

**OTC PINK BASIC DISCLOSURE GUIDELINES**

**Pursuant to Rule 15c2-(11) (a) (5)  
Under the Securities Exchange Act of 1934**

**Bagger Dave's Burger Tavern, Inc.**

**QUARTERLY REPORT**

**807 W Front St., Suite B  
Travers City, MI 49684**

**CUSIP No: 056646-12**

**TRADING SYMBOL:  
BDVB**

**ISSUER'S EQUITY SECURITIES**

**COMMON STOCK  
\$0.001 Par Value  
100,000,000 Common Shares Authorized  
27,078,293 shares outstanding**

**As of July 1, 2018**

## **Bagger Dave's Burger Tavern, Inc.**

### **Part 1. Name of Issuer and its Predecessors (if any)**

On August 4, 2016, Diversified Restaurant Holdings, Inc. ("DRH" or "the Parent") announced that its Board of Directors unanimously approved a plan to pursue a tax-free Spin-off of its Bagger Dave's business (the "Spin-off"). Specifically, DRH contributed its 100.0% owned entity, AMC Burgers, LLC and certain real estate entities into Bagger Dave's Burger Tavern, Inc., a newly created Nevada corporation ("Bagger Dave's" or "Bagger"), which was then spun-off into a stand-alone, publicly-traded company on the over-the-counter exchange. In connection with the Spin-off, DRH contributed to Bagger certain assets, liabilities, and employees related to its Bagger Dave's businesses. Intercompany balances due to/from DRH, which included amounts from sales, were contributed to equity. Additionally, DRH contributed \$2 million in cash to Bagger to provide working capital for its operations and is a guarantor for certain of Bagger's lease obligations.

The spinoff was completed on December 25, 2016 via a one-for-one distribution of common shares in Bagger Dave's to DRH shareholders of record on December 19, 2016.

The consolidated balance sheet at December 25, 2016 represents the assets and liabilities that were spun off from DRH to Bagger Dave's. In addition, deferred tax assets were spun off, but a full valuation allowance was recorded prior to spin off.

Prior to the Spin-off, Bagger Dave's was a co-obligor on a joint and several basis with DRH on DRH's \$155 million senior secured credit facility. DRH's debt under the facility remained with DRH and Bagger Dave's was released as a borrower. Additionally, DRH retained substantially all of the benefits (net operating loss and tax credit carryforwards) generated by Bagger Dave's prior to the date of the Spin-off.

The Company headquarters are located at 807 W. Front St., Suite B, Traverse City, MI 49684. We can also be found on the Internet at [www.baggerdaves.com](http://www.baggerdaves.com).

### **Part 2. – The address of the Issuer's principal executive offices.**

#### Company Headquarters

Bagger Dave's Burger Tavern, Inc.

807 W. Front St., Suite B

Traverse City, MI 49684

Website: <http://www.baggerdaves.com>

Phone: (231) 486-0527

E-mail: [info@baggerdaves.com](mailto:info@baggerdaves.com)

### **Item 3. Securities Information**

Security Symbol: BDVB

CUSIP Number: 056645-12

Common Stock: 100,000,000 authorized; par value \$0.001, 27,266,528 shares issued and outstanding as of July 1, 2018

Preferred Stock: 10,000,000 authorized; \$0.001 par value; Nil issued and outstanding as of April 1, 2018

Transfer Agent

Island Stock Transfer  
15500 Roosevelt Blvd., Suite 301  
Clearwater, FL 33760  
Phone: (727) 289-0010  
E-mail: [kwhiteside@islandstocktransfer.com](mailto:kwhiteside@islandstocktransfer.com)

Island Stock Transfer is registered under the Exchange Act and is an SEC approved Transfer Agent

There are no trade suspension orders issued by the SEC in the past 12 months

**Item 4. Issuance History**

No shares were issued during 2<sup>nd</sup> QTR ended July 1, 2018.

**Item 5. Financial Statements**

The Unaudited Financial Statements for the fiscal quarter ended July 1, 2018 with corresponding notes are attached to this report. Included is the Financial Statements are the following:

- |   |                                   |
|---|-----------------------------------|
| 1. Balance Sheets (unaudited)           | Fiscal quarter ended July 1, 2018 |
| 2. Statements of Operations (unaudited) | Fiscal quarter ended July 1, 2018 |
| 3. Notes to Financial Statements        | Fiscal quarter ended July 1, 2018 |

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

- A. Bagger Dave’s concept first restaurant opened in January 2008 in Berkley, Michigan. As of March 5, 2018, there were nine Bagger Dave’s restaurants in operation, six in Michigan, one in Indiana and two in Ohio. Bagger Dave’s owns the right to the Bagger Dave’s concept.

Bagger Dave’s is a unique, full-service restaurant and bar concept. We have worked to create a concept that provides a warm, inviting and entertaining atmosphere through a friendly and memorable guest experience with great fresh food prepared with local ingredients.

- B. Company was incorporated in Nevada on May 27, 2016
- C. The primary SIC Code for the Company is 5812 – Eating Places
- D. The Issuer’s 2018 fiscal year ends on December 30.
- E. Bagger Dave’s specializes in locally-sourced, never-frozen prime rib recipe burgers, all-natural lean turkey burgers, hand-cut fries, locally crafted beers on draft, hand-dipped milk shakes, salads, black bean turkey chili and much more, delivered in a warm, hip atmosphere with friendly “full” service. The concept differentiates itself from other full-service casual dining establishments by the absence of walk-in freezers and microwaves, substantiating our fresh food offerings. The concept focuses on local flair of the city in which the restaurant resides by showcasing historical photos. Running above the dining room and bar, the features an electric train; a feature which was the genesis of Bagger Dave’s logo

**Item 7. Description of the Issuer’s Facilities**

The Company’s lease terms generally include renewal options, and frequently require us to pay a proportionate share of real estate taxes, insurance, common area maintenance, and other operating costs. Some restaurant leases provide for contingent rental payments based on sales thresholds.

Total rent expense was \$0.23 million and \$0.4 million for the fiscal quarters ended July 1, 2018 and June 25, 2017, respectively. Total rent expense was \$0.46 million and \$0.7 million for the six months ended July 1, 2018 and June 25, 2017, respectively.

Scheduled future minimum lease payments for each of the next five years and thereafter for non-cancelable operating leases for existing restaurants with initial or remaining lease terms in excess of one year at July 1, 2018 are summarized as follows:

<b>Year</b>	<b>Amount</b>
2018	\$ 587,965
2019	987,741
2020	924,489
2021	839,566
2022	809,814
Thereafter	5,989,220
<b>Total</b>	<b>\$ 10,138,795</b>

## Item 8. Officers, Directors and Control Persons

### A. Names of Officers, Directors and Control Persons

- T. Michael Ansley – Chairman, President, CEO and controlling shareholder
- Shawn Lilly – Director
- David Fisher – Director

### Legal/Disciplinary History

None of the foregoing persons have, in the last five years, has been the subject of:

- A conviction in a criminal proceeding or named as a defendant in a pending criminal proceedings (excluding traffic violations other minor offences);
- The entry of an order, judgement, 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;
- A finding or judgement 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 judgement has not been reversed, suspended, or vacated; or
- 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.

### B. Beneficial Shareholders (with holding over 10%)

Shareholder	City, State	Number of Shares	% Ownership
T. Michael Ansley	Traverse City, MI	11,107,438	40.7%

## Item 9. Third Party Providers

### Legal Counsel

Richard W. Jones

Jones & Haley, P.C.

South Terraces, Suite 170

115 Perimeter Center Place

Atlanta, Georgia 30346-1238

Phone: 770-804-0500

E-mail: [jones@corplaw.net](mailto:jones@corplaw.net)

Accountant or Auditor

David Ligotti  
Oakwood Business Services, LLC  
555 Briarwood Circle, Suite 150  
Ann Arbor, MI 48108  
Phone: (734) 327-0300, ext. 101  
Fax: (734) 327-1330  
E-mail: [dave@oakwoodsolutions.com](mailto:dave@oakwoodsolutions.com)

Investor Relations

Deborah K. Pawlowski  
Kei Advisors LLC  
7606 Transit Road, Suite 300  
Buffalo, New York 14221  
Phone: (716) 843-3908  
E-mail: [dpawlowski@keiadvisors.com](mailto:dpawlowski@keiadvisors.com)

Other Advisors

N/A

**Item 10. Issuer Certificates.**

I, T. Michael Ansley, certify that:

1. I have reviewed this annual disclosure statement of Bagger Dave's Burger Tavern, Inc.
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.

Date: August 14, 2018

**/s/ T. Michael Ansley**

T. Michael Ansley

CEO, President and Chairman

**BAGGER DAVE'S BURGER TAVERN, INC**  
**CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

	July 1, 2018 (Unaudited)	December 31, 2017
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 370,334	\$ 864,239
Accounts receivable	177,899	65,232
Inventory	150,972	245,728
Prepaid assets	117,225	81,469
<b>Total current assets</b>	<b>816,429</b>	<b>1,256,668</b>
Property and equipment, net	8,457,149	9,344,466
Intangible assets, net	392,500	561,443
Other Long Term Assets	0	0
<b>Total assets</b>	<b>\$ 9,666,078</b>	<b>\$ 11,162,576</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 405,883	\$ 541,273
Accrued compensation	117,182	183,590
Other accrued liabilities	571,714	560,609
Current portion of deferred rent	37,603	77,179
<b>Total current liabilities</b>	<b>1,132,383</b>	<b>1,362,651</b>
Deferred rent, less current portion	492,847	884,014
Other liabilities, less current portion	379,833	350,708
Deferred Tax Liabilities	46,432	54,621
<b>Total liabilities</b>	<b>2,051,495</b>	<b>2,651,994</b>
<b>Commitments and contingencies (Notes 8 and 9)</b>		
<b>Stockholders' equity</b>		
Common stock \$.0001 par value; 100,000,000 shares authorized; 27,297,727 outstanding as of December 31, 2017 and 26,692,119 shares issued and outstanding at December 25, 2016	2,691	2,691
Additional paid-in capital	8,436,975	15,292,498
Retained deficit	(825,082)	-6,784,606
Parent company investment		-
<b>Total stockholders' equity</b>	<b>7,614,584</b>	<b>8,510,583</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 9,666,078</b>	<b>\$ 11,162,576</b>



**BAGGER DAVE'S BURGER TAVERN, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>July 1, 2018</b>	<b>June 25, 2017</b>	<b>July 1, 2018</b>	<b>June 25, 2017</b>
<b>Revenue</b>	<b>\$ 2,635,108</b>	<b>\$ 4,648,534</b>	<b>\$ 5,517,997</b>	<b>\$ 9,788,637</b>
<b>Operating expenses</b>				
Restaurant operating costs (exclusive of depreciation and amortization shown separately below):				
Food, beverage, and packaging costs	747,531	1,337,154	1,622,968	2,807,600
Compensation costs	970,027	1,711,435	2,132,589	3,657,187
Occupancy costs	333,533	508,832	183,347	895,646
Other operating costs	583,552	1,012,812	1,319,218	2,164,275
General and administrative expenses	214,281	689,540	496,668	993,932
Pre-opening costs	-	-	-	-
Depreciation and amortization	444,835	460,517	889,670	1,028,459
Impairment and (gain) loss on disposal of property and equipment	(242,175)	(59,731)	(284,456)	1,142,986
<b>Total operating expenses</b>	<b>3,051,584</b>	<b>5,660,559</b>	<b>6,360,004</b>	<b>12,690,085</b>
<b>Operating loss</b>	<b>(416,476)</b>	<b>(1,012,025)</b>	<b>(842,007)</b>	<b>(2,901,448)</b>
Other income, net	3,209	13,549	9,899	52,742
<b>Loss before income taxes</b>	<b>(413,267)</b>	<b>(998,476)</b>	<b>(832,108)</b>	<b>(2,848,706)</b>
Provision for income taxes	(9,785)	75,585	(7,027)	75,585
<b>Net loss from continuing operations</b>	<b>\$ (403,482)</b>	<b>\$ (1,074,061)</b>	<b>\$ (825,081)</b>	<b>\$ (2,924,291)</b>
Basic loss per share	\$ (0.01)	\$ (0.04)	\$ (0.03)	\$ (0.11)
Fully diluted loss per share	\$ (0.01)	\$ (0.04)	\$ (0.03)	\$ (0.11)
<b>Weighted average number of common shares outstanding</b>				
Basic	27,416,235	26,778,364	27,341,381	26,735,006
Diluted	27,416,235	26,778,364	27,341,381	26,735,006

**BAGGER DAVE'S BURGER TAVERN, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOW (UNAUDITED)**

	<b>Three Months Ended</b>	
	<b>July 1, 2018</b>	<b>June 25, 2017</b>
<b>Cash flows provided by (used in) operating activities</b>		
Net loss	\$ (825,081)	\$ (2,924,291)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	889,670	1,028,459
Impairment and (gain) loss on asset disposals	(284,456)	1,142,986
Realized gain on sale-leaseback	(14,686)	(14,686)
Share based compensation	(2,893)	45,308
Deferred income taxes	(8,189)	75,585
Changes in operating assets and liabilities that provided (used) cash		
Accounts receivable	(112,667)	37,214
Inventory	94,756	75,886
Prepaid expenses	(35,756)	73,386
Intangible assets	166,590	-
Other long-term assets	-	-
Accounts payable	(135,389)	172,368
Accrued liabilities	(11,491)	547,755
Deferred rent	(430,743)	(126,655)
<b>Net cash provided by (used in) operating activities</b>	<b>(710,336)</b>	<b>133,314</b>
<b>Cash flows from investing activities</b>		
Disposal of property and equipment	284,456	77,718
Purchases of property and equipment	-	(8,271)
<b>Net cash used in investing activities</b>	<b>284,456</b>	<b>69,447</b>
<b>Cash flows from financing activities</b>		
Cash contributed by Parent upon Spin off	-	-
Stock Split Buy Back	(68,025)	-
<b>Net cash provided by financing activities</b>	<b>(68,025)</b>	<b>-</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(493,905)</b>	<b>202,761</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>864,239</b>	<b>1,818,813</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 370,334</b>	<b>\$ 2,021,574</b>

**BAGGER DAVE'S BURGER TAVERN, INC.**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Nature of Business*

On August 4, 2016, Diversified Restaurant Holdings, Inc. ("DRH" or "the Parent") announced that its Board of Directors unanimously approved a plan to pursue a tax-free Spin-off of its Bagger Dave's business (the "Spin-off"). Specifically, DRH contributed its 100.0% owned entity, AMC Burgers, LLC and certain real estate entities into Bagger Dave's Burger Tavern, Inc., a newly created Nevada corporation ("Bagger Dave's" or "Bagger"), which was then spun-off into a stand-alone, publicly-traded company on the over-the-counter exchange. In connection with the Spin-off, DRH contributed to Bagger certain assets, liabilities, and employees related to its Bagger Dave's businesses. Intercompany balances due to/from DRH, which included amounts from sales, were contributed to equity. Additionally, DRH contributed \$2 million in cash to Bagger to provide working capital for its operations and is a guarantor for certain of Bagger's lease obligations.

The spinoff was completed on December 25, 2016 via a one-for-one distribution of common shares in Bagger Dave's to DRH shareholders of record on December 19, 2016.

Prior to the Spin-off, Bagger Dave's was a co-obligor on a joint and several bases with DRH on DRH's \$155 million senior secured credit facility. DRH's debt under the facility remained with DRH and Bagger Dave's was released as a borrower. Additionally, DRH retained substantially all of the benefits (net operating loss and tax credit carryforwards) generated by Bagger Dave's prior to the date of the Spin-off.

The Company headquarters are located at 807 W. Front St., Suite B, Traverse City, MI 49684. We can also be found on the Internet at [www.baggerdaves.com](http://www.baggerdaves.com).

DRH originated the Bagger Dave's concept with the first restaurant opening in January 2008 in Berkley, Michigan. As of April 1, 2018, there were 9 Bagger Dave's restaurants in operation, six in Michigan, one in Indiana and two in Ohio. Bagger Dave's owns the right to the Bagger Dave's concept and has rights to franchise the concept in Illinois, Indiana, Kentucky, Michigan, Missouri, Ohio and Wisconsin. We do not intend to pursue franchise development at this time.

Bagger Dave's is a unique, full-service, ultra-casual restaurant and bar concept. We have worked to create a concept that provides a warm, inviting and entertaining atmosphere through a friendly and memorable guest experience.

Bagger Dave's specializes in locally-sourced, never-frozen prime rib recipe burgers, all-natural lean turkey burgers, hand-cut fries, locally crafted beers on draft, hand-dipped milk shakes, salads, black bean turkey chili and much more, delivered in a warm, hip atmosphere with friendly "full" service. The concept differentiates itself from other full-service casual dining establishments by the absence of walk-in freezers and microwaves, substantiating our fresh food offerings. The concept focuses on local flair of the city in which the restaurant resides by showcasing historical photos. Running above the dining room and bar, the concept features an electric train; a feature which was the genesis of Bagger Dave's logo.

We follow accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB sets generally accepted accounting principles in the United States of America ("GAAP") that we follow to ensure we consistently report our financial condition, results of operations, and cash flows. References to GAAP issued by the FASB in these footnotes are to the FASB Accounting Standards Codification ("ASC").

*Basis of Presentation*

These consolidated financial statements include the accounts of Bagger Dave's Burger Tavern, Inc. and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated.

### *Fiscal Year*

The Company utilizes a 52- or 53-week accounting period that ends on the last Sunday in December. Fiscal year 2017 ended on December 31, 2017 and fiscal year 2018 will end on December 30, 2018. Fiscal year 2017 was comprised of 53 weeks, while fiscal year 2018 is comprised of 52 weeks. The fiscal quarter ended July 1, 2018 and June 25, 2017 were each comprised of 13 weeks.

### *Management's Plan Regarding Going Concern*

Management reviews the trend of our operations on a regular basis in an effort to understand and forecast future cash usage. During the most recent review, based on current trends discussed in greater detail below, we determined that our current cash balance and the cash we expect to generate from operations will likely not be sufficient to enable us to continue operating for the next twelve months. We will likely need an infusion of cash, either through a sale of shares and/or issuance of debt in order to continue operating. There can be no certainty that efforts to raise such cash will be successful. Any issuance of equity securities may dilute the holdings of current shareholders.

Previous plans that we implemented included:

#### *Increasing restaurant-level profitability by:*

- İ Driving increased average weekly volumes (“AWVs”) with a new menu design, improved net-promoter scores, enhanced kitchen processes (to ensure fast, consistent ticket times), new messaging and our first cable television advertising campaign.
- İ Reducing cost of sales and working closely with our vendors.
- İ Reducing labor costs through a comprehensive labor strategy.
- İ Reducing operating expenses.
- İ Closing unprofitable locations. The Company closed four in the twelve months ended December 31, 2017 and six more locations in the first quarter of 2018.

#### *Decrease in general and administration expense by:*

- İ Reducing salary expense.
- İ Reducing marketing expense. Effective 2017, Bagger Dave’s marketing budget will be 3.0% or less of sales. In prior years, the marketing spend was between 4.0%-10.0% in any given period. We believe that, with a more efficient use of marketing funds, and higher focus on local store marketing initiatives, we can achieve a better return on our marketing investment through increased sales.

#### *Managing of capital expenditures:*

- İ We undertook only maintenance-level capital expenditures

All of the foregoing cost cutting steps were implemented, resulting in \$4.1 million in operating savings, net of depreciation, amortization, and losses on asset impairments. Our projections in prior quarters were based on the assumption that same store sales would improve in the fourth fiscal quarter of 2017 by 3% over the fourth fiscal quarter in 2016. This was based on selected price increases and the fact that there is a 14<sup>th</sup> week in the fourth quarter of 2017 versus 13 weeks in the fourth quarter of 2016. However, after an 8% decline in same store sales for the third fiscal quarter of 2017 over the same period in 2016, same store sales in the fourth quarter of 2017 declined by 1.9%, despite the additional week in the fourth quarter of 2017. Our sales decline appears to be the result of a poor macro environment for fast casual dining establishments. As a result, we are forecasting a continuing decline in sales for at least the first two fiscal quarters of 2018.

In 2018 we closed six underperforming stores which will save approximately \$400 thousand and will generate cash flow from asset sales and subleasing. We also have instituted additional cost savings at the restaurant level which we anticipate to save about \$200 thousand. Finally, we anticipate General and Administrative cost savings due to becoming an Alternative Reporting Company and from the reduced corporate overhead from the 2018 store closings. Therefore, we expect to achieve about \$1.8 million in annual savings beginning in 2018. While we will continue to identify and implement cost cuts, it's uncertain that these will enable us to generate enough cash to sustain operations for the next twelve months.

### ***Cash and Cash Equivalents***

Cash and cash equivalents consist of cash on hand and demand deposits in banks. The Company considers all highly-liquid investments purchased with original maturities of three months or less to be cash and cash equivalents. The Company, at times throughout the year, may, in the ordinary course of business, maintain cash balances in excess of federally-insured limits. Management does not believe the Company is exposed to any unusual risks on such deposits.

### ***Accounts Receivable***

Accounts receivable primarily consist of amounts owing from credit card charges. There was no allowance for doubtful accounts necessary at July 1, 2018 or December 31, 2017.

### ***Gift Cards***

The Company records Bagger Dave's gift card sales as a gift card liability when sold. When redeemed, the gift card liability account is offset by recording the transaction as revenue. Michigan law states that gift cards cannot expire and any post-sale fees cannot be assessed until 5 years after the date of gift card purchase by the consumer. The Company is in the process of calculating its historical breakage percentage and the breakage associated with closed locations. Accordingly, no breakage attributable to Bagger Dave's restaurants for the Company is recorded as of July 1, 2018 and June 25, 2017.

The Company's gift card liability was \$259,899 and \$296,545 as of July 1, 2018 and December 31, 2017 respectively, and is included in other accrued liabilities on the Consolidated Balance Sheets.

### ***Inventory***

Inventory consists mainly of food and beverage products and is accounted for at the lower of cost or market using the first in, first out method of inventory valuation. Cash flows related to inventory sales are classified in net cash used by operating activities in the Consolidated Statements of Cash Flows.

### ***Prepaid Assets and Other Long-Term Assets***

Prepaid assets consist principally of prepaid rent, insurance and contracts and are recognized ratably as operating expense over the period of future benefit. Other long-term assets consist primarily of security deposits for operating leases and utilities.

### ***Property and Equipment***

Property and equipment are recorded at cost. Buildings, which includes buildings on leased land, are depreciated using the straight-line method over the shorter of the term of the lease or its estimated useful life, which ranges from 10-39 years. Equipment and furniture and fixtures are depreciated using the straight-line method over the estimated useful lives of the assets, which range from three to seven years. Leasehold improvements, which include the cost of improvements funded by landlord incentives or allowances, are amortized using the straight-line method over the lesser of the term of the lease, with consideration of renewal

options if renewals are reasonably assured because failure to renew would result in an economic penalty, or the estimated useful lives of the assets, which is typically five - 15 years. Maintenance and repairs are expensed as incurred. Upon retirement or disposal of assets, the cost and accumulated depreciation are eliminated from the respective accounts and the related gains or losses are credited or charged to earnings.

The Company capitalizes items associated with construction but not yet placed into service, known as construction in progress ("CIP"). Items capitalized include fees associated with the design, build out, furnishing of the restaurants, leasehold improvements, construction period interest (when applicable), equipment, and furniture and fixtures. Restaurant CIP is not amortized or depreciated until the related assets are placed into service. Items are placed into service according to their asset category when the restaurant is open for service.

### *Intangible Assets*

Amortizable intangible assets consist of trademarks and are stated at cost, less accumulated amortization. The trademarks are amortized on a straight-line basis over the estimated useful life of 15 years.

Liquor licenses, also a component of intangible assets, are deemed to have an indefinite life and, accordingly, are not amortized. Management reviews liquor license assets on an annual basis (at year-end) to determine whether carrying values have been impaired. We identify potential impairments for liquor licenses by comparing the fair value with its carrying amount. If the fair value exceeds the carrying amount, the liquor licenses are not impaired. If the carrying amount exceeds the fair value, an impairment loss is recorded for the difference. There were no impairments recognized in the fiscal quarters ended July 1, 2018 and June 25, 2017.

### *Impairment or Disposal of Long-Lived Assets*

We review long-lived assets quarterly to determine if triggering events have occurred which would require a test to determine if the carrying amount of these assets may not be recoverable based on estimated future cash flows. Assets are reviewed at the lowest level for which cash flows can be identified, which is at the individual restaurant level. In the absence of extraordinary circumstances, restaurants are included in the impairment analysis after they have been open for two years. We evaluate the recoverability of a restaurant's long-lived assets, including buildings, intangibles, leasehold improvements, furniture, fixtures, and equipment over the remaining life of the primary asset in the asset group, after considering the potential impact of planned operational improvements, marketing programs, and anticipated changes in the trade area. In determining future cash flows, significant estimates are made by management with respect to future operating results for each restaurant over the remaining life of the primary asset in the asset group. If assets are determined to be impaired, the impairment charge is measured by calculating the amount by which the asset carrying amount exceeds its fair value based on our estimate of discounted future cash flows. The determination of asset fair value is also subject to significant judgment. Refer to Note 2 for additional information.

We account for exit or disposal activities, including restaurant closures, in accordance with ASC Topic 420, *Exit or Disposal Cost Obligations*. Such costs include the cost of disposing of the assets as well as other facility-related expenses from previously closed restaurants. These costs are generally expensed as incurred. Additionally, at the date we cease using a property under an operating lease, we record a liability for the net present value of any remaining lease obligations, net of estimated sublease income. Any subsequent adjustments to that liability as a result of lease termination or changes in estimates of sublease income are recorded in the period incurred. Refer to Note 2 for additional information.

Impairments totaling \$0.0 million and \$0.006 million were recognized in the fiscal quarters ended July 1, 2018 and June 25, 2017.

### ***Deferred Rent***

Certain operating leases provide for minimum annual payments that increase over the life of the lease. Typically, our operating leases contain renewal options under which we may extend the initial lease terms for periods of five to 10 years. The aggregate minimum annual payments are expensed on a straight-line basis commencing when we gain control and extending over the term of the related lease, including option renewals as deemed reasonably assured. The amount by which straight-line rent exceeds actual lease payment requirements in the early years of the lease is accrued as deferred rent liability and reduced in later years when the actual cash payment requirements exceed the straight-line expense. The Company also accounts, in its straight-line computation, for the effect of any “rental holidays”, “free rent periods”, and “landlord incentives or allowances”.

### ***Deferred Gains***

Deferred gains on the sale leaseback transaction described in Note 3, are recognized as a reduction of rent expense over the life of the related operating lease agreements.

### ***Revenue Recognition***

Revenues from food and beverage sales are recognized and generally collected at the point of sale. All sales taxes are presented on a net basis and are excluded from revenue.

### ***Advertising***

Advertising expenses of \$0.07 million and \$.186 million are included in general and administrative expenses in the Consolidated Statements of Operations for the fiscal quarters ended July 1, 2018 and June 25, 2017, respectively. Advertising expenses of \$.11 million and \$.32 million are included in general and administrative expenses in the Consolidated Statements of Operations for the six months ended July 1, 2018 and June 25, 2017, respectively.

### ***Pre-opening Costs***

Pre-opening costs are those costs associated with opening new restaurants and will vary based on the number of new locations opening and under construction. The Company also reclassifies labor costs that exceed the historical average for the first three months of restaurant operations that are attributable to training. These costs are expensed as incurred. Pre-opening costs of \$0 million and \$0 million are included in the Consolidated Statements of Operations for the three months ended July 1, 2018 and June 25, 2017, respectively. Excess labor cost incurred after restaurant opening and included in pre-opening cost were approximately \$0 million and \$0 million for the six months ended July 1, 2018 and June 25, 2017, respectively.

### ***Income Taxes***

Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense (income) is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

The Company applies the provisions of FASB ASC 740, *Income Taxes*, (“ASC 740”) regarding the accounting for uncertainty in income taxes. The Company classifies all interest and penalties as income tax

expense. There are no accrued interest amounts or penalties related to uncertain tax positions as of July 1, 2018 and June 25, 2017.

### *Use of Estimates*

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

### *Recent Accounting Pronouncements*

In August 2016, the FASB issued ASU 2016-15, “*Statement of Cash Flows: Classification of Certain Cash Receipts and Payments.*” ASU 2016-15 provides guidance on eight specific cash flow issues with the objective of reducing diversity in practice. The guidance is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted for any entity in any interim or annual period. At present we do not believe it will materially impact our consolidated financial statements.

In February 2016, FASB issued ASU 2016-02, *Leases*, ASU 2016-02 requires that lease arrangements longer than 12 months’ result in a lessee recognizing a lease asset and liability. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The updated guidance is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. We believe the adoption of ASU 2016-02 will materially impact our consolidated financial statements by significantly increasing our non-current assets and our non-current liabilities on our consolidated balance sheet as it will require us to record the right of use assets and the related lease liabilities for our existing operating leases. We are currently unable to estimate the impact of the updated guidance on our consolidated financial statements.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09 “Revenue with Contracts from Customers (Topic 606).” ASU 2014-09 supersedes the current revenue recognition guidance, including industry-specific guidance. The guidance introduces a five-step model to achieve its core principal of the entity recognizing revenue to depict the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In March 2016, the FASB issued ASU 2016-04, “Liabilities - Extinguishments of Liabilities: Recognition of Breakage for Certain Prepaid Stored-Value Products.” ASU 2016-04 provides specific guidance for the de-recognition of prepaid stored-value product liabilities. In March 2016, the FASB issued ASU 2016-08, “Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net).” ASU 2016-08 provides specific guidance to determine whether an entity is providing a specified good or service itself or is arranging for the good or service to be provided by another party. In April 2016, the FASB issued ASU 2016-10, “Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing.” ASU 2016-10 provides clarification on the subjects of identifying performance obligations and licensing implementation guidance.

The requirements for these standards relating to Topic 606 will be effective for interim and annual periods beginning after December 15, 2017. We believe that the new revenue recognition standard do not materially impact the recognition of restaurant sales, our primary source of revenue. As we continue the evaluation, documentation, and implementation of ASU 2016-09, other areas which could be impacted may be identified. Additionally, this guidance will require us to enhance our disclosures. With respect to the transition method for adoption, we expect to adopt this standard using the modified retrospective approach. We expect to complete our evaluation and documentation during the year ended December 30, 2018.

We reviewed all other significant newly-issued accounting pronouncements and concluded that they either are not applicable to our operations or that no material effect is expected on our consolidated financial statements as a result of future adoption.



## 2. IMPAIRMENTS, DISPOSALS AND EXIT COSTS

Based on impairment indicators that existed at July 1, 2018, the Company performed an impairment analysis on its long-lived assets subject to amortization. \$0 million of long-lived assets were deemed to be impaired for the six months ended July 1, 2018. Impairment charges are recorded to the extent that the carrying amount of the assets are not considered recoverable based on the estimated future cash flows of the location. The impairment charges are included in impairment and loss on asset disposals on the Consolidated Statements of Operations.

We are currently monitoring the valuation of long-lived assets at several restaurants and have developed plans to improve operating results. As we periodically refine our estimated future operating results, changes in our estimates and assumptions may cause us to realize impairment charges in the future that could be material.

On January 7, 2018, five locations (Shelby Township, MI, East Lansing MI, Canton, MI, Traverse City, MI, and Grand Rapids, MI) were closed. The assets for these locations were fully impaired as of December 31, 2017. In March 11, 2018 an additional location in Bloomfield Hills, MI was closed. The assets for this location were fully impaired as of December 31, 2017. There is no store closure liability recorded at July 1, 2018 as all such liabilities had been paid on or prior to that date. The balance sheet dated July 1, 2018 reflects a store closure liability of \$0.11 million in Other accrued liabilities in the current liabilities section of the balance sheet.

## 3. PROPERTY AND EQUIPMENT, NET

Property and equipment are comprised of the following:

	July 1, 2018	December 31, 2017
Buildings	1,672,568	1,672,568
Equipment	3,456,299	3,456,299
Furniture and fixtures	1,015,811	1,015,811
Leasehold improvements	8,755,918	8,755,918
Total	14,900,596	14,900,596
Less accumulated depreciation	(6,443,447)	(5,556,131)
<b>Property and equipment, net</b>	<b>\$ 8,457,149</b>	<b>\$ 9,344,466</b>

Depreciation expense was \$0.4 million and \$0.5 million during the quarters ended July 1, 2018 and June 25, 2017, respectively. Depreciation expense was \$9 million and \$1.0 million during the six months ended July 1, 2018 and June 25, 2017, respectively.

### *Sale leaseback transactions*

On October 6, 2014, the Company entered into a sale leaseback agreement for \$8.9 million with a third-party Real Estate Investment Trust ("REIT"). The arrangement included the sale of real estate on which six Bagger Dave's locations operate. In the fourth quarter of 2014, we closed the sale of five of the six properties, with total proceeds of \$6.9 million. We closed the sale of the remaining property in June 2015 with total proceeds of \$2.0 million. Pursuant to the terms of each sale-leaseback transaction, we transferred title of the real property to the purchaser after final inspection and, in turn, entered into separate leases with the purchaser having a 15-year basic operating lease term plus four separate 5-year renewal options. Certain of the sale leaseback arrangements resulted in a gain which has been deferred. As of December 31, 2017, \$0.03 million of the deferred gain was recorded in Other accrued liabilities and \$0.3 million of the deferred gain was

recorded in Other liabilities on the Consolidated Balance Sheets. As of July 1, 2018, \$0.03 million of the deferred gain was recorded in Other accrued liabilities and \$0.3 million of the deferred gain was recorded in Other liabilities on the Consolidated Balance Sheets. The gains will be recognized into income as an offset to rent expense over the life of the related lease agreements.

#### 4. INTANGIBLE ASSETS

Intangible assets are comprised of the following:

	<u>July 1, 2018</u>	<u>December 31, 2017</u>
<b>Amortized intangible assets</b>		
Trademarks	\$ 70,576	\$ 70,576
Less accumulated amortization	(25,960)	(23,607)
<b>Amortized intangible assets, net</b>	<u>44,616</u>	<u>46,969</u>
<b>Unamortized intangible assets</b>		
Liquor licenses	347,884	514,474
<b>Total intangible assets, net</b>	<u>\$ 392,500</u>	<u>\$ 561,443</u>

Amortization expense for the quarters ended July 1, 2018 and June 25, 2017 was \$1,176 and \$1,077, respectively. Amortization expense for the six months ended July 1, 2018 and June 25, 2017 was \$2,353 and \$2,496, respectively.

Based on the current intangible assets and their estimated useful lives, future intangible-related expense for the next five years and thereafter is projected as follows:

<u>Year</u>	<u>Amount</u>
Remainder of 2018	\$2,352
2019	4,705
2020	4,705
2021	4,705
2022	4,705
Thereafter	21,092
<b>Total</b>	<u>\$ 42,264</u>

The aggregate weighted-average amortization period for intangible assets is 10 years.

#### 5. OTHER ACCRUED LIABILITIES, CURRENT

	<u>July 1, 2018</u>	<u>December 31, 2017</u>
Gift card liability	\$ 259,899	\$ 296,544
Sales tax payable	56,095	95,980
Store closure liability	112,300	127,480
Other	143,420	40,605
<b>Total accrued other liabilities</b>	<u>\$ 571,714</u>	<u>\$ 560,609</u>

#### 6. RELATED PARTY TRANSACTIONS

In connection with the Spin-Off described in Note 1, the Company entered into a transition services agreement (the “TSA”) with DRH pursuant to which DRH will provide certain information technology and human resource support, limited accounting support, and other administrative functions at no charge. The TSA is intended to assist the Company in efficiently and seamlessly transitioning to operating on its own. The TSA expired on December 31, 2017 at which time the parties may negotiate which services will be required on an on-going basis and the fees that will be charged for such services. Additionally, as of the date of this filing, DRH is listed as the guarantor on 12 of the 15 Bagger Dave’s leases. The guarantees range from one month to 12 years and total approximately \$7.8 million as of July 1, 2018.

## 7. STOCK BASED COMPENSATION

On January 21, 2017, the Board of Directors approved the 2017 Stock Option and Restricted Stock Plan (“the Plan”). The persons eligible to receive awards under the Plan are the employees, directors and consultants of the Company and its affiliates. The purpose of the Plan is to provide a means by which eligible recipients may be given an opportunity to benefit from increases in value of the Company’s Common Stock through the granting of the following: (i) Incentive Stock Options, (ii) Nonqualified Stock Options, (iii) Stock awards (iv) Rights to acquire restricted stock, and (v) stock appreciation rights. The Company can reserve up to 10,000,000 shares of its Common Stock for issuance under this plan. Vesting provisions of up to three years will apply to any and all awards.

As of December 31, 2017, 652,500 restricted shares were issued to certain team members under the Plan at a weighted-average grant date fair value of \$.19. Based on the Plan Agreement, shares typically vest ratably over either a three-year period or upon issue. Unrecognized share-based compensation expense of \$30,044 at July 1, 2018 will be recognized over the remaining weighted-average vesting period of 1 year. The total fair value of shares vested during the six month periods ended July 1, 2018 and June 25, 2017, was \$2,846 and \$47,513, respectively. Under the Plan, there were 9,482,490 shares available for future awards at July 1, 2018.

The following table presents the restricted shares transactions during the three-month period ended April 1, 2018:

	<b><u>Number of Restricted Stock Shares</u></b>
Unvested, December 31, 2017	434,982
Granted	-
Vested	150,832
Vested shares tax portion	30,208
Expired/Forfeited	<u>133,314</u>
<b>Unvested, July 1, 2018</b>	<b><u>150,836</u></b>

## 8. INCOME TAXES

The effective income tax rate for the six month periods ended July 1, 2018 and June 25, 2017 was -0.8% and 0.0%, respectively due to the Company recording a full valuation allowance on its deferred tax assets. The valuation allowance was recorded due to the negative evidence of our recent years’ history of losses.

## 9. OPERATING LEASES

The Company's lease terms generally include renewal options, and frequently require us to pay a proportionate share of real estate taxes, insurance, common area maintenance, and other operating costs. Some restaurant leases provide for contingent rental payments based on sales thresholds.

Total rent expense was \$0.23 million and \$0.4 million for the fiscal quarters ended July 1, 2018 and June 25, 2017, respectively. Total rent expense was \$0.46 million and \$0.7 million for the six months ended July 1, 2018 and June 25, 2017, respectively.

Scheduled future minimum lease payments for each of the next five years and thereafter for non-cancelable operating leases for existing restaurants with initial or remaining lease terms in excess of one year at July 1, 2018 are summarized as follows:

<b>Year</b>	<b>Amount</b>
2018	\$ 587,965
2019	987,741
2020	924,489
2021	839,566
2022	809,814
Thereafter	5,989,220
<b>Total</b>	<b>\$ 10,138,795</b>

## 10. COMMITMENTS AND CONTINGENCIES

Bagger Dave's sponsors a defined contribution 401(k) plan whereby eligible team members can contribute pre-tax wages in accordance with the provisions of the plan. Bagger Dave's has the option to make an annual discretionary contribution to the 401(k) plan. No match was made during the three months ended July 1, 2018.

The Company is subject to ordinary and routine legal proceedings, as well as demands, claims and threatened litigation, which arise in the ordinary course of its business. The ultimate outcome of any litigation is uncertain. We have insured and continue to insure against most of these types of claims. A judgment on any claim not covered by or in excess of our insurance coverage could materially adversely affect our financial condition or results of operations.

## 11. SUPPLEMENTAL CASH FLOWS INFORMATION

### Other Cash Flows Information

No cash paid for interest during the three ended July 1, 2018 and June 25, 2017 respectively.

No cash paid for income taxes during the three months ended July 1, 2018 and June 25, 2017 respectively.