

# Granite City Achieves Positive Cash Flow From Operations for First Quarter 2010

**Company Outperforms Industry with Positive Comps for Sales and Guest Counts**

**Adjusted EBITDA at \$1.5 million for the First Quarter 2010**

**MINNEAPOLIS May 10, 2010** — Granite City Food & Brewery Ltd. (Nasdaq: GCFB), a Modern American upscale casual restaurant chain, today reported results for the first quarter ended March 30, 2010.

Highlights for the first quarter 2010 were as follows:

- Total restaurant sales increased 3.8% to \$22.2 million from \$21.4 million a year-ago. Comparable restaurant sales for the first quarter increased 2.1% to \$20.6 million from \$20.2 million a year-ago
- Total guest counts increased 8.6% compared to a year-ago. Comparable guest traffic for the first quarter of 2010 increased 6.7% from a year-ago
- Prime cost (food, beverage, retail, labor) as a percentage of revenue decreased 0.3 percentage points from 62.3% in the first quarter of 2009 to 62.0% in first quarter 2010
- General and administrative expenses decreased \$0.5 million in first quarter 2010 to \$1.6 million compared to first quarter 2009
- Restaurant-level income before occupancy (“IBO”) margin improved to 23.5% in the first quarter of 2010 from 22.7% in prior year first quarter
- Company-wide EBITDA increased \$0.5 million to \$1.5 million in first quarter 2010 compared to \$1.0 million in the first quarter 2009
- Generates positive cash flow from operations of \$0.3 million

## **First Quarter 2010 Financial Results**

For all the restaurants, the restaurant-level IBO margin was 23.5% for the first quarter of 2010 compared to 22.7% in the first quarter of 2009. This represents an increase of 0.8 percentage points in restaurant-level IBO at a time when the Company increased its advertising budget by 0.4 percentage points.

"We are extremely pleased with all phases of our plans to improve revenues," said Steve Wagenheim, President and Chief Executive Officer of Granite City. "Last summer we implemented an aggressive grass roots marketing plan to rebuild traffic with the goal of having our sales follow. Our first quarter results reflect the commitment of our operators to follow a concise marketing plan that is now generating positive results. While we believe the casual dining sector is beginning to show strength, we are pleased to be outpacing the sector in comp sales and customer counts, allowing us to generate positive cash flow from operations. We are cautiously optimistic that this momentum will continue throughout 2010 which we believe will allow us to improve our cash position and overall operating results."

Total revenue for the first quarter 2010 increased by 3.8% to \$22.2 million compared to \$21.4 million for the first quarter of 2009. Total cost of sales before occupancy was \$17.0 million in the first quarter or 76.5% of sales compared to prior year first quarter cost of sales before occupancy of \$16.6 million or 77.3% of sales. The primary sources of improvement were a decrease in labor costs as a percentage of

revenue of 0.6 percentage points and a decrease of store operating expenses as a percentage of revenue of 0.4 percentage points in the first quarter of 2010, compared to the first quarter of 2009, partially offset by a slight increase in commodity food costs and an increase in advertising expenditures.

General and administrative expenses were \$1.6 million or 7.0% of sales for the first quarter of 2010, compared to \$2.1 million or 9.6% of sales for the first quarter of 2009.

The net loss for the first quarter of 2010 was \$.9 million or \$(0.12) per share compared to a net loss of \$2.7 million or \$(1.01) per share in the first quarter of 2009.

### **First Quarter 2010 Conference Call**

The Company will host a conference call to discuss its first quarter financial results on Tuesday, May 11, 2010 at 10:00am Central Time. The call may be accessed by calling 1-800-214-0694 and referencing code 340813. A replay of the call will be available for 30 days and may be accessed by calling 1-888-348-4629 and entering replay code 340813.

### **About Granite City**

Granite City Food & Brewery Ltd. is a Modern American upscale casual restaurant chain that operates 26 restaurants in 11 states. The menu features affordable yet high quality family favorite menu items prepared from made-from-scratch recipes and served in generous portions. The sophisticated yet unpretentious restaurants, proprietary food and beverage products, attractive price points and high service standards combine for a great dining experience. Granite City opened its first restaurant in St. Cloud, Minnesota in 1999.

### **Forward-Looking Statements, Non-GAAP Financial Measurements, and Comparable Restaurant Data**

*Certain statements made in this press release of a non-historical nature constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated. Such factors include, but are not limited to, changes in economic conditions, changes in consumer preferences or discretionary consumer spending, a significant change in the performance of any existing restaurants, our ability to continue funding our operations and meet our debt service obligations, our ability to avoid lease terminations and other material adverse consequences despite withholding rent from certain of our landlords during rent negotiations, and the risks and uncertainties described in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 22, 2010, as amended by the risks and uncertainties described in our Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 10, 2010.*

*Additionally, this press release contains certain non-GAAP financial measures, including references to prime costs, restaurant-level IBO and company-wide EBITDA. Prime costs are the sum of the cost of food, beverage, retail and labor. We use prime costs to track the components in cost of sales which are directly variable with sales, and we use prime costs as a percentage of revenue as an internal measurement of restaurant-level operating performance. As compared to the nearest GAAP measurement for our company, restaurant-level IBO represents revenue less cost of food, beverage, labor and restaurant operating costs. We use restaurant-level IBO and restaurant-level IBO as a percentage of revenue as internal measurements of restaurant-level operating performance. Restaurant-level IBO as we define it may not be comparable to similar measurements used by other companies and is not a measure of performance or liquidity presented in accordance with GAAP. We believe that restaurant-level IBO is*

*an important component of our financial results because it is a widely used measurement within the restaurant industry to evaluate restaurant-level productivity, efficiency, and performance. We use restaurant-level IBO as a means of evaluating our restaurants' financial performance compared with our competitors. As compared to the nearest GAAP measurement for our company, company-wide EBITDA represents operating loss with the add-back of depreciation and amortization, net loss on disposal of assets and exit or disposal costs (Rogers & Troy). We use company-wide EBITDA as a way to measure our overall internal operational performance without restaurant closings and as a means of evaluating our financial performance compared with our competitors. These non-GAAP measurements should not be used as substitutes for net loss, net cash provided by or used in operations or other financial data prepared in accordance with GAAP. Schedules of reconciliations of restaurant-level IBO, company-wide EBITDA, and prime costs as a percentage of revenue for the first quarters of 2010 and 2009 are provided herein.*

*Finally, in order to provide supplemental results of operations information, we have included certain adjusted financial measures. In particular, we have presented various financial metrics for comparable restaurants, which are those restaurants that have been open for 18 months or more. The contribution of this group of restaurants to company-wide performance is set forth herein.*

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**GRANITE CITY FOOD & BREWERY LTD.**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	Thirteen Weeks Ended	
	March 30, 2010	March 30, 2009
Restaurant revenue	\$ 22,239,363	\$ 21,424,701
Cost of sales:		
Food, beverage and retail	6,086,246	5,826,253
Labor	7,692,523	7,531,642
Direct restaurant operating	3,227,571	3,193,754
Occupancy	2,169,712	1,572,200
Total cost of sales	<u>19,176,052</u>	<u>18,123,849</u>
Pre-opening	-	192,929
General and administrative	1,556,003	2,064,316
Depreciation and amortization	1,476,976	1,706,577
Exit or disposal activities	131,601	428,080
(Gain) loss on disposal of assets	(48,523)	9,101
Operating loss	<u>(52,746)</u>	<u>(1,100,151)</u>
Interest:		
Income	299	1,498
Expense	(839,385)	(1,630,958)
Net interest expense	<u>(839,086)</u>	<u>(1,629,460)</u>
Net loss	<u>\$ (891,832)</u>	<u>\$ (2,729,611)</u>
Loss per common share, basic	<u>\$ (0.12)</u>	<u>\$ (1.01)</u>
Weighted average shares outstanding, basic	<u>7,366,217</u>	<u>2,699,642</u>

**Selected Balance Sheet Information**

	March 30, 2010	December 29, 2009
Cash	\$ 1,536,284	\$ 1,743,599
Current assets, including cash	\$ 2,826,592	\$ 3,139,018
Total assets	\$ 54,332,253	\$ 56,021,956
Current liabilities	\$ 11,042,279	\$ 11,668,965
Total liabilities	\$ 47,850,382	\$ 48,693,656
Shareholders' equity	\$ 6,481,871	\$ 7,328,300

### Non-GAAP Reconciliations Q1 2010 Results

	Comparable Restaurants	<i>% of Sales</i>	New Restaurants	<i>% of Sales</i>	Total for All Restaurants As Reported	<i>% of Sales</i>
Restaurant revenues	\$ 20,647,463	100%	\$ 1,591,900	100%	\$ 22,239,363	100%
Cost of sales:						
Food, beverage and retail	5,654,651	27.4%	431,595	27.1%	6,086,246	27.4%
Labor	7,156,485	34.7%	536,038	33.7%	7,692,523	34.6%
Direct restaurant operating expenses	3,010,752	14.6%	216,819	13.6%	3,227,571	14.5%
Restaurant-level IBO*	\$ 4,825,575	23.4%	\$ 407,448	25.6%	\$ 5,233,023	23.5%
Occupancy					2,169,712	9.8%
Pre-opening					-	0.0%
General and administrative					1,556,003	7.0%
Company-wide EBITDA*					1,507,308	6.8%
Depreciation and amortization					1,476,976	
Exit or disposal activities, other					83,078	
Operating loss					(52,746)	
Interest:						
Income					299	
Expense					(839,385)	
Net interest expense					(839,086)	
Net loss as reported under GAAP					\$ (891,832)	

\*See accompanying disclosure regarding use of non-GAAP financial measures.  
Certain percentages may not foot due to rounding.

### Non-GAAP Reconciliations Q1 2009 Results

	Comparable Restaurants	<i>% of Sales</i>	New Restaurants	<i>% of Sales</i>	Total for All Restaurants As Reported	<i>% of Sales</i>
Restaurant revenues	\$ 15,944,165	100%	\$ 5,480,536	100%	\$ 21,424,701	100%
Cost of sales:						
Food, beverage and retail	4,300,260	27.0%	1,525,993	27.8%	5,826,253	27.2%
Labor	5,411,324	33.9%	2,120,318	38.7%	7,531,642	35.2%
Direct restaurant operating expenses	2,342,766	14.7%	850,988	15.5%	3,193,754	14.9%
Restaurant-level IBO*	<u>\$ 3,889,815</u>	<u>24.4%</u>	<u>\$ 983,237</u>	<u>17.9%</u>	<u>\$ 4,873,052</u>	<u>22.7%</u>
Occupancy					1,572,200	7.3%
Pre-opening					192,929	0.9%
General and administrative					<u>2,064,316</u>	9.6%
Company-wide EBITDA*					1,043,607	4.9%
Depreciation and amortization					1,706,577	
Exit or disposal activities, other					437,181	
Operating loss					<u>(1,100,151)</u>	
Interest:						
Income					1,498	
Expense					<u>(1,630,958)</u>	
Net interest expense					<u>(1,629,460)</u>	
Net loss as reported under GAAP					<u>\$ (2,729,611)</u>	

\*See accompanying disclosure regarding use of non-GAAP financial measures.  
Certain percentages may not foot due to rounding.

### Selected Cost as a Percentage of Revenue

	Thirteen Weeks Ended	
	March 30, 2010	March 31, 2009
Cost as a percentage of revenue		
Food, beverage and retail	27.4%	27.2%
Labor	34.6%	35.2%
Total prime costs*	<u>62.0%</u>	<u>62.3%</u>

\*See accompanying disclosure regarding use of non-GAAP financial measures.  
Certain percentages may not foot due to rounding.