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

## Annual Report for the Fiscal Year Ended
## December 26, 2017

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

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

Granite City Food & Brewery Ltd.

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

| | |
|---|---|
| Company headquarters: | 3600 American Boulevard West, Suite 400<br>Bloomington, MN 55431<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 12/26/17: | 14,360,981 |

| | |
|---|---|
| Additional class of securities (if necessary): | |
| Trading symbol: | N/A |
| Exact title and class of securities outstanding: | N/A |
| CUSIP: | N/A |
| Par or stated value: | $0.01 (par value) |
| Total shares authorized: | 6,998,000 (Preferred Stock)<br>3,000,000 (Series A Convertible Preferred Stock)<br>2,000 (Redeemable Preferred Stock) |
| Total shares outstanding as of 12/26/17: | 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:

N/A

**Item 4: Issuance History**

N/A

**Item 5: Financial Statements**

The following audited consolidated financial statements for the fiscal years ended December 26, 2017 and December 27, 2016 are attached hereto as Exhibit A:

A. Independent Auditor's Report
B. Consolidated Balance Sheets
C. Consolidated Statements of Operations
D. Consolidated Statements of Shareholders' 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 Issuer's business operations:

We operate two casual dining concepts: Granite City Food & Brewery® and Cadillac Ranch All American Bar & Grill®. The Granite City concept features our award-winning signature line of hand-crafted beers finished on-site as well as local and regional craft beers from brewers in our various markets. In addition, our upscale casual dining restaurants offer a wide variety of menu items that are prepared fresh daily. The extensive menu features contemporary American fare made in our scratch kitchens. Granite City's attractive price point, high service standards, and great food and beer combine for a memorable dining experience. Cadillac Ranch restaurants feature freshly prepared, authentic, All-American cuisine in a fun, dynamic environment. Patrons enjoy a warm, Rock N' Roll inspired atmosphere. 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 own and operate a centralized beer production facility in Ellsworth, Iowa which facilitates the initial stages of our brewing process. The product produced at our beer production facility is then transported to the fermentation vessels at each of our Granite City restaurants where the brewing process is completed. We believe that this brewing process improves the economics of microbrewing as it eliminates the initial stages of brewing and storage at multiple locations. We have been granted patents by the United States Patent and Trademark Office for our brewing process and for an apparatus for distributed production of beer.

As of December 27, 2016, our company failed to meet certain financial covenants under our credit facility agreement with Citizens Bank, N.A. (f/k/a RBS Citizens, N.A.) ("Citizens Bank"), and on January 31, 2017, we failed to make our then required $5.0 million principal payment. We are, therefore, in default under the terms of the agreement. Such default also constitutes an event of default under our subordinated debt agreement. Therefore, we have classified all debt as current. On April 28, 2017, we entered into a forbearance agreement with Citizens Bank pursuant to which Citizens Bank agreed for a specified period of time to forbear from exercising its rights and remedies under the credit agreement, the other loan documents and applicable law. During the forbearance period, which continued through October 2, 2017, we agreed (a) to provide Citizens Bank with certain budget deliverables, (b) to take specified steps to enable payoff of the development line of credit, including raising $7.0 million of new capital, and (c) to comply with certain financial covenants. Scheduled principal and interest were required to be paid on the term loan and revolver during the forbearance period. Interest as of April 28, 2017 accrued on the development line of credit and was to be paid along with the principal at the end of the forbearance period. On June 5, 2017, in accordance with the terms and conditions of the forbearance agreement with Citizens Bank, we engaged Lincoln Partners Advisors LLC to act as our exclusive financial advisor in connection with our pursuit of new equity and/or debt financing. During the forbearance period, we were unable to successfully consummate a financing transaction and did not pay off the principal or interest associated with the development line of credit, nor did we pay principal and interest on our subordinate debt. Through December 26, 2017, we did, however, continue to pay principal and interest on our other outstanding debt with Citizens Bank. As of the filing of this report, the initial forbearance agreement had expired and, although our discussions with Citizens Bank continue, given our failure to satisfy the requirements of Citizens Bank during the forbearance period, Citizens Bank may exercise its rights under the credit agreement without notice.

Our company's ability to continue funding our operations and meet our debt service obligations continues to depend upon our operating performance and operating margins, both of which will be affected by prevailing economic conditions in the retail and casual dining industries and other factors, which may be beyond our control. Increased competition and uncertainty in the casual dining industry continue to make it more difficult to accurately forecast our results of operations and cash position, so our revenues may deteriorate beyond what we anticipate. Along with many others in the industry, we experienced decreases in comparable restaurant sales in 2016 and 2017, and these decreases have generally continued into 2018. Seeking to offset the negative impact of these sales trends, we have been implementing several initiatives that are expected to increase sales and reduce costs. Such initiatives include new marketing designed to increase brand awareness, which is intended to generate additional guest traffic. Our marketing includes email, paid social and digital media and in-store signage and displays. Additional initiatives include menu pricing adjustments, reduction of food costs, management par level reductions at selected restaurants, changes to the senior management team and a reduction in certain corporate overhead expenses. We also engaged a firm to work with our landlords to restructure leases through a variety of means in order to reduce total occupancy costs. As of this filing, we had restructured 11 of our leases and continue to negotiate another property lease. Additionally, we closed one of our lower performing restaurants in March 2017, closed four of our lower performing restaurants in October 2017, and may close additional locations. Our management believes positive results from these initiatives will be realized in the future but can give no assurance that such initiatives will offset the negative impact of these sales trends. Furthermore, our company will require additional liquidity including, but not limited to, additional equity and/or debt financing, in order to meet our current liabilities, including the repayment of our credit facility and our subordinated debt. To date, efforts to raise additional capital have been unsuccessful. We can give no assurance that we will successfully execute a financing transaction or any other transaction, and our ability to do so could be adversely affected by numerous factors, including changes in the economic or business environment, financial market volatility, and the performance of our business, and the terms and conditions of our credit agreement with Citizens Bank. Lastly, we continue to seek to identify cost savings measures to implement if trends continue; however, even after implementing such cost savings, it is possible that lower than planned sales levels would not create enough liquidity to sustain operations and continue to pay principal and interest on the term loan and revolver.

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

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

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

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

E. Principal products or services, and their markets:

As of December 26, 2017, we operated 32 Granite City restaurants in 13 states and four Cadillac Ranch restaurants in four states. Our concepts target a broad guest base by offering high quality, made-from-scratch, polished casual food, and fresh, handcrafted, quality beers.

Our prototypical Granite City restaurant consists of an approximately 9,800 square foot facility conveniently located just off one or more interstate highways and/or centrally located within the respective area's retail, lodging and transportation activity. Granite City restaurants have open atmospheres as well as outdoor patio areas used for dining during warm weather months. We use granite and other rock materials along with natural woods and glass to create a balanced, clean, natural interior feel. We believe our design creates a fun and energetic atmosphere that promotes a destination dining experience.

The average size of our Cadillac Ranch restaurants is approximately 10,000 square feet. The atmospheres are warm, Rock N' Roll-inspired. 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 following is a listing of the location of each of our restaurants in operation as of December 26, 2017:

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

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

Our property and equipment consists of the following:

| | December 26, 2017 | December 27, 2016 |
|---|---|---|
| Land | $ 18,000 | $ 18,000 |
| Buildings * | 31,350,863 | 35,205,544 |
| Leasehold improvements | 16,774,031 | 18,720,270 |
| Equipment and furniture | 53,761,439 | 59,029,397 |
| | 101,904,333 | 112,973,211 |
| Less accumulated depreciation | (62,649,431) | (63,721,160) |
| | 39,254,902 | 49,252,051 |
| Construction-in-progress | 101,378 | 310,188 |
| | $ 39,356,280 | $ 49,562,239 |

*Includes $23,722,961 and $27,474,412 of buildings under capital lease in fiscal years 2017 and 2016, respectively.

Property owned:

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

Property capital leases:

As of December 26, 2017, we operated the following 12 Granite City restaurants under capital lease agreements with expiration dates of their initial terms ranging from 2020 through 2033. Under certain of the leases, we may be required to pay additional contingent rent based upon restaurant sales.

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

At the inception and the amendment date of each of these leases, we evaluated the fair value of the land and building separately pursuant to the FASB guidance on accounting for leases. The land portion of these leases is classified as an operating lease as the fair value of the land is 25% or more of the total fair value of the lease. The building portion of these leases is classified as a capital lease because its present value was greater than 90% of the estimated fair value at the beginning or amendment date of the lease and/or the lease term represents 75% or more of the expected life of the property.

Property operating leases:

The land portions of the 12 property leases referenced above are classified as operating leases because the fair value of the land was 25% or more of the leased property at the inception of each lease. All scheduled rent increases for the land during the initial term of each lease are recognized on a straight-line basis. We have additional obligations under the following operating leases for 20 Granite City restaurants and four Cadillac Ranch restaurants.

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

The expiration of the initial terms of the ground leases upon which we operate these restaurants range from 2019 through 2036. Under certain of the leases, we may be required to pay additional contingent rent based upon restaurant sales.

In April 2016, we entered into a 67-month lease agreement for approximately 11,000 square feet of office space for our corporate offices in Minneapolis, Minnesota. Annual rent is $164,603 with scheduled increases throughout the term.

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

A. Names of Officers, Directors and Control Persons

| | | |
|---|---|---|
| Executive Officers: | Richard H. Lynch, Chief Executive Officer<br>Jeffrey L. Rager, Chief Financial Officer | |
| Directors: | Fouad Z. Bashour, Chairman<br>H. G. Carrington, Jr. | Richard H. Lynch<br>Eugene E. McGowan |

Robert J. Doran Michael H. Staenberg

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

B. Legal/Disciplinary History:

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

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

C. Beneficial Shareholders: Concept Development Partners LLC[2]
3879 Maple Avenue, Suite 400, Dallas, TX 75219
78.5% common stock

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

Eugene E. McGowan[3]
101 North Main Avenue, Suite 325, Sioux Falls, SD 57104
14.5% common stock

DHW Leasing, L.L.C.[4]
101 North Main Avenue, Suite 325, Sioux Falls, SD 57104
11.6% common stock

**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 |

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

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

**Item 10: Issuer Certifications**

I, Richard H. Lynch, 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 26, 2018

by:/s/ Richard H. Lynch
Richard H. Lynch
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 26, 2018

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

**EXHIBIT A**

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

# Consolidated Financial Statements for the Fiscal Years Ended December 26, 2017 and December 27, 2016

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

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

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

**Report on the Financial Statements**
We have audited the accompanying consolidated financial statements of Granite City Food & Brewery, Ltd., which comprise the consolidated balance sheets as of December 26, 2017 and December 27, 2016, the related consolidated statements of operations, shareholders' deficit and cash flows for the years then ended, and the related notes to the consolidated financial statements.

**Management's Responsibility for the Financial Statements**
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audit as of and for the year ended December 26, 2017, in accordance with auditing standards generally accepted in the United States of America. We conducted our audit as of and for the year ended December 27, 2016, in accordance with standards of the Public Company Accounting Oversight Board (United States). These standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**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 26, 2017 and December 27, 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter Regarding Going Concern**
The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

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

Minneapolis, Minnesota
March 26, 2018

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

| | December 26, 2017 | December 27, 2016 |
|---|---|---|
| ASSETS: | | |
| Current assets: | | |
| Cash and cash equivalents | $ 6,165,079 | $ 4,414,045 |
| Inventory | 1,680,655 | 1,949,712 |
| Prepaids and other, net | 1,241,911 | 3,661,028 |
| Total current assets | 9,087,645 | 10,024,785 |
| Prepaid rent, net of current portion | 227,695 | 260,649 |
| Property and equipment, net | 39,356,280 | 49,562,239 |
| Intangible and other assets, net | 2,411,208 | 2,602,477 |
| Deferred loss on sale leaseback | 10,704,871 | 12,203,519 |
| Total assets | $ 61,787,699 | $ 74,653,669 |
| LIABILITIES AND SHAREHOLDERS' DEFICIT: | | |
| Current liabilities: | | |
| Accounts payable | $ 1,922,091 | $ 3,174,969 |
| Accrued expenses | 14,181,679 | 11,931,068 |
| Deferred rent, current portion | 984,799 | 417,611 |
| Line of credit, current portion | 10,273,000 | 9,273,000 |
| Long-term debt, current portion | 27,897,037 | 29,283,037 |
| Capital lease obligations, current portion | 1,058,183 | 1,243,107 |
| Total current liabilities | 56,316,789 | 55,322,792 |
| Deferred rent, net of current portion | 5,177,497 | 5,683,590 |
| Other liabilities - interest rate swap | (5,199) | 180,107 |
| Capital lease obligations, net of current portion | 18,077,020 | 22,614,243 |
| Total liabilities | 79,566,107 | 83,800,732 |
| Shareholders' deficit: | | |
| Common stock, $0.01 par value, 90,000,000 shares authorized; 14,360,981 shares issued and outstanding at 12/26/17 and 12/27/16 | 143,610 | 143,610 |
| Additional paid-in capital | 82,642,178 | 82,209,927 |
| Accumulated deficit | (100,564,196) | (91,500,600) |
| Total shareholders' deficit | (17,778,408) | (9,147,063) |
| Total liabilities and shareholders' deficit | $ 61,787,699 | $ 74,653,669 |

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 26, 2017 | December 27, 2016 |
| Restaurant revenue | $ 141,206,005 | $ 150,301,535 |
| Cost of sales: | | |
| Food, beverage and retail | 37,165,511 | 39,691,010 |
| Labor | 48,178,304 | 51,143,723 |
| Direct restaurant operating | 23,951,394 | 24,075,164 |
| Occupancy | 15,832,654 | 15,138,637 |
| Cost of sales and occupancy | 125,127,863 | 130,048,534 |
| General and administrative | 12,018,805 | 10,420,009 |
| Depreciation and amortization | 7,994,832 | 8,697,917 |
| Pre-opening | 23,288 | 1,718,648 |
| Acquisition costs | - | 1,419 |
| Loss on disposal of assets | 76,693 | 305,852 |
| Exit or disposal activities | 802,780 | - |
| Total costs and expenses | 146,044,261 | 151,192,379 |
| Operating loss | (4,838,256) | (890,844) |
| Interest: | | |
| Income | 264 | 8,862 |
| Expense on capital leases | (2,070,565) | (2,074,656) |
| Other interest expense | (2,105,597) | (1,706,346) |
| Net interest expense | (4,175,898) | (3,772,140) |
| Loss before income tax | (9,014,154) | (4,662,984) |
| Income tax expense | 49,442 | 56,852 |
| Net loss | $ (9,063,596) | $ (4,719,836) |
| Loss per common share, basic | $ (0.63) | $ (0.33) |
| Weighted average shares outstanding, basic | 14,360,981 | 14,360,981 |

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

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

| | Shares | Amount | Additional Paid-in Capital | Accumulated Deficit | Shareholders' Deficit |
|---|---|---|---|---|---|
| Balance at December 29, 2015 | 14,360,981 | $143,610 | $ 81,854,149 | $ (86,780,764) | $ (4,783,005) |
| Compensation expense on options | | | 355,778 | | 355,778 |
| Net loss | | | | (4,719,836) | (4,719,836) |
| Balance at December 27, 2016 | 14,360,981 | 143,610 | 82,209,927 | (91,500,600) | (9,147,063) |
| Compensation expense on options | | | 432,251 | | 432,251 |
| Net loss | | | | (9,063,596) | (9,063,596) |
| Balance at December 26, 2017 | 14,360,981 | $143,610 | $ 82,642,178 | $ (100,564,196) | $ (17,778,408) |

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

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

| | Fiscal Years Ended | |
|---|---|---|
| | December 26, 2017 | December 27, 2016 |
| Cash flows from operating activities: | | |
| Net loss | $ (9,063,596) | $ (4,719,836) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 7,994,832 | 8,697,917 |
| Amortization of deferred loss | 1,141,436 | 1,075,275 |
| Stock option expense | 432,251 | 355,778 |
| Non-cash interest expense | 16,083 | 9,024 |
| Loss on disposal of assets | 76,693 | 305,852 |
| Deferred rent | 39,325 | 211,434 |
| Changes in operating assets and liabilities: | | |
| Inventory | 269,057 | 204,515 |
| Prepaids and other | 1,140,707 | (326,890) |
| Accounts payable | (578,863) | (525,239) |
| Accrued expenses | 2,735,245 | (930,415) |
| Net cash provided by operating activities | 4,203,170 | 4,357,415 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (2,177,776) | (10,250,052) |
| Proceeds from sale leaseback | 1,311,364 | 3,284,128 |
| Refunds of intangible and other assets | 101,826 | 10,588 |
| Net cash used in investing activities | (764,586) | (6,955,336) |
| Cash flows from financing activities: | | |
| Proceeds from line of credit | 1,000,000 | 6,000,000 |
| Payments on capital lease obligations | (1,121,931) | (1,225,611) |
| Payments on long-term debt | (1,565,619) | (1,421,932) |
| Net cash (used in) provided by financing activities | (1,687,550) | 3,352,457 |
| Net increase in cash | 1,751,034 | 754,536 |
| Cash and cash equivalents, beginning | 4,414,045 | 3,659,509 |
| Cash and cash equivalents, ending | $ 6,165,079 | $ 4,414,045 |

Supplemental disclosure of cash flow information:

| | | |
|---|---|---|
| Cash paid for interest | $ 3,906,600 | $ 3,878,184 |
| Cash paid for state minimum fees | $ 26,422 | $ 118,555 |

Supplemental disclosure of non-cash investing and financing activities:

| | | |
|---|---|---|
| Land/buildings acquired under capital lease/amendments or long-term debt agreements | $ 1,830,353 | $ 279,711 |
| Capital lease liabilities extinguished upon lease termination/amendments | $ 3,600,216 | $ - |
| Gain on lease terminations/amendments | $ 1,692,334 | $ - |
| Change in fair value of interest rate swap | $ (185,306) | $ (118,012) |
| Property and equipment, intangibles and equity costs included in accounts payable and accrued expenses | $ 48,767 | $ 1,207,415 |
| Proceeds from sale leaseback included in prepaids and other | $ - | $ 1,294,662 |
| Deferred loss on sale leaseback | $ - | $ 3,328,765 |
| Non-cash debt transfer from line of credit to long-term debt | $ - | $ 6,727,000 |
| Non-cash draw on line of credit to cover debt cost included in long-term debt | $ - | $ 85,500 |

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 "Company") develops and operates two casual dining concepts: Granite City Food & Brewery® and Cadillac Ranch All American Bar & Grill®.

As of December 26, 2017, the Company operated 32 restaurants of its original concept, Granite City Food & Brewery, which features its award-wining signature line of hand-crafted beers finished on-site as well as local and regional craft beers from brewers in its various markets. This upscale casual dining restaurant offers a wide variety of menu items that are prepared fresh daily.

The Company also operates four Cadillac Ranch restaurants featuring freshly prepared, authentic, All-American cuisine in a fun, dynamic environment. Its patrons enjoy a warm, Rock N' Roll inspired atmosphere.

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

Principles of consolidation and basis of presentation

As of December 27, 2016, the Company failed to meet certain financial covenants under its credit facility agreement with Citizens Bank, N.A. (f/k/a RBS Citizens, N.A.) ("Citizens Bank"), and on January 31, 2017, it failed to make its then required $5.0 million principal payment. The Company is, therefore, in default under the terms of the agreement. Such default also constitutes an event of default under the Company's subordinated debt agreement. Therefore, the Company has classified all debt as current. On April 28, 2017, the Company entered into a forbearance agreement with Citizens Bank pursuant to which Citizens Bank agreed for a specified period of time to forbear from exercising its rights and remedies under the credit agreement, the other loan documents and applicable law. During the forbearance period, which continued through October 2, 2017, the Company agreed (a) to provide Citizens Bank with certain budget deliverables, (b) to take specified steps to enable payoff of the development line of credit, including raising $7.0 million of new capital, and (c) to comply with certain financial covenants. Scheduled principal and interest were required to be paid on the term loan and revolver during the forbearance period. Interest as of April 28, 2017 accrued on the development line of credit and was to be paid along with the principal at the end of the forbearance period. On June 5, 2017, in accordance with the terms and conditions of the forbearance agreement with Citizens Bank, the Company engaged Lincoln Partners Advisors LLC to act as the Company's exclusive financial advisor in connection with the Company's pursuit of new equity and/or debt financing. During the forbearance period, the Company was unable to successfully consummate a financing transaction and did not pay off the principal or interest associated with the development line of credit, nor did it pay principal and interest on its subordinate debt. Through December 26, 2017, the Company did, however, continue to pay principal and interest on its other outstanding debt with Citizens Bank. As of the filing of this report, the initial forbearance agreement had expired and, although the Company's discussions with Citizens Bank continue, given the Company's failure to satisfy the requirements of Citizens Bank during the forbearance period, Citizens Bank may exercise its rights under the credit agreement without notice.

The Company's ability to continue funding its operations and meet its debt service obligations continues to depend upon its operating performance and operating margins, both of which will be affected by prevailing economic conditions in the retail and casual dining industries and other factors, which may be beyond the Company's control. Increased competition and uncertainty in the casual dining industry continue to make it more difficult to accurately forecast the Company's results of operations and cash position, so the Company's revenues may deteriorate beyond what it anticipates. Along with many others in the industry, the Company experienced decreases in comparable restaurant sales in 2016 and in 2017, and these decreases have generally continued into 2018. Seeking to offset the negative impact of these sales trends, the Company has been implementing several initiatives that are expected to increase sales and reduce costs. Such initiatives include new marketing designed to increase brand awareness, which is intended to generate additional guest traffic. Our marketing includes email, paid social and digital media and in-store signage and displays. Additional initiatives include menu pricing adjustments, reduction of food costs, management par level reductions at selected restaurants, changes to the senior management team and a reduction in certain corporate overhead expenses. The Company has also engaged a firm to work with its landlords to restructure leases through a variety of means in order to reduce total occupancy costs. As a result, the Company had restructured 11 leases and continues to negotiate another property lease. Additionally, the Company closed one of its lower performing restaurants in March 2017, closed four of its lower performing restaurants in October 2017, and may close additional locations. The Company's management believes positive results from these initiatives will be realized in the future but can give no assurance that such initiatives will offset the negative impact of these sales trends. Furthermore, the Company will require additional liquidity including, but not limited to, additional equity and/or debt financing, in order to meet its current liabilities, including the repayment of its credit facility and its subordinated debt. To date, efforts to raise additional capital have been unsuccessful. The Company can give no assurance that it will successfully execute a financing transaction or any other transaction, and its ability to do so could be adversely affected by numerous factors, including changes in the economic or business environment, financial market volatility, the performance of its business, and the terms and conditions of its credit agreement with Citizens Bank. Lastly, the Company continues to seek to identify cost savings measures to implement if trends continue; however, even after implementing such cost savings, it is possible that lower than planned sales levels would not create enough liquidity to sustain operations and continue to pay principal and interest on the term loan and revolver.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are described above.

The Company's consolidated financial statements include the accounts and operations of the Company and its subsidiary corporation under which its 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 Company's 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 Board's ("FASB") accounting guidance on accounting for variable interest entities. As such, the subsidiary corporation is consolidated with the Company's financial statements and the Company's financial statements do not reflect a minority ownership in the subsidiary corporation. Also included in the Company's 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 ("CDP") became the Company's controlling shareholder through its purchase of Series A Convertible Preferred Stock ("Series A Preferred") and a related shareholder and voting agreement with DHW Leasing, L.L.C. ("DHW"). As of December 26, 2017, CDP beneficially owned approximately 78.5% of the Company's 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 2017 ended on December 26, 2017 and fiscal year 2016 ended on December 27, 2016. Fiscal years 2017 and 2016 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 net realizable value using the first-in, first-out (FIFO) method.

Prepaid expenses and other current assets

The Company has cash outlays in advance of expense recognition for items such as rent, insurance, fees and service contracts. Installment payments on the Company's workers compensation and general liability insurance packages, which are financed at rates ranging from 5.8% to 7.0%, are included in prepaid expense at the time of payment and recorded in income from operations on a pro rata basis throughout the policy period. Other current assets consist primarily of receivables of amounts due from third-party gift card sales, third-party delivery services, rebate amounts due from certain vendors and tenant improvement allowances due from landlords. All amounts identified as prepaid expenses and other current assets are expected to be utilized during the twelve-month period after the balance sheet dates presented.

Property and equipment

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

The estimated useful lives are as follows:

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

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

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

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

The financial performance of the Company's two Wichita, Kansas restaurants resulted in a history of negative cash flow as well as decreases in comparable restaurant sales. After recording an impairment loss in 2015 for a portion of its assets at the West Wichita location, the Company recorded impairment losses in 2016 of $372,277 for its West Wichita assets and $173,013 for its East Wichita assets. Such losses are included in "loss on disposal of assets" on the Company's consolidated statements of operations. The reduction of the carrying value of each restaurant's assets is shown below. In October 2017, the Company closed both of these restaurants (Note 4).

| Long-lived assets | Impairment Recorded | Weighted Average Remaining Life |
|---|---|---|
| West Wichita | | |
| FY 2016 | | |
| Building lease | $325,860 | 9.3 years |
| Leasehold Improvements | $27,512 | 3.6 years |
| Equipment & Furniture | $18,905 | 8.5 years |
| | | |
| East Wichita | | |
| FY 2016 | | |

| | | |
|---|---|---|
| Building lease | $91,695 | 12.5 years |
| Leasehold Improvements | $35,235 | 4.4 years |
| Equipment & Furniture | $46,083 | 3.9 years |

Intangible and other assets

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

Other assets are made up of security deposits.

Deferred loss on sale leaseback

The Company has entered into lease agreements whereby the landlord agreed to pay the Company a tenant improvement allowance. Some of the Company's 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 "build-out" or "rent-holiday" 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. When the Company receives a tenant improvement allowance, the amount of the allowance is amortized to reduce rent expense 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 3). The Company accounts for this derivative using fair value accounting and measurements described in Note 2. The fair value of the interest rate swap is recorded in other assets or other liabilities on the consolidated balance sheet, depending on the fair value of the swap. The change in the fair value of the swap is recorded in other interest expense on the consolidated statements of operations.

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

Revenue recognition

Revenue is derived from the sale of prepared food, beverage and select retail items. Revenue is recognized at the time of sale and is reported on the Company's 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 2017 and 2016 were $924,784 and $515,840, 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 restaurant's 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 2017 and 2016:

| | Fiscal Year 2017 | Fiscal Year 2016 |
|---|---|---|
| Weighted average risk-free interest rate | 2.10% - 2.51% | 1.46% - 2.57% |
| Expected life of options | 10 years | 10 years |
| Expected stock volatility | 89.58% - 112.91% | 87.27% - 89.52% |
| 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 Company's 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.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 ("Tax Act") was signed into law making significant changes to the Internal Revenue Code. Changes include a reduction in the corporate tax rate, changes to net operating losses carried forward and back, and a repeal of the corporate alternative minimum tax (AMT). The legislation reduces the U.S. corporate income tax rate to 21%. As a result of the enacted law, the Company is required to revalue its deferred tax assets and liabilities at the newly enacted rate. The Company re-measured the U.S. deferred income tax assets and liabilities balances using the new enacted tax rate. The income tax impact from the re-measurement is reflected in the effective rate and is offset due to the 100% valuation allowance on the Company's deferred tax assets.

Net loss per share

Basic net loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per share is not presented since the effect would be anti-dilutive due to the losses in the respective fiscal periods. Stock options and warrants for the purchase of 3,165,265 and 2,096,127 common shares at December 26, 2017 and December 27, 2016, respectively, were not used for the calculation of loss per common share or weighted average shares outstanding on a fully diluted basis because they were anti-dilutive.

Recent accounting pronouncements

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." The core principle of the standard is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU will replace most existing revenue recognition guidance in GAAP. New qualitative and quantitative disclosure requirements aim to enable financial statement users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. This ASU permits the use of either the retrospective or cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," which defers the effective date of ASU 2014-09 by one-year for all entities. The FASB also agreed to allow entities to choose to adopt the standard as of the original effective date. Additionally, in March 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," in April 2016, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing," and in May 2016, the FASB issued ASU 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients," all of which provide additional clarification on certain topics addressed in ASU 2014-09. This guidance will be effective for annual reporting periods beginning after December 15, 2017, including interim periods therein. Early adoption is permitted for annual reporting periods beginning after December 15, 2016, including interim periods therein. The majority of the Company's revenues are from food and beverage sales at its restaurants. ASU 2014-09 will not have an impact on revenue recognition related to food and beverage sales. ASU 2014-09 requires gift card breakage to be recognized as revenue in proportion to the pattern of gift card redemptions exercised by customers. The new guidance may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect adjustment to opening retained earnings as of the date of adoption (modified retrospective approach). The Company believes the adoption of this ASU in the first quarter of 2018 will not have a material impact on its financial condition, liquidity or results of operations.

In February 2016, the FASB issued Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842). This guidance requires the recognition of most leases on the balance sheet to give investors, lenders, and other financial statement users a more comprehensive view of a company's long-term financial obligations as well as the assets it owns versus leases. ASU 2016-02 will be effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. When implemented, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Many of the Company's restaurant leases and our restaurant support center lease are accounted for as operating leases, and therefore are not recorded within the balance sheet. The Company expects this adoption will result in a material increase in the assets and liabilities on its consolidated balance sheets but will not have a material impact on its financial condition, liquidity or results of operations.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which is intended to simplify several aspects of the accounting for share-based payment transactions. The amendments in this update cover such areas as the recognition of excess tax benefits and deficiencies, the classification of those excess tax benefits on the statement of cash flows, an accounting policy election for forfeitures, the amount an employer can withhold to cover income taxes and still qualify for equity classification and the classification of those taxes paid on the statement of cash flows. ASU 2016-09 was effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. The adoption of this ASU had no impact on the Company's financial condition, liquidity or results of operations.

The Company reviewed all other recently issued accounting pronouncements and concluded they are either not applicable to its operations, or that they will have no material impact on its financial condition, liquidity or results of operations.

Subsequent events

The Company has evaluated subsequent events through March 26, 2018, the date the financial statements were available for issuance.

## 2. Fair value measurements

The guidance of ASC 820, *Fair Value Measurements and Disclosures,* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques under such accounting guidance related to fair value measurements are based on observable inputs which reflect readily obtainable data from independent sources, and unobservable inputs which reflect internal market assumptions. The Company uses the following three-tier fair value hierarchy, which prioritizes these inputs as follows:

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

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

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

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

The fair value of the Company's interest rate swap is determined based on information provided by the Company's bank counterparty that is model-driven and where inputs were observable or where significant value drivers were observable. Such models utilize quoted interest rate curves to calculate the forward values and then discount the forward values to present values. The Company classifies its interest rate swap as a Level 2 measurement as these securities are not actively traded in the market, but are observable based on current market rates (Notes 1 and 3). The following table presents the fair value of liabilities measured on a recurring basis as of December 26, 2017:

| Description | Level 1 | Level 2 | Level 3 | Total Asset |
|---|---|---|---|---|
| Interest rate swap fair value | $ - | $5,199 | $ - | $5,199 |

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

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

There were no transfers between levels of the fair value hierarchy during fiscal years 2017 or 2016.

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

In May 2014, the Company entered into a $40.0 million credit agreement with Citizens Bank, which was amended in September 2016. The credit advanced under such agreement is secured by liens on the Company's subsidiaries, personal property, fixtures and real estate owned or to be acquired. The credit agreement, as amended, provided for a secured term loan in the amount of $29.0 million, a revolving line of credit of $6.0 million, and a development line of credit of $5.0 million. Subject to the terms and conditions of the credit agreement, Citizens Bank also agreed to issue standby letters of credit in an aggregate undrawn face amount up to $1.0 million. As of December 26, 2017, the Company has borrowed a total of $37.5 million under this credit agreement, including the full $5.0 million of the development line of credit as well as $5.3 million under the revolving line of credit. Due to the existing event of default (described below), Citizens Bank has no obligation to extend further credit to the Company and may exercise its rights under the agreement without notice. The term and revolving credit facilities mature on May 15, 2019 and the development line of credit matured on January 31, 2017. As of December 27, 2016, the Company failed to meet certain financial covenants under this agreement and on January 31, 2017, it failed to make its then required $5.0 million principal payment on the development line of credit. The Company is, therefore, in default under the terms of the agreement. Such default also constitutes an event of default under the Company's subordinated debt agreement (described below). Therefore, the Company has classified all debt as current. The proceeds of the development line of credit were used solely to (1) refinance existing indebtedness of the Company and (2) fund capital expenditures and payment of fees, costs and expenses related to the Northbrook, Illinois and Lincoln, Nebraska locations and the build-out of the Company's corporate offices.

The Company is required to make regular interest and, with respect to the term loan only, quarterly amortizing principal payments. In the event that the total leverage ratio of the Company, as defined in the credit agreement, is greater than 3.00 to 1.00, the Company, commencing with the fiscal year ending December 26, 2017, must make an annual excess cash flow payment in an amount equal to the lesser of (x) 50% of the Company's excess cash flow for each fiscal year (as calculated under the credit agreement) or (y) an amount necessary to cause the total leverage ratio to be 3.00 to 1.00, in either case less the amount of voluntary principal payments during such fiscal year. Although the Company was relieved of the need to comply with the total leverage ratio covenant during the forbearance period, it continues to fail to comply with such covenant. Additionally, although the Company was in compliance with the fixed charge coverage ratio covenant at December 26, 2017, it was not in compliance with such covenant during the forbearance period.

At the time of the amendment, the term loan and revolver required the payment of interest at a fluctuating rate per annum equal to 4.0% plus LIBOR. The Company pays a line of credit commitment fee equal to the difference between the total line of credit commitment and the amount outstanding under the line of credit, plus outstanding letters of credit, equal to 0.25% of the unused line.

On April 28, 2017, the Company entered into a forbearance agreement with Citizens Bank pursuant to which Citizens Bank agreed for a specified period of time to forbear from exercising its rights and remedies under the credit agreement, the other loan documents and applicable law. During the forbearance period, which continued through October 2, 2017, the Company agreed (a) to provide Citizens Bank with certain budget deliverables, (b) to take specified steps to enable payoff of the development line of credit, including raising $7.0 million of new capital, and (c) to comply with certain financial covenants. Scheduled principal and interest at a fluctuating rate per annum equal to 7% as of April 28, 2017, were required to be paid on the term loan and revolver during the forbearance period. Interest at a fluctuating rate per annum equal to 9% as of April 28, 2017 accrued on the development line of credit and was to be paid along with the principal at the end of the forbearance period. On June 5, 2017, in accordance with the terms and conditions of the forbearance agreement with Citizens Bank, the Company engaged Lincoln Partners Advisors LLC to act as the Company's exclusive financial advisor in connection with the Company's pursuit of new equity and/or debt financing. During the forbearance period, the Company was unable to successfully consummate a financing transaction and did not pay off the principal or interest associated with the development line of credit, nor did it pay principal and interest on its subordinate debt. Through December 26, 2017, the Company did, however, continue to pay principal and interest on its other outstanding debt with Citizens Bank. As of the filing of this report, the initial forbearance agreement had expired and, although the Company's discussions with Citizens bank continue, given the Company's failure to satisfy the requirements of Citizens Bank during the forbearance period, Citizens Bank may exercise its rights under the credit agreement without notice.

In June 2014, the Company entered into a five-year interest rate swap agreement to fix interest rates on a portion of this debt (Notes 1 and 2) pursuant to the terms of the credit agreement with Citizens Bank. Under the swap agreement, the Company pays a fixed rate of 1.79% and receives interest at the one-month LIBOR on a notional amount of $18.75 million. This effectively makes the Company's interest rate 5.44% on $18.75 million of its debt. The Company did not elect to apply hedge accounting for this interest rate swap agreement. As such, the fair value of the interest rate swap is recorded in other assets or other liabilities on the consolidated balance sheet, depending on the fair value of the swap, and any changes in the fair value of the swap agreement will be accounted for as non-cash adjustments to interest expense and recognized in current earnings. The fair value of the swap agreement increased $185,306 and $118,012 in fiscal years 2017 and 2016, respectively. The difference in the value was recorded as interest expense in the consolidated statements of operations.

In December 2013, the Company entered into a binding agreement with Great Western Bank whereby the Company agreed that if Great Western Bank acquired GC Omaha LP's interest in the ground lease of the Omaha, Nebraska Granite City restaurant either by foreclosure or voluntary surrender, it would acquire the building and improvements and assume the ground lease from Great Western Bank. In April 2014, Great Western Bank acquired GC Omaha LP's interest in the ground lease and, following receipt of the required landlord consent, on September 30, 2015, the Company purchased the building and improvements and assumed the ground lease from Great Western Bank. To facilitate the transaction, the Company entered into a loan agreement with Great Western Bank in the amount of $1.08 million with an annual interest at a rate of 5.5%. Such loan matures on September 30, 2020 and requires monthly principal and interest payments. Because the Company is in default under the terms of its agreement with Citizens Bank, the Company is, therefore, in default under the terms of the Great Western Bank agreement. As of December 27, 2016, all the debt of the Company was classified as current.

During fiscal years 2017 and 2016, the Company incurred $2,105,597 and $1,753,255, respectively, in interest expense related to long-term debt. No interest was capitalized in fiscal year 2017 while $46,909 of such interest was capitalized in fiscal year 2016 as the Company constructed new restaurants.

## 4. Restaurant closures

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

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

In October 2017, the Company ceased operations at its Cadillac Ranch restaurant in Indianapolis, Indiana. In December 2017, the Company entered into a lease termination agreement with the landlord of such location which was effective February 28, 2018. In consideration of the lease termination, the Company paid past due and current rent through February 2018, relinquished possession of non-branded furniture, fixtures and equipment and paid its lease restructuring consulting firm. Such payments have been or will be reflected in occupancy costs, gain/loss on disposal of assets and exit or disposal activities in the Company's financial statements.

## 5. Property and equipment

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

| | December 26, 2017 | December 27, 2016 |
|---|---|---|
| Land | $ 18,000 | $ 18,000 |
| Buildings | 31,350,863 | 35,205,544 |
| Leasehold improvements | 16,774,031 | 18,720,270 |
| Equipment and furniture | 53,761,439 | 59,029,397 |
| | 101,904,333 | 112,973,211 |
| Less accumulated depreciation | (62,649,431) | (63,721,160) |
| | 39,254,902 | 49,252,051 |
| Construction-in-progress * | 101,378 | 310,188 |
| | $ 39,356,280 | $ 49,562,239 |

*Construction-in-progress consists of enhancements, equipment and furniture for existing locations

Total depreciation expense was $7,905,389 and $8,600,140 in fiscal years 2017 and 2016, respectively.

## 6. Intangible and other assets

Intangible assets and other assets consisted of the following:

| | December 26, 2017 | December 27, 2016 |
|---|---|---|
| Intangible assets: | | |
| Liquor licenses | $ 953,471 | $ 953,471 |
| Trademarks | 1,777,607 | 1,777,607 |
| Other: | | |
| Security deposits | 262,399 | 364,224 |
| | 2,993,477 | 3,095,302 |
| Less accumulated amortization | (582,269) | (492,825) |
| | $ 2,411,208 | $ 2,602,477 |

Management estimates amortization expense of $89,443, $89,037, $88,630, $88,562 and $88,323 in fiscal years 2018, 2019, 2020, 2021 and 2022, respectively. Total amortization expense was $89,443 and $97,777 in fiscal years 2017 and 2016, respectively.

## 7. Accrued expenses

Accrued expenses consisted of the following:

| | December 26, 2017 | December 27, 2016 |
|---|---|---|
| Payroll and related | $ 3,928,486 | $ 4,254,823 |
| Deferred revenue from gift card sales | 4,774,625 | 4,233,590 |
| Sales taxes | 888,089 | 646,092 |
| Interest | 608,335 | 354,855 |
| Real estate taxes | 544,754 | 333,852 |
| Credit card fees | 280,524 | 300,936 |
| Legal fees | 358,815 | 179,671 |
| Marketing | 53,309 | - |
| Rent restructure fees | 856,259 | - |
| CAM charges | 415,925 | 43,750 |
| Property and equipment | 22,868 | 507,502 |
| Other | 1,449,690 | 1,075,997 |
| | $ 14,181,679 | $ 11,931,068 |

## 8. Deferred rent

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

Also included in deferred rent is the difference between minimum rent payments and straight-line rent over the initial lease term including the "build out" or "rent-holiday" period. Deferred rent also includes amounts certain of the Company's 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 26, 2017 | December 27, 2016 |
|---|---|---|
| Difference between minimum rent and straight-line rent | $ 5,421,098 | $ 5,999,570 |
| Warrant fair value | (79,174) | (101,008) |
| Deferred lease payments | 639,876 | 1,350 |
| Contingent rent based on restaurant revenue | 180,496 | 201,289 |
| | $ 6,162,296 | $ 6,101,201 |

## 9. Leases

Capital leases

As of December 26, 2017, the Company operated 12 restaurants under capital lease agreements with expiration dates ranging from 2020 through 2033, all with renewable options for additional periods. Under certain of the leases, 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 fiscal year 2017, the Company entered into lease amendments with the landlords of three of the restaurants it operates under capital leases. As a result of such lease amendments, the Company recorded a reduction of assets and liabilities of $875,469 in the aggregate. Annual base rent for these properties was reduced by $264,387 in the aggregate and scheduled rent increases are included in the minimum future lease payments presented in the table below.

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

| | December 26, 2017 | December 27, 2016 |
|---|---|---|
| Building | $ 23,722,961 | $ 27,474,412 |
| Less accumulated depreciation | (11,532,448) | (11,830,382) |
| | $ 12,190,513 | $ 15,644,030 |

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

Operating leases

The land portions of the 12 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 26, 2017, the Company had obligations under operating leases for 20 Granite City restaurants and four Cadillac Ranch restaurants. The expiration of the initial terms of the ground leases upon which the Company operates these restaurants ranges from 2019 through 2036 with options for additional terms. Under certain of the leases, the Company may be required to pay additional contingent rent based upon restaurant sales.

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

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

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

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

In fiscal year 2017, the Company entered into lease amendments with the landlords of five of the restaurants it operates under operating leases. As a result of such lease amendments, the Company recorded a reduction of assets of $954,882, a reduction of liabilities of $1,337,350 and a deferred gain of $382,468 in the aggregate. Such gain will be recognized over 45 months. Annual base rent for these properties was reduced by $323,694 in the aggregate and scheduled rent increases are included in the minimum future lease payments presented in the table below. Some amendments also include term extensions or early termination options.

Minimum future lease payments under all capital and operating leases as of December 26, 2017 are as follows:

| Fiscal Year ending: | Capital Leases | Operating Leases |
|---|---|---|
| 2018 | $ 2,980,791 | $ 8,455,720 |
| 2019 | 3,013,424 | 8,487,150 |
| 2020 | 3,189,730 | 8,248,129 |
| 2021 | 3,056,520 | 7,401,589 |
| 2022 | 3,087,335 | 6,563,078 |
| Thereafter | 17,751,963 | 29,363,925 |
| Total minimum lease payments | 33,079,763 | $ 68,519,591 |
| Less amount representing interest | (13,944,560) | |
| Present value of net minimum lease payments | 19,135,203 | |
| Less current portion | (1,058,183) | |
| Long-term portion of obligations | $ 18,077,020 | |

Rental expense for fiscal years 2017 and 2016 on all operating leases was $11,629,064 and $11,809,870, respectively. Included in rent expense at December 26, 2017 and December 27, 2016, was $293,504 and $410,079, respectively, of contingent rent expense based on restaurant revenue.

At December 26, 2017, the annual implicit interest rates on the land and building leases were between 5.3% and 23.4%. The average interest rate on the building capital leases was 11.0%. Interest expense on these leases was $2,070,565 and $2,074,656 for fiscal years 2017 and 2016, respectively. Total future minimum lease payments do not include contingent rent that is based on restaurant revenue.

## 10. Income taxes

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

| | Fiscal Year Ended | |
|---|---|---|
| | December 26, 2017 | December 27, 2016 |
| Current income taxes: | | |
| Federal | $ - | $ - |
| Prior year state | (27,122) | (13,127) |
| Current year state | (22,320) | (43,725) |
| Current tax expense | (49,442) | (56,852) |
| Deferred income taxes: | | |
| Federal | 3,939,538 | 2,781,339 |
| State | 340,068 | 68,427 |
| Effect of change in rate used | (7,515,023) | - |
| Deferred income tax benefit | (3,235,417) | 2,849,766 |
| Net change to valuation allowance | $ 3,235,417 | $ (2,849,766) |
| Total income tax expense | $ (49,442) | $ (56,852) |

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

| | 2017 | 2016 |
|---|---|---|
| Statutory U.S. tax rate | 34.0% | 34.0% |
| State taxes, net of federal benefit | 4.7% | 3.7% |
| Stock option compensation | (0.1%) | (0.6%) |
| Permanent differences | (0.3%) | (0.6%) |
| U.S. business credits | 10.5% | 21.3% |
| Expired state NOLs | (0.7%) | - |
| Expired charitable contributions | 0.5% | 0.5% |
| All others, net | (1.9%) | 4.2% |
| Federal rate adjustment | (82.9%) | - |
| Valuation allowance | 35.7% | (61.1%) |
| Effective tax rate | (0.5%) | (1.2%) |

Deferred taxes were calculated using enacted tax rates of 21% for federal and an estimate based on the mix of income and applicable rates by jurisdiction for state. For the years ended December 26, 2017 and December 27, 2016, the state estimated tax rate was 7.1%.

The Tax Act, which was enacted on December 22, 2017 enacts a broad range of changes to the Internal Revenue Code of 1986, as amended. The new legislation, among other things, includes changes to U.S. federal tax rates, changes to operating loss carry-forwards and carrybacks, imposes significant additional limitations on the deductibility of interest and allows for the expensing of capital expenditures. As a result of the Tax Act, the Company was required to revalue its deferred tax assets and liabilities at the new 21% corporate income tax rate. The other provisions of the Tax Act did not have a material impact on the 2017 consolidated financial statements. The Company will continue to examine the impact the legislation may have on its business.

The tax provision for the year ended December 26, 2017 includes tax expense of approximately $7.5 million related to the Tax Act primarily due to the reduction in the corporate tax rate to 21% resulting in a change in the net deferred tax balance with a corresponding adjustment to deferred tax expense.

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

| | Fiscal Year Ended | |
|---|---|---|
| | December 26, 2017 | December 27, 2016 |
| Deferred tax assets: | | |
| Share-based compensation | $ 1,155,600 | $ 1,524,009 |
| Net operating loss carryforwards | 11,940,023 | 16,652,457 |
| General business credit carryforwards | 13,005,073 | 11,443,003 |
| Deferred rent payable | 1,766,249 | 2,363,218 |
| Property and equipment | 984,608 | 534,268 |
| Amortization | - | 58,709 |
| Other future deductible items | 721,403 | 681,876 |
| | 29,572,956 | 33,257,540 |
| Deferred tax liabilities: | | |
| Smallwares | (651,143) | (1,103,972) |
| Amortization | (3,662) | - |
| Net deferred tax assets | 28,918,151 | 32,153,568 |
| Valuation Allowance | (28,918,151) | (32,153,568) |
| Net deferred tax assets, net of valuation allowance | $ - | $ - |

For income tax return purposes, the Company had federal net operating loss carryforwards of approximately $47,712,000 and $44,552,000 as of December 26, 2017, and December 27, 2016, respectively. The Company also had federal general business credit carryforwards of approximately $13,002,000 and $11,439,000, 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 2022. As a result of these limitations, the carryforwards for federal net operating losses, credits, and other items is limited to approximately $30,797,000 and $26,054,000 as of December 26, 2017, and December 27, 2016, 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 warranted.

## 11. Commitments and contingencies

Legal proceedings

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

On September 9, 2016, Chelsea Koenig, one of the Company's former employees in Pittsburgh, filed a collective action under the FLSA and a putative class action under Pennsylvania state law against the Company (and as yet unidentified "John Doe" defendants) in the United States District Court for the Western District of Pennsylvania. The complaint alleged that the Company required all tipped employees of Granite City and Cadillac Ranch in states other than Minnesota, to perform work that was ineligible for tip credit compensation at a tip credit rate, required "off the clock" work, required tipped employees to participate in a tip pool that included "expeditors," failed to provide sufficient notice of the application of the tip credit, and required tipped employees to cover walk-outs and shortages, in violation of the minimum wage provisions of the FLSA. The claim further alleged violation of the Pennsylvania Minimum Wage Act, the Pennsylvania Wage Payment Collection Law, and a Pennsylvania common law claim. Following motion practice regarding the fact that similar claims involving the Granite City brand were pending in Minnesota, the plaintiff agreed to limit her claims to Cadillac Ranch employees. Following her deposition, she further agreed to limit her claims to an alleged failure to provide sufficient notice of the application of the tip credit, her off-the-clock claim and her claim that employees were required to cover walk-outs and shortages. Following briefing by both parties, on May 11, 2017, the federal court granted plaintiff's motion for class certification of a Pennsylvania state law class, as well as plaintiff's motion for conditional certification of a nationwide collective action under the FLSA, relating to the sufficiency of notice provided to employees at Cadillac Ranch restaurants regarding the use of the tip credit. In November 2017, the Company and Ms. Koenig executed a settlement agreement that is intended to resolve all outstanding claims asserted in the litigation on behalf of Ms. Koenig, the class asserting claims under Pennsylvania law, and the opt-in plaintiffs asserting claims under the FLSA. Pursuant to the agreement, the Company has agreed to pay the total amount of $305,000 in settlement, inclusive of plaintiff's attorneys' fees and associated costs. On December 21, 2017, the court preliminarily approved the parties' settlement agreement. Thereafter, plaintiff, through a third-party claims administrator, provided notice of the settlement to all 255 settlement class members. The settlement class is comprised of the following: (1) 33 FLSA Collective Class Members only (which includes individuals who did not work in Pennsylvania), (2) 25 FLSA Collective Class Members and PA Class Members, and (3) 197 PA Class Members only. On February 26, 2018, plaintiff filed a motion for final approval of the settlement agreement. In addition to seeking final approval of the settlement agreement, plaintiff also sought approval of attorneys' fees and costs, third-party administrator expenses, and a service award for plaintiff. As of March 26, 2018, there were no objections to the settlement agreement by settlement class members. On March 28, 2018, the court will hold a hearing on plaintiff's motion for final approval of settlement. The Company continues to deny any liability associated with these claims but has agreed to the settlement in order to avoid the cost and expense of further litigation.

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

Employment agreements

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

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

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

Separation agreements

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

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

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

Purchase commitments

The Company has entered into contracts through 2020 with certain suppliers of raw materials (primarily hops) for minimum purchases both in terms of quantity and in pricing. As of December 26, 2017, the Company's future obligations under such contracts aggregated $907,444.

**12. Common stock warrants**

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

The Company issued a warrant to purchase 350,000 shares of common stock at an exercise price of $1.50 per share to MHS Trust in connection with the sale of Redeemable Preferred stock to such entity in December 2013. With the redemption of the Redeemable Preferred stock in May 2014, 175,000 shares underlying such warrant were forfeited. As of December 26, 2017, the remaining 175,000 shares underlying such warrant remain unexercised. Such warrant expires October 31, 2018.

A summary of the status of the Company's stock warrants is presented in the table below:

| | Number of common stock shares | Weighted average exercise price per share | Warrants exercisable |
|---|---|---|---|
| Outstanding December 29, 2015 | 215,000 | $1.84 | 215,000 |
| | | | |
| Exercised | - | NA | |
| Forfeited | (40,000) | NA | |
| Outstanding December 27, 2016 | 175,000 | $1.50 | 175,000 |
| | | | |
| Exercised | - | NA | |
| Forfeited | - | NA | |
| Outstanding December 26, 2017 | 175,000 | $1.50 | 175,000 |

## 13. 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 26, 2017, there were options outstanding under the plan for the purchase of 497,818 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 Company's 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 Company's common stock on the date of grant. As of December 26, 2017 options for the purchase of 356,922 shares were issued and outstanding under the plan and options for the purchase of 43,078 shares remained available for issuance.

In July 2014, the Company adopted the 2014 Non-Qualified Plan ("NQ Plan") to accommodate the continued issuance of stock option awards to the Company's non-employee directors and periodic stock option awards to select employees. In March 2017, the NQ Plan was amended to increase the number of shares authorized for issuance from 1,250,000 to 1,750,000. During the first quarter of 2017, the Company granted ten-year nonqualified stock options to purchase an aggregate of 903,000 shares of the Company's common stock at $1.25 per share to various operations and restaurant support center employees pursuant to the NQ Plan. Such options vest cumulatively to the extent of 50% on the first anniversary of the date of grant and 25% annually thereafter. These options were issued pursuant to the exemption set forth in Securities Act Rule 701 and the securities issuable upon their exercise will be "restricted securities" as defined in Securities Act Rule 144. Such transferability restriction is set forth on the agreements evidencing the options. Also, in the first quarter of 2017, options for the purchase of 550,000 shares were forfeited upon the termination of employment of the Company's chief executive officer and reentered the pool of available shares. During the second quarter of 2017, the NQ Plan was amended to increase the number of shares authorized for issuance from 1,750,000 to 2,750,000 to accommodate the issuance of options for the purchase of 1,000,000 shares of common stock at $1.25 per share to the Company's current chief executive officer. Such options vest cumulatively to the extent of 50% on the first anniversary of the date of grant and 25% annually thereafter. As of December 26, 2017, options for the purchase of 2,135,525 shares were outstanding, and 614,475 shares remained available for issuance of awards, under the NQ Plan.

A summary of the status of the Company's stock options as of December 26, 2017 and December 27, 2016 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 29, 2015 | 1,383,988 | $ 2.24 | 6.0 years | $ 75,308 |
| Granted | 751,361 | 3.00 | 9.5 years | |
| Exercised | - | - | | |
| Forfeited | (214,222) | 2.49 | | |
| Outstanding at December 27, 2016 | 1,921,127 | $ 2.51 | 7.0 years | $ 847 |
| Granted | 2,146,000 | 1.26 | 9.3 years | |
| Exercised | - | - | | |
| Forfeited | (1,076,862) | 2.54 | | |
| Outstanding at December 26, 2017 | 2,990,265 | $ 1.60 | 7.7 years | $ - |
| Options exercisable at December 27, 2016 | 1,079,079 | $ 2.47 | 5.4 years | $ 847 |
| Options exercisable at December 26, 2017 | 893,228 | $ 2.19 | 4.2 years | $ - |
| Weighted-average fair value of options granted during 2017 | $ 0.89 | | | |

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

| | Fiscal Year 2017 | Fiscal Year 2016 |
|---|---|---|
| Weighted average fair value of stock options granted | $ 0.89 | $ 1.29 |
| Intrinsic value of stock options exercised | $ - | $ - |
| Fair value of stock options vested during the year | $ 186,003 | $ 202,751 |

The intrinsic value of stock options outstanding at December 26, 2017 and December 27, 2016 was $0 and $847, respectively. Aggregate intrinsic value is the difference between the closing price of the Company's stock on December 26, 2017 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 "in-the-money" options on December 26, 2017. As of December 26, 2017, there was approximately $957,202 of total unrecognized compensation cost related to unvested share-based compensation arrangements, of which 665,685 is expected to be recognized in fiscal year 2018, $232,658 in fiscal year 2019, $56,115 in fiscal year 2020, and $2,744 in fiscal year 2021.

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

| | Outstanding Options | | | 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 - $2.00 | 2,106,987 | 8.7 years | $ 1.31 | 199,487 | $ 1.84 |
| $2.01 - $3.00 | 842,113 | 5.5 years | $ 2.24 | 652,576 | $ 2.20 |
| $3.01 - $6.00 | 41,165 | 3.1 years | $ 3.66 | 41,165 | $ 3.66 |
| Total | 2,990,265 | 7.7 years | $ 1.60 | 893,228 | $ 2.19 |

## 14. 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 2017 and 2016, the Company contributed $36,234 and $42,124 in the aggregate, respectively, under the plan.

## 15. Subsequent events

In fiscal year 2018, the Company entered into lease amendments with the landlords of three of the restaurants it operates under operating leases. As a result of such lease amendments, annual base rent for these properties was reduced by $354,961 in the aggregate and scheduled rent increases were included the amended lease terms. Some amendments also include term reduction or reduction in sales breakpoint for which percentage rent is required.

EXHIBIT B

INFORMATION AND DISCLOSURE STATEMENT PURSUANT TO RULE 15C2-11

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

i. **The exact name of the issuer and its predecessor (if any):**

Granite City Food & Brewery Ltd.

ii. **The address of its principal executive offices:**

3600 American Boulevard West, Suite 400
Bloomington, MN 55431

iii. **The state of incorporation (if it is a corporation):**

Minnesota

iv. **The exact title and class of the securities:**

Common Stock

v. **The par or stated value of the securities:**

$0.01 (par value)

vi. **The number of shares or total amount of the securities outstanding as of the end of the issuer's most recent fiscal year:**

14,360,981

vii. **The name and address of the transfer agent:**

Wells Fargo Bank Minnesota, N.A.
1110 Centre Pointe Curve, Suite 101
Mendota Heights, MN 55120

viii. **The nature of the issuer's business:**

See Item 6 of Annual Report for the Fiscal Year Ended December 26, 2017.

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

See Item 6 of Annual Report for the Fiscal Year Ended December 26, 2017.

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

See Item 7 of Annual Report for the Fiscal Year Ended December 26, 2017.

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 26, 2017.

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 26, 2017.

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 26, 2017.

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