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

GRANITE CITY
food & brewery

Cadillac Ranch
THE GREAT ALL-AMERICAN BAR & GRILL

## Annual Report for the Fiscal Year Ended December 29, 2015

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: | 701 Xenia Avenue South, Suite 120<br>Minneapolis, MN 55416<br>Tel: (952) 215-0660<br>Email: corporate@gcfb.net<br>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 12/29/15: | 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)<br>3,000,000 (Series A Convertible Preferred Stock)<br>2,000 (Redeemable Preferred Stock) |
| Total shares outstanding as of 12/29/15: | 0 |

| | |
|---|---|
| Transfer Agent: | Wells Fargo Bank Minnesota, N.A.<br>1110 Centre Pointe Curve, Suite 101<br>Mendota Heights, MN 55120<br>(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:

In February 2015, our Board of Directors engaged Houlihan Lokey Capital, Inc., an investment bank, to assist us in exploring a possible strategic transaction. Under the engagement agreement, Houlihanǒs services included soliciting, coordinating, and evaluating indications of interest and proposals regarding a possible strategic transaction, and assisting our Board in negotiating financial aspects of a possible strategic transaction. In December 2015, our Board, having completed its review of possible strategic transactions, determined to cease soliciting indications of interest and to terminate the engagement of Houlihan Lokey.

**Item 4: Issuance History**

The following events resulted in changes in the Issuerǒs total outstanding shares of common stock during the past two fiscal years:

*2014 Warrant Exercises*

A. The nature of each offering (e.g., Securities Act Rule 504, intrastate, etc.);

   Issuance in reliance upon the exemption provided in Section 4(a)(2) of the Securities Act to two institutional investors.

B. Any jurisdictions where the offering was registered or qualified;

   N/A

C. The number of shares offered;

   53,332

D. The number of shares sold;

   53,332

E. The price at which the shares were offered, and the amount actually paid to the issuer;

   $1.52 per share (gross proceeds of $81,065)

F. The trading status of the shares; and

   The certificate representing such securities contains a restrictive legend preventing sale, transfer or other disposition, absent registration or an applicable exemption from registration requirements.

G. Whether the certificates or other documents that evidence the shares contain a legend (1) stating that the shares have not been registered under the Securities Act and (2) setting forth or referring to the restrictions on transferability and sale of the shares under the Securities Act.

   Yes

*2014 Conversion of Series A Convertible Preferred Stock*

A. The nature of each offering (e.g., Securities Act Rule 504, intrastate, etc.);

   Issuance in reliance upon the exemption provided in Section 4(a)(2) of the Securities Act to the beneficial owner of a majority of the Issuerǒs common stock.

B. Any jurisdictions where the offering was registered or qualified;

N/A

C. The number of shares offered;

6,000,000

D. The number of shares sold;

6,000,000

E. The price at which the shares were offered, and the amount actually paid to the issuer;

Issued upon conversion of 3,000,000 shares of Series A Convertible Preferred Stock in accordance with the related certificate of designation of the rights and preferences of said securities.

F. The trading status of the shares; and

The certificate representing such securities contains a restrictive legend preventing sale, transfer or other disposition, absent registration or an applicable exemption from registration requirements.

G. Whether the certificates or other documents that evidence the shares contain a legend (1) stating that the shares have not been registered under the Securities Act and (2) setting forth or referring to the restrictions on transferability and sale of the shares under the Securities Act.

Yes

**Item 5: Financial Statements**

The following audited consolidated financial statements for the fiscal years ended December 29, 2015 and December 30, 2014 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 Issuerôs 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 Cityôs award-winning signature line of hand-crafted beers finished on-site. The extensive menu features contemporary American fare made in our scratch kitchens. Granite Cityôs 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 Nô Roll inspired atmosphere, with plenty of room for friends, music and dancing. The Cadillac Ranch menu is diverse with offerings ranging from homemade meatloaf to pasta dishes, all freshly prepared using quality ingredients.

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

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 29, 2015

E. Principal products or services, and their markets:

As of December 29, 2015, we operated 34 Granite City restaurants in 14 states and five Cadillac Ranch restaurants in five states. In February, April and May 2015, we opened a Granite City restaurant in each of Schaumburg, Illinois; Northville, Michigan; and National Harbor, Maryland. We opened a Granite City restaurant in Detroit, Michigan in February 2016 and plan to open another Granite City restaurant in 2016. In addition to this new restaurant opening, we will also relocate our restaurant in Lincoln, Nebraska to a new location within that city. Our concepts target a broad guest base by offering high quality, made-from-scratch, casual, value-priced 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 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 29, 2015:

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

| | | | |
|---|---|---|---|
| Maple Grove, MN | Roseville, MN | Carmel, IN | National Harbor, MD |
| East Wichita, KS | Madison, WI | | |

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

Our property and equipment consists of the following:

| | December 29, 2015 | December 30, 2014 |
|---|---|---|
| Land | $ 18,000 | $ 18,000 |
| Buildings | * 35,558,188 | 33,501,906 |
| Leasehold improvements | 19,398,427 | 16,069,904 |
| Equipment and furniture | 53,895,187 | 47,689,825 |
| | 108,869,772 | 97,279,635 |
| Less accumulated depreciation | (56,438,884) | (50,567,412) |
| | 52,430,888 | 46,712,223 |
| Construction-in-progress | 3,063,842 | 8,277,582 |
| | $ 55,494,730 | $ 54,989,805 |

*Includes $28,606,788 of land and buildings under capital lease.

Property owned:

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 2013, we entered into a binding agreement with Great Western Bank whereby we agreed that if Great Western Bank acquired GC Omaha LPôs interest in the ground lease of the Omaha, Nebraska Granite City restaurant either by foreclosure or voluntary surrender, we would acquire the building and improvements and assume the ground lease from Great Western Bank. In April 2014, Great Western Bank acquired GC Omaha LPôs interest in the ground lease and, following receipt of the required landlord consent, on September 30, 2015, we purchased the building and improvements and assumed the ground lease from Great Western Bank. To facilitate the transaction, we 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.

Property capital leases:

As of December 29, 2015, we operated 16 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. 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.

In December 2015, we terminated our capital lease agreement with the landlord of our St. Cloud, Minnesota restaurant upon the landlordôs sale of the property. We then entered into a 13-year lease agreement for the property which may be extended at our option for up to four additional five-year periods. The new lease is classified as an operating lease.

Property operating leases:

The land portions of the 16 property leases referenced above are classified as operating leases because the fair value of the land was 25% or more of the leased property at the inception of each lease. All scheduled rent increases for the land during the initial term of each lease are recognized on a straight-line basis. We have additional obligations under operating leases for 18 Granite City restaurants and five Cadillac Ranch restaurants. The expiration of the initial terms of the ground leases upon which we operate these restaurants range from 2016 through 2029. All but one of these leases include options for additional terms. Under certain of the leases, we may be required to pay additional contingent rent based upon restaurant sales.

We also lease our corporate headquarters in Minneapolis, MN. Such lease has been extended through May 2016.

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

A. Names of Officers, Directors and Control Persons

| | | |
|---|---|---|
| Executive Officers: | Robert J. Doran, Chief Executive Officer[2]<br>Jeffrey L. Rager, Chief Financial Officer<br>Jeffery M. Dean, Chief Operating Officer[3]<br>Monica A. Underwood, Vice President of Finance and Corporate Secretary | |
| Directors: | Fouad Z. Bashour, Chairman<br>Robert J. Doran<br>H. G. Carrington, Jr.<br>Eugene E. McGowan | Joel C. Longtin<br>Richard H. Lynch[4]<br>Michael S. Rawlings<br>Michael H. Staenberg |
| Control Persons: | Concept Development Partners LLC<br>Eugene E. McGowan<br>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. 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 personôs 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 personôs involvement in any type of business or securities activities.

[2] Mr. Doran intends to step down as Granite Cityôs Chief Executive Officer upon the first to occur of the appointment of his successor or December 31, 2016.
[3] Mr. Dean became Granite Cityôs Chief Operating Officer effective February 1, 2016.
[4] Mr. Lynch joined Granite Cityôs Board of Directors on January 26, 2016.

C. Beneficial Shareholders:

Concept Development Partners LLC[5]
3879 Maple Avenue
Suite 400
Dallas, TX 75219
78.5% common stock

Eugene E. McGowan[6]
101 North Main Avenue
Suite 325
Sioux Falls, SD 57104
14.4% common stock

DHW Leasing, L.L.C.[7]
230 S. Phillips Avenue, Suite 202
Sioux Falls, SD 57104
11.6% common stock

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[5] 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. CDPôs 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 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, 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.

[6] Includes 5,674 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 2,077,003.

[7] 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. DHWôs address is 230 S. Phillips Avenue, Suite 202, Sioux Falls, SD 57104.

**Item 9: Third Party Providers**

| | |
|---|---|
| Legal Counsel: | Brett D. Anderson<br>Briggs and Morgan, P.A.<br>2200 IDS Center<br>80 South 8th Street<br>Minneapolis, MN 55402<br>(612) 977-8417<br>banderson@briggs.com |
| Accountant or Auditor: | Charles Selcer<br>Schechter, Dokken, Kanter, Andrews & Selcer, Ltd.<br>100 Washington Avenue South, Suite 1600<br>Minneapolis, MN 55401<br>(612) 332-9319<br>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 24, 2016

by:/s/ Robert J. Doran
Robert J. Doran
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 24, 2016

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 Year Ended December 29, 2015

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

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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 29, 2015 and December 30, 2014, and the related consolidated statements of operations, shareholdersô deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Companyõs 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 standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 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 financial position of Granite City Food & Brewery Ltd. as of December 29, 2015 and December 30, 2014, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

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

Minneapolis, Minnesota
March 24, 2016

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

| | December 29, 2015 | December 30, 2014 |
|---|---|---|
| ASSETS: | | |
| Current assets: | | |
| Cash and cash equivalents | $ 3,659,509 | $ 1,974,237 |
| Inventory | 2,154,227 | 1,872,104 |
| Prepaids and other | 2,006,518 | 1,796,034 |
| Total current assets | 7,820,254 | 5,642,375 |
| | | |
| Prepaid rent, net of current portion | 293,607 | 394,185 |
| Property and equipment, net | 55,494,730 | 54,989,805 |
| Intangible and other assets, net | 3,023,474 | 3,235,131 |
| Deferred loss on sale leaseback | 9,924,646 | 5,827,639 |
| Total assets | $ 76,556,711 | $ 70,089,135 |
| | | |
| LIABILITIES AND SHAREHOLDERS' DEFICIT: | | |
| Current liabilities: | | |
| Accounts payable | $ 3,053,478 | $ 4,425,146 |
| Accrued expenses | 12,531,390 | 10,349,698 |
| Deferred rent, current portion | 458,511 | 572,274 |
| Long-term debt, current portion | 1,334,481 | 1,250,000 |
| Capital lease obligations, current portion | 1,178,346 | 1,118,176 |
| Total current liabilities | 18,556,206 | 17,715,294 |
| | | |
| Deferred rent, net of current portion | 5,409,331 | 5,501,308 |
| Other liabilities - interest rate swap | 298,119 | 270,469 |
| Line of credit, net of current portion | 10,000,000 | 4,500,000 |
| Long-term debt, net of current portion | 22,851,009 | 23,125,000 |
| Capital lease obligations, net of current portion | 24,225,051 | 23,773,801 |
| Total liabilities | 81,339,716 | 74,885,872 |
| Shareholders' deficit: | | |
| Preferred stock, $0.01 par value, 10,000,000 shares authorized; no shares outstanding | - | - |
| Common stock, $0.01 par value, 90,000,000 shares authorized; | | |
| 14,360,981 shares issued and outstanding | 143,610 | 143,610 |
| Additional paid-in capital | 81,854,149 | 81,577,802 |
| Retained deficit | (86,780,764) | (86,518,149) |
| Total shareholders' deficit | (4,783,005) | (4,796,737) |
| Total liabilities and shareholders' deficit | $ 76,556,711 | $ 70,089,135 |

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 29, 2015 | December 30, 2014 |
| Restaurant revenue | $ 150,640,949 | $ 136,161,765 |
| Cost of sales: | | |
| Food, beverage and retail | 39,987,064 | 37,071,678 |
| Labor | 50,001,886 | 44,516,420 |
| Direct restaurant operating | 23,023,503 | 21,065,823 |
| Occupancy | 13,611,623 | 11,898,925 |
| Cost of sales and occupancy | 126,624,076 | 114,552,846 |
| General and administrative | 9,128,106 | 10,417,850 |
| Depreciation and amortization | 8,517,823 | 7,584,605 |
| Pre-opening | 2,204,350 | 1,789,780 |
| Acquisition costs | 127,997 | 66,651 |
| (Gain) loss on disposal/impairment of assets | (40,202) | 618,034 |
| Exit or disposal activities | 33,636 | 36,459 |
| Total cost and expenses | 146,595,786 | 135,066,225 |
| Operating income | 4,045,163 | 1,095,540 |
| Interest: | | |
| Income | 35 | 4,150 |
| Expense on capital leases | (2,420,196) | (2,305,422) |
| Other interest expense | (1,803,199) | (1,796,593) |
| Net interest expense | (4,223,360) | (4,097,865) |
| Loss before income tax | (178,197) | (3,002,325) |
| Income tax expense | 84,418 | 59,611 |
| Net loss | $ (262,615) | $ (3,061,936) |
| Loss per common share, basic | $ (0.02) | $ (0.36) |
| Weighted average shares outstanding, basic | 14,360,981 | 8,464,058 |

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

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

| | Preferred Stock | | Common Stock | | | | |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Additional Paid-in Capital | Retained Deficit | Shareholdersô Deficit |
| Balance at December 31, 2013 | 3,000,000 | $ 30,000 | 8,307,649 | $ 83,076 | $ 81,552,313 | $ (83,456,213) | $ (1,790,824) |
| Compensation expense on options | - | - | - | - | 190,071 | - | 190,071 |
| Decrease in fair value of warrants upon redemption of redeemable preferred stock | - | - | - | - | (200,285) | - | (200,285) |
| Accretion of redeemable preferred stock | - | - | - | - | (14,828) | - | (14,828) |
| Exercise of warrants | - | - | 53,332 | 534 | 80,531 | - | 81,065 |
| Conversion of convertible preferred stock | (3,000,000) | (30,000) | 6,000,000 | 60,000 | (30,000) | - | - |
| Net loss | - | - | - | - | - | (3,061,936) | (3,061,936) |
| 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) |

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 29, 2015 | December 30, 2014 |
| Cash flows from operating activities: | | |
| Net loss | $ (262,615) | $ (3,061,936) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 8,517,823 | 7,584,605 |
| Amortization of deferred loss & acquisition cost | 888,545 | 458,354 |
| Stock option expense | 276,347 | 190,071 |
| Non-cash interest expense | 49,575 | 302,336 |
| (Gain)/loss on disposal/impairment of assets | (40,202) | 618,034 |
| Deferred rent | (227,665) | 602,289 |
| Changes in operating assets and liabilities: | | |
| Inventory | (282,123) | (55,617) |
| Prepaids and other | (355,510) | 226,965 |
| Accounts payable | (392,138) | (2,562,283) |
| Accrued expenses | 2,000,326 | 845,732 |
| Net cash provided by operating activities | 10,172,363 | 5,148,550 |
| Cash flows from investing activities: | | |
| Purchase of: | | |
| Property and equipment | (17,915,610) | (12,484,778) |
| Proceeds from tenant improvement allowance | 4,228,309 | 2,846,596 |
| Intangible and other assets | (15,703) | (121,033) |
| Net cash used in investing activities | (13,703,004) | (9,759,215) |
| Cash flows from financing activities: | | |
| Proceeds from line of credit | 9,650,000 | 8,300,000 |
| Payments on line of credit | (4,150,000) | (3,300,000) |
| Payments on capital lease obligations | (1,241,977) | (1,087,224) |
| Payments on long-term debt | (1,269,510) | (882,308) |
| Proceeds from long-term debt | 140,000 | 1,069,942 |
| Proceeds from sale leaseback | 2,087,400 | - |
| Payment of swap | - | (138,500) |
| Debt issuance costs | - | (135,163) |
| Net proceeds from issuance of common stock | - | 81,065 |
| Net cash provided by financing activities | 5,215,913 | 3,907,812 |
| Net increase (decrease) increase in cash | 1,685,272 | (702,853) |
| Cash and cash equivalents, beginning | 1,974,237 | 2,677,090 |
| Cash and cash equivalents, ending | $ 3,659,509 | $ 1,974,237 |

| | | |
|---|---|---|
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | $ 4,045,465 | $ 3,753,910 |
| Cash paid for state minimum fees | $ 74,511 | $ 30,835 |
| | | |
| Supplemental disclosure of non-cash investing and financing activities: | | |
| Land, buildings and equipment acquired under capital lease agreements/amendments and long-term debt, net | $ 2,678,396 | $ - |
| Change in fair value of interest rate swap | $ 27,650 | $ 280,412 |
| Property and equipment, intangibles and equity costs included in accounts payable and accrued expenses | $ 230,592 | $ 3,040,562 |
| Proceeds from sale leaseback included in prepaids and other | $ - | $ 245,604 |
| Deferred loss on sale leaseback | $ 4,951,338 | $ 1,560,248 |
| Line of credit refinanced to long-term debt | $ - | $ 500,000 |
| Intangibles acquired through financing | $ - | $ 342,500 |
| Principal refinanced on long-term debt | $ - | $ 21,129,166 |
| Principal refinanced on line of credit | $ - | $ 2,000,000 |
| Prepaid rent acquired through financing | $ - | $ 378,750 |
| Redeemable preferred stock redeemed through financing | $ - | $ 2,000,000 |
| Accrued expenses paid with financing | $ - | $ 79,642 |
| 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®.

Its original restaurant concept 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 extensive menu features contemporary American fare made in our scratch kitchens. The Company opened its first Granite City restaurant in St. Cloud, Minnesota in July 1999 and has since expanded, operating 34 Granite City restaurants as of December 29, 2015. During 2015, the Company opened a Granite City restaurant in each of Schaumburg, Illinois; Northville, Michigan; and National Harbor, Maryland. The Company opened a Granite City restaurant in Detroit, Michigan in February 2016 and plans to open another Granite City restaurant in 2016. In addition to this new restaurant opening, the Company will also relocate its restaurant in Lincoln, Nebraska to a new location within that city.

Additionally, 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. In 2007, the Company was granted a patent by the United States Patent Office for its brewing process and in June 2010, was granted an additional patent for an apparatus for distributed production of beer.

Between November 2011 and May 2012, the Company purchased the assets of six Cadillac Ranch All American Bar & Grill restaurants along with the intellectual property of Cadillac Ranch. Cadillac Ranch restaurants feature 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 Cadillac Ranch menu is diverse with offerings ranging from homemade meatloaf to pasta dishes, all freshly prepared using quality ingredients. Having determined to cease operating the Annapolis, Maryland location, the Company did not exercise its option to renew the lease, and as such, discontinued operations there on January 15, 2014.

Principles of consolidation and basis of presentation

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 March 24, 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 2015 ended on December 29, 2015 and fiscal year 2014 ended on December 30, 2014. Fiscal years 2015 and 2014 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 Companyôs workers compensation and general liability insurance packages, which are financed at a 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.

The estimated useful lives are as follows:

| | |
|---|---|
| Computer hardware and software | 3 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 Companyõs management considers such factors as the Companyõs 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 West Wichita, Kansas restaurant, evidenced by a history of negative cash flow as well as a downturn in sales trends. While management is making changes it believes will generate positive cash flow through changes in operating hours and reduced labor and direct operating expenses, it believes the carrying value of the restaurantõs assets will continue to exceed such cash flow. Management believes this change in the financial performance of the restaurant could impair some of its long-lived assets. As such, an impairment loss of $235,198 is included in ñgain/loss on disposal/impairment of assetsò on the Companyõs consolidated statements of operations. The carrying value of the restaurantõs assets were reduced as follows:

| Long-lived assets | Impairment Recorded | Weighted Average Remaining Life |
|---|---|---|
| Building lease | $ 206,840 | 10.6 years |
| Leasehold Improvements | $ 15,795 | 10.6 years |
| Equipment | $ 12,563 | 4.8 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.

Also included in other assets are security deposits and deferred loan costs. Deferred loan costs are amortized straight-line over the term of the financing agreements which does not differ materially from the effective interest method of amortizing such costs.

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 includes a tenant improvement allowance the Company received, which is being amortized as a reduction of rent expense also on a straight-line basis over the initial term of the lease.

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 2). The Company accounts for this derivative using fair value accounting and measurements described in Note 4. The fair value of the interest rate swap is recorded on the consolidated balance sheet in other assets or other liabilities, depending on the fair value of the swap. The change in the fair value of the swap is recorded on the consolidated statements of operations in other interest expense.

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

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 Companyǿs 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 2015 and 2014 and were $562,202 and $513,183, 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 restaurantǿs 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 2015 and 2014:

| | Fiscal Year 2015 | Fiscal Year 2014 |
|---|---|---|
| Weighted average risk-free interest rate | 1.73% - 2.4% | 2.2% - 3.0% |
| Expected life of options | 10 years | 10 years |
| Expected stock volatility | 85.8% - 87.2% | 85.8% - 86.3% |
| 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 Companyǿs 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. Calculations of the Companyós net loss per common share for the fiscal years 2015 and 2014 are set forth in the table below:

| | Fiscal Year 2015 | | Fiscal Year 2014 | |
|---|---|---|---|---|
| Net loss | $ | (262,615) | $ | (3,061,936) |
| Less accretion of redeemable preferred stock | | - | | (14,828) |
| Net loss attributable to common shareholders | $ | (262,615) | $ | (3,076,764) |
| Loss per common share, basic | $ | (0.02) | $ | (0.36) |
| Weighted average shares outstanding, basic | | 14,360,981 | | 8,464,058 |

Stock options and warrants for the purchase of 1,598,988 common shares at December 29, 2015 and 1,561,160 common shares at December 30, 2014, 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 Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09 ñRevenue with Contracts from Customers.ò ASU 2014-09 supersedes the current revenue recognition guidance, including industry-specific guidance. The guidance introduces a five-step model to achieve its core principal of the entity recognizing revenue to depict the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The updated guidance is effective for interim and annual periods beginning after December 15, 2017 and early adoption is permitted only for interim and annual periods beginning after December 15, 2016. The Company does not expect that the adoption of this amendment will have a material impact on the Companyós financial condition, liquidity or results of operations.

In April 2015, the FASB issued ASU No. 2015-03, "Interestð 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 amendments for this ASU are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption of the amendments is permitted for financial statements that have not been previously issued. The Company does not expect that the adoption of this amendment will have a material impact on the Companyós financial condition, liquidity or results of operations.

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 lesseeós 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 lesseeós 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

Reclassifications

Certain minor reclassifications have been made to the consolidated financial statements for fiscal year 2014 for them to conform to the presentation of the consolidated financial statements for fiscal year 2015. These reclassifications have no effect on the accumulated deficit or net loss previously reported.

Subsequent events

The Company has evaluated subsequent events through March 24, 2016, 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 29, 2015 and December 30, 2014, 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 4).

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) |

The following table presents the fair value of liabilities measured on a recurring basis as of December 30, 2014:

| Description | Level 1 | Level 2 | Level 3 | Total Liability |
|---|---|---|---|---|
| Interest rate swap fair value | $ - | ($270,469) | $ - | ($270,469) |

There were no transfers between levels of the fair value hierarchy during fiscal years 2015 or 2014.

**3. Significant events**

In February 2015, the Companyǿs Board of Directors engaged Houlihan Lokey Capital, Inc., an investment bank, to assist it in exploring a possible strategic transaction. Under the engagement agreement, Houlihanǿs services included soliciting, coordinating, and evaluating indications of interest and proposals regarding a possible strategic transaction, and assisting the Board in negotiating financial aspects of a possible strategic transaction. In December 2015, the Board, having completed its review of possible strategic transactions, determined to cease soliciting indications of interest and to terminate the engagement of Houlihan Lokey.

**4. Credit facility and long-term debt**

In May 2014, the Company entered into a $40.0 million credit agreement with RBS Citizens, N.A. (ñCitizens Bankò). The agreement, which is secured by liens on the Companyǿs subsidiaries, personal property, fixtures and real estate owned or to be acquired, provides for a secured term loan in the amount of $25.0 million which was advanced in a single borrowing on May 15, 2014, and a secured line of credit in the amount of $15.0 million, of which $2.0 million was advanced in a single borrowing on the same day. Subject to the terms and conditions of the credit agreement, Citizens Bank has also agreed to issue standby letters of credit in an aggregate undrawn face amount up to $1.0 million. The agreement restricts the Company from declaring or making dividend payments in cash or stock and does not allow the Company to repurchase any of its outstanding securities. Additionally, the credit agreement contains customary covenants, representations and warranties, and certain financial covenants, and matures on May 15, 2019.

A portion of the proceeds from the term loan was used to retire all of the Companyǿs then-existing long-term debt and line of credit borrowings. At the time of the borrowing, the term and credit line loan required the payment of interest at a fluctuating rate per annum equal to 3.65% plus LIBOR. The Company pays a line of credit commitment fee equal to the difference between the total line of credit commitment and the amount outstanding under the line of credit, plus outstanding letters of credit, equal to 0.25% of the unused line.

The Company is obligated to make principal payments on the term loan in quarterly installments which commenced June 30, 2014, each in the amount of $312,500, with a final payment of principal and interest on May 15, 2019. The line of credit loan is paid in equal quarterly installments commencing on July 1, 2017 in an amount sufficient to reduce the outstanding principal balance by 1.25% per quarter with a final payment of all principal and interest due on May 15, 2019. The payment calculation will adjust annually.

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 Companyǿs 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 on the consolidated balance sheet in other assets or other liabilities, 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 decrease in the fair value of the swap agreement was $27,651 and $270,469 as of December 29, 2015 and December 30, 2014, respectively, and 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 LPôs 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 LPôs 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.

As of December 29, 2015, future maturities of long-term debt and line of credit, exclusive of interest, were as follows:

| | |
|---|---|
| Year ending: | |
| 2016 | $ 1,334,481 |
| 2017 | 1,589,246 |
| 2018 | 1,844,281 |
| 2019 | 28,724,599 |
| Thereafter | 692,883 |
| | $ 34,185,490 |

The foregoing table does not include line of credit advances subsequent to December 29, 2015. As of March 24, 2016 the Company had $11.0 million outstanding on the line of credit. During fiscal years 2015 and 2014, the Company incurred $1,889,506 and $1,881,346, respectively, in interest expense related to long-term debt. Of such interest, $87,870 and $90,191, was capitalized in fiscal years 2015 and 2014, respectively, as the Company constructed new restaurants.

## 5. Debt retired

In May 2014, using a portion of the proceeds from the credit agreement with Citizens Bank, the Company retired all obligations under its credit agreement with Fifth Third Bank. At the time the debt was retired, such agreement with Fifth Third Bank provided for a term loan in the amount of $16.0 million, a CapEx line of up to $13.0 million until December 31, 2014 and $10.0 million thereafter, a $100,000 line of credit to issue standby letters of credit; and a delayed draw term loan (ñDDTLò) in the amount of $4.0 million to acquire improvements and assume related ground leases for six of the Companyôs existing restaurant properties from entities related to or managed by Dunham Capital Management L.L.C. (ñDCMò). In December 2013, the Company used $3.7 million of the DDTL to acquire such properties.

Per the terms of the credit agreement with Fifth Third Bank, the Company entered into a three-year interest rate swap agreement to fix interest rates on a portion of this debt. Under the swap agreement, the Company paid a fixed rate of 1.02% and received interest at the one-month LIBOR on a notional amount of $12.0 million. This effectively made the Companyôs interest rate 5.77% on $12.0 million of its debt. The fair value of the swap agreement decreased $27,650 and $9,943 in fiscal years 2015 and 2014, respectively. Such change in value was recorded as interest expense in the consolidated statements of operations. At the time such debt was retired, the Company terminated this interest rate swap agreement with a payment of $138,500.

The following chart reflects the debt the Company retired using the proceeds from its credit agreement with Citizens Bank:

| Description of Debt | Principal retired |
|---|---|
| Promissory note the Company issued to an Indiana general partnership in the amount of $250,000 in August 2008. The note was issued to obtain the liquor license for the Companyôs restaurant located in South Bend, Indiana. | $ 223,793 |
| Promissory note the Company issued to the mall owner of the restaurant in Rogers, Arkansas in the amount of $400,000. The Company ceased operating the restaurant in 2008. | $ 116,085 |
| Loan agreement between the Company and First Midwest Bank in March 2011 for $1.3 million for the purchase of the buildings and all related improvements associated with its Indianapolis and South Bend, Indiana restaurants. | $ 1,188,587 |
| Amended and restated credit agreement with the Fifth Third Bank dated May 31, 2013 which, at the time of retirement, included a $15.4 million term loan, $3.7 million delayed draw term loan used to purchase building and improvements at six of the Companyôs restaurant locations, and line of credit borrowings of $2.5 million to fund capital expenditures. | $ 21,600,701 |

**6. Redemption of redeemable preferred stock**

In December 2013, the Company entered into a Securities Purchase Agreement with Michael Staenberg, Trustee of the MHS Trust dated January 13, 1986 (ñMHS Trustò), pursuant to which it sold 2,000 shares of Redeemable Preferred Stock, par value $0.01 per share, and a warrant to purchase up to 350,000 shares of common stock at an exercise price of $1.50 per share, for an aggregate purchase price of $2.0 million. MHS Trust is controlled by Michael H. Staenberg, one of the Companyôs directors. The Redeemable Preferred Stock, which had a stated value of $1,000 per share, was non-voting and non-convertible. The holder of the Redeemable Preferred Stock was entitled to receive cumulative dividends, out of funds legally available therefor, at a rate of 11% per year. Such dividends were payable quarterly until the Redeemable Preferred Stock was redeemed in full.

In May 2014, using a portion of the proceeds from the credit agreement with Citizens Bank, the Company redeemed in full such shares of Redeemable Preferred Stock. The Company paid dividends on the Redeemable Preferred Stock totaling $100,833 between the time of issuance and the time of redemption. With the redemption of the Redeemable Preferred stock, 175,000 shares underlying the warrant issued MHS Trust were forfeited and charged against paid-in capital.

The initial carrying amount of the redeemable preferred stock transaction was recorded as liability on the Companyôs balance sheet and was recorded at its fair value. The Company determined the fair value of the warrant to purchase up to 350,000 shares of common stock using the Black-Scholes pricing model. As the fair value of the transaction at the issue date was less than the mandatory redemption amount, the carrying amount was increased by periodic accretions so that the carrying amount would equal the mandatory redemption amount at the mandatory redemption date. Such increases were charged against paid-in capital.

## 7. Property and equipment

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

| | December 29, 2015 | | December 30, 2014 | |
|---|---|---|---|---|
| Land | $ | 18,000 | $ | 18,000 |
| Buildings | | 35,558,188 | | 33,501,906 |
| Leasehold improvements | | 19,398,427 | | 16,069,904 |
| Equipment and furniture | | 53,895,187 | | 47,689,825 |
| | | 108,869,772 | | 97,279,635 |
| Less accumulated depreciation | | (56,438,884) | | (50,567,412) |
| | | 52,430,888 | | 46,712,223 |
| Construction-in-progress * | | 3,063,842 | | 8,277,582 |
| | $ | 55,494,730 | $ | 54,989,805 |

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

| | 2015 | 2014 |
|---|---|---|
| Prototype/Leasehold improvements/Equipment for future locations | $3,054,000 | $7,696,000 |
| Enhancements/Equipment for existing locations | $ 10,000 | $ 582,000 |

Interest is capitalized during the period of development based upon applying the Companyĝs borrowing rate to the actual development costs incurred. Total depreciation expense was $8,314,356 and $7,324,223 in fiscal years 2015 and 2014, respectively.

## 8. Intangible and other assets

Intangible assets and other assets consisted of the following:

| | December 29, 2015 | | December 30, 2014 | |
|---|---|---|---|---|
| Intangible assets: | | | | |
| Liquor licenses | $ | 948,471 | $ | 923,273 |
| Trademarks | | 1,777,607 | | 1,777,669 |
| Other: | | | | |
| Deferred loan costs | | 480,079 | | 478,353 |
| Security deposits | | 388,147 | | 443,312 |
| | | 3,594,304 | | 3,622,607 |
| Less accumulated amortization | | (570,830) | | (387,476) |
| | $ | 3,023,474 | $ | 3,235,131 |

Management estimates amortization expense of $183,436 in each fiscal years 2016, 2017 and 2018, $120,560 in fiscal year 2019 and $88,848 in fiscal year 2020. Total amortization expense was $203,467 and $260,382 and in fiscal years 2015 and 2014, respectively.

## 9. Accrued expenses

Accrued expenses consisted of the following:

| | December 29, 2015 | December 30, 2014 |
|---|---|---|
| Payroll and related | $ 5,324,638 | $ 3,048,993 |
| Deferred revenue from gift card sales | 3,833,100 | 3,875,135 |
| Sales taxes | 717,534 | 901,585 |
| Income tax | 38,589 | 28,776 |
| Interest | 461,060 | 332,705 |
| Real estate taxes | 508,480 | 452,812 |
| Credit card fees | 305,758 | 259,739 |
| Marketing | 370,806 | 228,279 |
| Construction in progress | 177,408 | 752,813 |
| Other | 794,017 | 468,861 |
| | $ 12,531,390 | $ 10,349,698 |

## 10. 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 is being amortized to reduce rent expense over the initial term of the lease using the straight-line method.

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 29, 2015 | December 30, 2014 |
|---|---|---|
| Difference between minimum rent and straight-line rent | $ 5,737,568 | $ 5,773,502 |
| Warrant fair value | (122,812) | (144,737) |
| Deferred lease payments | 2,479 | 6,843 |
| Contingent rent based on restaurant revenue | 131,718 | 289,085 |
| Tenant improvement allowance | 118,889 | 148,889 |
| | $ 5,867,842 | $ 6,073,582 |

## 11. Leases

Capital leases

As of December 29, 2015, the Company operated 16 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 Companyôs 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 landlordôs 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 will lease 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 29, 2015 | December 30, 2014 |
|---|---|---|
| Land | $ - | $ 18,000 |
| Building | 28,606,788 | 28,570,405 |
| | 28,606,788 | 28,588,405 |
| Less accumulated depreciation | (10,842,638) | (11,859,085) |
| | $ 17,764,150 | $ 16,729,320 |

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

Operating leases

The land portions of the 16 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 29, 2015, the Company had obligations under operating leases for 18 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 2030. Virtually all 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 August 2013, the Company entered into an agreement to purchase approximately two acres of property in Naperville, Illinois where it opened a Granite City restaurant in October 2014. In March 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 $2.0 million and sold it to Store Capital for the same amount. Pursuant to the sale leaseback agreement, Store Capital purchased the improvements for approximately $2.5 million. 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 $1.6 million which will be amortized to rent expense over the life of the lease. Through the build out or ñrent holidayò period, the Company recorded an aggregate of $132,323 of non-cash rent and $118,242 cash rent expense in pre-opening costs. The Company is leasing the property for an initial term of 15 years at an annual rental amount of $399,375. Such agreement includes options for additional terms and provisions for rental adjustments.

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 will pay 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 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 will provide up to $500,000 to renovate certain of the Companyôs restaurant properties. Any disbursement amounts will be multiplied by a capitalization rate of 7.5% and added to the base rent.

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.

In February 2012, the Company entered into a 46-month lease agreement for approximately 8,831 square feet of office space for its corporate offices. In December 2015, the Company negotiated a lease extension through May 2016. Monthly rent for this space is $24,870.

Minimum future lease payments under all capital and operating leases as of December 29, 2015 are as follows:

| Fiscal Year ending: | Capital Leases | Operating Leases |
|---|---|---|
| 2016 | $ 3,439,344 | $ 9,008,903 |
| 2017 | 3,463,114 | 8,607,017 |
| 2018 | 3,549,142 | 8,197,319 |
| 2019 | 3,567,553 | 7,915,619 |
| 2020 | 3,592,995 | 7,909,368 |
| Thereafter | 25,037,324 | 39,143,149 |
| Total minimum lease payments | 42,649,472 | $ 80,781,375 |
| Less amount representing interest | (17,246,075) | |
| Present value of net minimum lease payments | 25,403,397 | |
| Less current portion | (1,178,346) | |
| Long-term portion of obligations | $ 24,225,051 | |

The foregoing table does not include lease payments on leases with commencement dates subsequent to December 29, 2015. Rental expense for fiscal years 2015 and 2014 on all operating leases was $10,447,217 and $9,677,807, respectively. Included in rent expense at December 29, 2015 and December 30, 2014, was $307,145 and $469,485, respectively, of contingent rent expense based on restaurant revenue.

At December 29, 2015, the annual implicit interest rates on the land and building leases were between 4.8% and 13.0%. The average interest rate on the building capital leases was 9.9%. Interest expense on these leases was $2,420,196 and $2,305,422 for fiscal years 2015 and 2014, respectively. Total future minimum lease payments do not include contingent rent that is based on restaurant revenue.

## 12. Income taxes

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

| | Fiscal Year Ended | |
|---|---|---|
| | December 29, 2015 | December 30, 2014 |
| Current income taxes: | | |
| Federal | $ - | $ - |
| Prior year state | (15,551) | (6,682) |
| Current year state | (68,867) | (52,929) |
| Current tax expense | (84,418) | (59,611) |
| Deferred income taxes: | | |
| Federal | 799,642 | 1,638,813 |
| State | (192,217) | 371,188 |
| Effect of change in rate used | - | - |
| Deferred income tax benefit | 607,425 | 2,010,001 |
| Net change to valuation allowance | $ (607,425) | $ (2,010,001) |
| Total income tax expense | $ (84,418) | $ (59,611) |

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

| | 2015 | 2014 |
|---|---|---|
| Statutory U.S. tax rate | 34.0% | 34.0% |
| State Taxes, net of federal benefit | -27.5% | 4.5% |
| Stock option compensation | -21.9% | -1.0% |
| Permanent differences | -17.5% | -1.4% |
| U.S. business credits | 478.6% | 24.0% |
| All others, net | -142.6% | 3.5% |
| Valuation allowance | -351.6% | -65.6% |
| Effective tax rate | -48.5% | -2.0% |

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 year ended December 29, 2015 and December 30, 2014, the state estimate was 7.1%.

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

| | Fiscal Year Ended | |
|---|---|---|
| | December 29, 2015 | December 30, 2014 |
| Deferred tax assets: | | |
| Share-based compensation | $ 1,405,345 | $ 1,331,852 |
| Net operating loss carryforwards | 15,612,470 | 15,441,176 |
| General business credit carryforwards | 9,592,101 | 8,183,732 |
| Deferred rent payable | 2,274,700 | 2,331,880 |
| Property and equipment | 713,033 | 1,630,954 |
| Amortization | 138,302 | 203,990 |
| Other future deductible items | 596,034 | 451,481 |
| | 30,331,985 | 29,575,065 |
| Deferred tax liabilities: | | |
| Smallwares | (1,028,183) | (878,688) |
| Net deferred tax assets | 29,303,802 | 28,696,377 |
| Valuation Allowance | (29,303,802) | (28,696,377) |
| Net deferred tax assets, net of valuation allowance | $ - | $ - |

For income tax return purposes, the Company had federal net operating loss carryforwards of approximately $41,598,000 and $40,839,000 as of December 29, 2015, and December 30, 2014, respectively. The Company also had federal general business credit carryforwards of approximately $9,589,000 and $8,182,000, 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 $22,508,000 and $20,458,000 as of December 29, 2015, and December 30, 2014, 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.

## 13. Commitments and contingencies

Leases

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 of approximately $2.0 million. Annual rent starts at $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 a 10-year lease agreement for a site in Lincoln, Nebraska where it plans to relocate its Granite City restaurant in 2016. Per the terms of the lease, annual base rent starts at approximately $238,000 with scheduled increases throughout the term. 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 periods. In connection with the new lease agreement, the Company entered into an agreement with the landlord for the existing Lincoln site to allow the Company to buyout the existing lease, purchase the improvements, and directly assume the ground lease. The Company plans to buyout the existing lease and then terminate the ground lease immediately prior to the rent commencement under the new Lincoln lease.

In September 2015, the Company entered into a 15-year lease agreement for a site in Northbrook, Illinois where it plans to open a Granite City restaurant in 2016. 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.

Litigation

From time to time, lawsuits are threatened or filed against the Company in the ordinary course of business. Such lawsuits typically involve claims from customers, former or current employees, and others related to issues common to the restaurant industry. A number of such claims may exist at any given time. Although there can be no assurance as to the ultimate disposition of these matters, it is management’s opinion, based upon the information available as of March 24, 2016, that the expected outcome of these matters, individually or in the aggregate, will not have a material adverse effect on the results of operation, liquidity or financial condition of the Company.

Employment agreements

*Chief Executive Officer*: Effective January 1, 2013, the Company entered into an employment agreement with Robert J. Doran, which as a consequence of subsequent amendments, currently provides for Mr. Doran’s employment as the Company’s Chief Executive Officer through the earlier to occur of the commencement of employment of his successor or December 31, 2016. If, during the term, the Company terminates Mr. Doran’s employment 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 Company’s board of directors, of $355,000. In addition, Mr. Doran is eligible during 2016 for a bonus of up to 50% of any portion of his base salary that is payable to him for periods of employment in 2016 prior to his termination date, based on achieving performance targets determined by the Company’s compensation committee, as well as participation in the Company’s other employee benefit plans and expense reimbursement. If Mr. Doran’s termination date occurs on or after July 1, 2016 and on or before October 31, 2016, then any bonus will be calculated and pro-rated as appropriate based upon the financial performance of the Company during the portion of the year in which Mr. Doran was employed with the Company.

Mr. Doran has agreed to remain an active member of the CEO selection committee, participate in the interviewing/vetting process for his replacement, and be available to the Company for consultation and other assistance as requested by his replacement or the Companyôs board of directors for up to an aggregate of 400 hours (but generally not to exceed 20% of his working time) during any period in which severance payments are made without further compensation, except that the Company will pay Mr. Doranôs reasonable expenses incurred in providing such consultation and other assistance.

The Company has also agreed to remove Mr. Doran and his spouse from all liquor licenses as soon as commercially reasonable after his termination date and to indemnify Mr. Doran and his spouse from liability for liquor related claims brought against them based solely on the fact that their names appear on such liquor licenses and are wholly unrelated to their directions, decisions, or other actions or omissions.

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.

Mr. Doran has 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.

*Chief Financial Officer*: Effective July 14, 2014, the Company entered into an employment agreement with Jeffrey L. Rager, which, as amended, provides for Mr. Ragerôs employment as the Companyôs Chief Financial Officer through July 14, 2017. 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 one year of base salary and a partial performance bonus, if earned, through the date of termination. In the event of a termination without cause of Mr. Rager or for good reason by Mr. Rager following a change in control of the Company, the Company has agreed to pay to Mr. Rager, in addition to the basic one-year severance payment, an additional six months of base salary.

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 and expense reimbursement.

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 entry into his employment agreement, the Company granted Mr. Rager a ten-year 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.

*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 entry into his employment agreement, the Company granted Mr. Dean a ten-year stock option to purchase 55,000 shares of the Companyés common stock at $2.75 per share pursuant to the Companyés 2014 Non-Qualified Plan and has agreed to issue an additional ten-year stock option to purchase 55,000 shares of the Companyés common stock pursuant to the same plan as of the first anniversary of the commencement date.

Separation agreement with former executive officers

*Former Chief Financial Officer:* James G. Gilbertson, who formerly served as Chief Financial Officer of the Company, resigned from his position as Chief Financial Officer effective July 15, 2014, and his employment with the Company formally ended effective July 31, 2014. In July 2014, the Company entered into a separation agreement and release with Mr. Gilbertson (the ñSeparation Agreementò). Pursuant to the Separation Agreement, Mr. Gilbertson was to receive payments aggregating $240,000, separate bonus payments aggregating $99,925, and payment of the Companyés portion of medical (COBRA) premiums for 12 months (if eligible). In addition, the Separation Agreement made certain modifications to Mr. Gilbertsonés option awards. In particular, outstanding stock options for the purchase of (a) 6,667 shares of common stock at $2.117 per share and (b) 6,666 shares of common stock at $2.10 per share became fully vested. Furthermore, the requirement that Mr. Gilbertson exercise his stock options within three months of the end of his employment was eliminated.

*Former Chief Development Officer:* The employment of Dean S. Oakey, who formerly served as Chief Development Officer of the Company, ceased upon termination of his employment agreement, effective October 31, 2015. The Company did not enter into a separation agreement with Mr. Oakey.

Purchase commitments

The Company has entered into contracts through 2018 with certain suppliers of raw materials (primarily hops) for minimum purchases both in terms of quantity and in pricing. As of December 29, 2015, the Companyés future obligations under such contracts aggregated approximately $0.8 million.

**14. Common stock warrants**

During the first eight months of 2009, in consideration of rent reduction agreements entered into with certain of its landlords, the Company issued five-year warrants to purchase shares of the Companyés common stock to such landlords. Pursuant to the anti-dilution provisions of such agreements, the number of shares purchasable under these warrants came to be 201,125 and the weighted average exercise price came to be $1.60 per share. Prior to their expiration dates in 2014, warrants for the purchase of 37,309 shares with exercise prices ranging from $1.58 to $3.00 per share had been exercised. Warrants for the purchase of 163,816 expired unexercised.

Pursuant to the bridge loan agreement entered into in March 2009 with Harmony Equity Income Fund, L.L.C., Harmony Equity Income Fund II, L.L.C. and certain other accredited investors, the Company issued to the investors five-year warrants for the purchase of an aggregate of 53,332 shares of common stock at a price of $1.52 per share. Such warrants were exercised in March 2014.

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 Companyés common stock to such landlords. The number of shares purchasable under these warrants is 40,000 and the exercise price is $3.32 per share. As of December 29, 2015, all such warrants remained unexercised.

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 29, 2015, warrants for the purchase of an aggregate of 215,000 shares of common stock were outstanding. The weighted average exercise price of such warrants was $1.84 per share.

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

| | Number of common stock shares | Weighted average exercise price per share | Warrants exercisable |
|---|---|---|---|
| Outstanding December 31, 2013 | 607,148 | $ 1.65 | 432,148 |
| Exercised | 53,332 | $ 1.52 | |
| Forfeited | 338,816 | $ 1.55 | |
| Outstanding December 30, 2014 | 215,000 | $ 1.84 | 215,000 |
| Exercised | - | NA | |
| Forfeited | - | NA | |
| Outstanding December 29, 2015 | 215,000 | $ 1.84 | 215,000 |

## 15. 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 29, 2015, there were options outstanding under the plan for the purchase of 724,736 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 Companyôs 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 Companyôs common stock on the date of grant. As of December 29, 2015 options for the purchase of 398,144 shares were issued and outstanding under the plan and options for the purchase of 1,856 shares remained available for issuance.

In connection with his entry into his employment agreement, the Company granted its chief financial officer a ten-year 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. Due to the limited number of reserved shares remaining under the Long-Term Incentive Plan, the Company amended the 2014 Non-Qualified Plan in May 2015 to accommodate the continued issuance of annual stock option awards to the Companyôs non-employee directors and periodic stock option awards to select employees. Such amendment allowed for an additional 100,000 of shares of common stock to be reserved under the 2014 Non-Qualified Plan. As of December 29, 2015, options for the purchase of 261,108 shares were outstanding and 63,892 shares remained available for issuance of options under the 2014 Non-Qualified Plan. In January 2016, the Company further amended the 2014 Non-Qualified Plan to make an additional 150,000 shares available for issuance thereunder.

A summary of the status of the Companyǿs stock options as of December 29, 2015 and December 30, 2014 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 31, 2013 | 1,042,391 | $ | 2.29 | 6.4 years | $ | - |
| Granted | 406,565 | $ | 2.10 | 9.5 years | | |
| Exercised | - | | - | | | |
| Forfeited | (102,796) | $ | 1.96 | | | |
| 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 |
| Options exercisable at December 30, 2014 | 878,003 | $ | 2.30 | 5.1 years | $ | 18,130 |
| Options exercisable at December 29, 2015 | 964,338 | $ | 2.30 | 4.8 years | $ | 70,958 |
| Weighted-average fair value of options granted during 2015 | $ 1.70 | | | | | |

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

| | Fiscal Year 2014 | | Fiscal Year 2013 | |
|---|---|---|---|---|
| Weighted average fair value of stock options granted | $ | 1.70 | $ | 1.12 |
| Intrinsic value of stock options exercised | $ | - | $ | - |
| Fair value of stock options vested during the year | $ | 224,348 | $ | 169,698 |

The intrinsic value of stock options outstanding at December 29, 2015 and December 30, 2014 was $75,380 and $18,130, respectively. Aggregate intrinsic value is the difference between the closing price of the Companyǿs stock on December 29, 2015 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 29, 2015. As of December 29, 2015, there was approximately $284,581 of total unrecognized compensation cost related to unvested share-based compensation arrangements, of which $164,277 is expected to be recognized in fiscal year 2016, $79,902 in fiscal year 2017, $32,775 in fiscal year 2018 and $7,627 in fiscal year 2019.

The following table summarizes information about stock options outstanding at December 29, 2015:

| | 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 | 1,251,824 | 6.2 years | \$ 2.10 | 832,174 | \$ 2.09 |
| \$3.01 - \$5.00 | 127,999 | 3.7 years | \$ 3.54 | 127,999 | \$ 3.54 |
| \$5.01 - \$6.00 | 4,165 | 2.7 years | \$ 5.47 | 4,165 | \$ 5.47 |
| Total | 1,383,988 | 6.0 years | \$ 2.24 | 964,338 | \$ 2.30 |

## 16. Preferred stock

In May 2011, the Company issued 3,000,000 shares of Series A Preferred to CDP for \$9.0 million pursuant to a stock purchase agreement. The Company was obligated to pay 9% dividends on the Series A Preferred through 2013, one-half of which was in the form of common stock. In December 2014, CDP converted each share of Series A Preferred into two shares of the Company's common stock.

## 17. 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 participant's compensation. In the fiscal years 2015 and 2014, the Company contributed \$36,337 and \$26,986 in the aggregate, respectively, under the plan.

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:**

701 Xenia Avenue South, Suite 120
Minneapolis, MN 55416

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 29, 2015.

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

See Item 6 of Annual Report for the Fiscal Year Ended December 29, 2015.

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

See Item 7 of Annual Report for the Fiscal Year Ended December 29, 2015.

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 29, 2015.

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 29, 2015.

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 29, 2015.

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