value of the Companyǿs common stock on the date of grant. As of December 27, 2016 options for the purchase of 399,594 shares were issued and outstanding under the plan and options for the purchase of 406 shares remained available for issuance.

In July 2014, the Company adopted the 2014 Non-Qualified Plan (ñNQ Planò) to accommodate the continued issuance of stock option awards. The Company increased the number of shares available for issuance under its NQ Plan by 100,000, 150,000, and 775,000 in May 2015, January 2016 and May 2016, respectively. As of December 27, 2016, options for the purchase of 947,469 shares were outstanding and 302,531shares remained available for issuance of awards under the NQ Plan. In February 2017, options for the purchase of 550,000 shares were forfeited upon the termination of employment of the Companyǿs chief executive officer and reentered the pool of available shares.

A summary of the status of the Companyǿs stock options as of December 27, 2016 and December 29, 2015 and changes during the years ending on those dates is presented below:

Fixed Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at December 30, 2014	1,346,160	$ 2.24	6.5 years	$ 18,130
Granted	127,338	2.15	9.4 years	

Exercised	-		-			
Forfeited	(89,510)		2.11			
Outstanding at December 29, 2015	1,383,988	$	2.24	6.0 years	$	75,308
Granted	751,361		3.00	9.5 years		
Exercised	-		-			
Forfeited	(214,222)		2.49			
Outstanding at December 27, 2016	1,921,127	$	2.51	7.0 years	$	847
Options exercisable at December 29, 2015	964,338	$	2.30	4.8 years	$	70,958
Options exercisable at December 27, 2016	1,079,079	$	2.47	5.4 years	$	847
Weighted-average fair value of options granted during 2016	$ 1.29					

The following table presents additional information regarding options granted and exercised:

	Fiscal Year 2016		Fiscal Year 2015	
Weighted average fair value of stock options granted	$	1.29	$	1.70
Intrinsic value of stock options exercised	$	-	$	-
Fair value of stock options vested during the year	$	202,751	$	224,348

The intrinsic value of stock options outstanding at December 27, 2016 and December 29, 2015 was $847 and $75,380, respectively. Aggregate intrinsic value is the difference between the closing price of the Companyôs stock on December 27, 2016 and the exercise price, multiplied by the number of shares that would have been received by the option holders had all option holders exercised their ñin-the-moneyò options on December 27, 2016. As of December 27, 2016, there was approximately $790,705 of total unrecognized compensation cost related to unvested share-based compensation arrangements, of which $464,887 is expected to be recognized in fiscal year 2017, $209,604 in fiscal year 2018, $95,944 in fiscal year 2019, $19,941 in fiscal year 2020 and $329 in fiscal year 2021.

The following table summarizes information about stock options outstanding at December 27, 2016:

	Options Outstanding				Options Exercisable		
Range of Exercise Prices	Number of Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price		Number of Options Exercisable	Weighted Average Exercise Price	
$1.00 - $3.00	1,694,046	6.9 years	$	2.33	851,998	$	2.09
$3.01 - $5.00	222,916	7.8 years	$	3.86	222,916	$	3.86
$5.01 - $6.00	4,165	1.7 years	$	5.47	4,165	$	5.47
Total	1,921,127	7.0 years	$	2.51	1,079,079	$	2.47

13. Retirement plan

The Company sponsors a defined contribution plan under the provisions of section 401(k) of the Internal Revenue Code. The plan is voluntary and is provided to all employees who meet the eligibility requirements. A participant can elect to contribute up to 100% of his/her compensation subject to IRS limits. The Company has elected to match 10% of such contributions up to 6% of the participantôs compensation. In the fiscal years 2016 and 2015, the Company contributed $42,124 and $36,337 in the aggregate, respectively, under the plan.

14. Subsequent events

The Company failed to make its required $5.0 million principal payment due on January 31, 2017 pursuant to the terms under the credit facility agreement with Citizens Bank. As such, the Company is in default under the terms of the agreement. Such default also constitutes an event of default under the Companyôs subordinated debt agreement. On March 20, 2017, the Company received correspondence from Citizens Bank indicating that Citizens Bank is reserving its rights to, among other things, accelerate and demand payment of the loan and other obligations without notice. (see Note 1 to the financial statements).

On January 20, 2017, Philip L. Costner, who began serving as the Companyôs Chief Executive Officer on July 1, 2016, commenced working in a non-officer capacity with duties as assigned by the Companyôs Chairman of the Board. His employment with the Company ceased February 19, 2017. Robert J. Doran, the Companyôs former Chief Executive Officer, began serving as Interim Chief Executive Officer of the Company on January 20, 2017. Mr. Doranôs employment will continue until terminated by the Board (see Note 10 to the financial statements). Effective March 20, 2017, the Company began employing Jeffrey L. Rager, the Companyôs Chief Financial Officer, pursuant to a new employment agreement (see Note 10 to the financial statements).

The lease agreement under which the Company leases the land and building for its St. Louis Park, Minnesota restaurant will expire March 31, 2017. The Company will not renew this lease and, upon expiration of the lease, will cease operations at this location.

On February 28, 2017, the Company granted a ten-year nonqualified stock option to purchase 20,000 shares of the Companyôs common stock at $1.25 per share to one of the Companyôs employees pursuant to the NQ Plan. Such option was scheduled to vest cumulatively to the extent of 20% per year, commencing on the first anniversary of the date of grant. On March 17, 2017, the vesting schedule of this option was amended to cause the option to vest cumulatively to the extent of 50% on the first anniversary of the date of grant and 25% annually thereafter. This option was issued pursuant to the exemption set forth in Securities Act Rule 701 and the securities issuable upon its exercise will be ñrestricted securitiesò as defined in Securities Act Rule 144. Such transferability restriction is set forth on the agreement evidencing the option.

On March 17, 2017, the Company increased the number of shares available for issuance under the NQ Plan by 500,000 shares.

On March 17, 2017, the Company granted ten-year nonqualified stock options to purchase an aggregate of 926,000 shares of the Companyôs 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 ñrestricted securitiesò as defined in Securities Act Rule 144. Such transferability restriction is set forth on the agreements evidencing the options.

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.

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
Bloomington, 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 Annual Report for the Fiscal Year Ended December 27, 2016.

ix. **The nature of products or services offered:**

See Item 6 of Annual Report for the Fiscal Year Ended December 27, 2016.

x. **The nature and extent of the issuer's facilities:**

See Item 7 of Annual Report for the Fiscal Year Ended December 27, 2016.

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

See Item 8 of Annual Report for the Fiscal Year Ended December 27, 2016.

xii. **The issuer's most recent balance sheet and profit and loss and retained earnings statements:**

See Item 5 of Annual Report for the Fiscal Year Ended December 27, 2016.

xiii. **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 Annual Report for the Fiscal Year Ended December 27, 2016.

xiv. **Whether the broker or dealer or any associated person is affiliated, directly or indirectly, with the issuer:**

N/A

xv. **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

xvi. **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