

BIG BUCK BREWERY & STEAKHOUSE INC  
Form 10KSB  
March 31, 2003

## SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

### FORM 10-KSB

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**ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**FOR THE FISCAL YEAR ENDED DECEMBER 29, 2002**

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**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

**Commission File Number 0-20845**

## **BIG BUCK BREWERY & STEAKHOUSE, INC.**

(Name of Small Business Issuer in Its Charter)

**Michigan**  
(State or Other Jurisdiction of  
Incorporation or Organization)

(I.R.S. Employer  
Identification No.)

**38-3196031**



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**550 South Wisconsin Street, Gaylord, Michigan 49734**

(Address of Principal Executive Offices, including Zip Code)



(989) 731-0401

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(Issuer's Telephone Number, including Area Code)



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Securities registered pursuant to Section 12(b) of the Exchange Act:





None



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Securities registered pursuant to Section 12(g) of the Exchange Act:

**Common Stock (\$0.01 par value)**

(Title of Class)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  
Yes  No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

The issuer's revenues for its most recent fiscal year were \$16,391,465.

The aggregate market value of the common equity held by non-affiliates of the issuer as of March 12, 2003, was approximately \$154,731.

As of March 12, 2003, the issuer had outstanding 861,997 shares of common stock.

**DOCUMENTS INCORPORATED BY REFERENCE**

None.

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*The following discussion contains various forward-looking statements within the meaning of Section 21E of the Exchange Act. Although we believe that, in making any such statement, our expectations are based on reasonable assumptions, any such statement may be influenced by factors that could cause actual outcomes and results to be materially different from those projected. When used in the following discussion, the words anticipates, believes, expects, intends, plans, estimates and similar expressions, as they relate to us or our management, are intended to identify such forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties that could cause actual results to differ materially from those anticipated. Factors that could cause actual results to differ materially from those anticipated, certain of which are beyond our control, are set forth under the caption Management's Discussion and Analysis or Plan of Operation Cautionary Statement.*

*Our actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking statements. Accordingly, we cannot be certain that any of the events anticipated by forward-looking statements will occur or, if any of them do occur, what impact they will have on us. We caution you to keep in mind the cautions and risks described in our Cautionary Statement and to refrain from attributing undue certainty to any forward-looking statements, which speak only as of the date of the document in which they appear.*

## **PART I**

### **ITEM 1            DESCRIPTION OF BUSINESS**

**Overview**



## Edgar Filing: BIG BUCK BREWERY & STEAKHOUSE INC - Form 10KSB

We develop and operate restaurant-brewpubs under the name Big Buck Brewery & Steakhouse<sup>SM</sup>. We currently operate one unit in each of the following cities in Michigan: Gaylord, Grand Rapids and Auburn Hills. In addition, we opened a fourth unit in Grapevine, Texas, a suburb of Dallas, in August 2000. This unit is owned and operated by Buck & Bass, L.P. pursuant to our joint venture agreement with Bass Pro Outdoor World, L.L.C., a premier retailer of outdoor sports equipment.

We had planned, subject to obtaining adequate financing, to open our next unit in Nashville, Tennessee. In March 2002, following the recommendation of the landlord and after careful consideration of the marketplace and our limited capital resources, we determined to discontinue our plans to open this unit. For the foreseeable future, we plan to focus on the following objectives:

refinancing existing indebtedness,

continued implementation of cost controls, and

exploration of licensing and franchising opportunities.

On September 13, 2002, we effected a stock combination (reverse stock split) pursuant to which our outstanding shares of common stock were exchanged for new shares of common stock in an exchange ratio of one newly issued share for every seven outstanding shares, while maintaining 15 million authorized shares, consisting of 10 million shares of common stock and 5 million shares of preferred stock. Share and per share data, except for par, for all periods presented have been restated to reflect the reverse stock split.

We were incorporated under the Michigan Business Corporation Act in November 1993, as Michigan Brewery, Inc. All references to us herein include our subsidiaries, unless otherwise noted. Our executive office is located at 550 South Wisconsin Street, Gaylord, Michigan 49734. Our telephone number is (989) 731-0401.



**Restaurant Operations**

*General.* Big Buck Brewery & Steakhouses offer craft brewed beer brewed on site along with a menu featuring steaks, ribs, chicken, fish, pasta and other food in a unique, architecturally spacious setting. Our units offer over ten different types of beers ranging from a light golden ale to a full-bodied stout. We also offer customers a full selection of hard liquors. We attempt to create an exciting yet casual restaurant where patrons can have fun and feel comfortable.

*Design and Layout.* Big Buck Brewery & Steakhouses feature large, open and visually stimulating dining areas, highlighted by gleaming stainless steel and copper brewing equipment. Each unit's interior follows the same motif with a warm, cozy atmosphere utilizing soft lighting and Amish furniture. The menu and beer styles are the same at each existing unit.

The Gaylord unit features a 4,000 square foot dining area and a 1,600 square foot bar area, with combined seating capacity of approximately 420. It is decorated with a rustic wood-finished interior, mounted deer racks, 36-foot high vaulted ceilings and warm lighting. The specially commissioned Amish hand-carved wooden furniture and overhead genuine Tennessee whisky barrel lighting fixtures add character to the building's decor. The layout is flexible, permitting tables to be rearranged to accommodate customer demand. A wall of television sets, including a ten-foot screen television set, adjacent to the bar area provides customers the opportunity to watch sporting and other special events. The friendly and attentive staff, on-site brewing, summertime outdoor seating and live music are designed to create an appealing atmosphere for lunch, dinner and bar customers.

The Grand Rapids unit's seating capacity is approximately 250 in the restaurant and bar combined. The brewing and fermenting tanks of this unit front directly on 28<sup>th</sup> Street, a well-traveled street.

The Auburn Hills unit, which houses a 15-barrel brewing system, encompasses approximately 26,700 square feet including brewery, bar and restaurant, with a total seating capacity of approximately 650. This unit is accessible to Detroit metro area residents.

The Grapevine unit, which is located between Bass Pro Outdoor World, a premier retailer of outdoor sports equipment, and Embassy Suites Outdoor World Hotel and Convention Center on Bass Pro Drive, encompasses approximately 20,500 square feet including brewery, bar and restaurant. This unit has a total seating capacity of approximately 500 and is accessible to Dallas/Fort Worth metro area residents.

*Menu and Pricing.* The menu at each unit consists of appetizers, soups, meal-sized salads, and entrees, including steaks, ribs, chicken, fish, pastas as well as a variety of desserts. Management analyzes menu items for popularity, profitability and ease of preparation. The menu items are selected to complement our craft brewed beers. The menu is designed to offer a broad range of prices that convey value to the customer. Entrees range in price from \$9.99 to \$28.00 with an average entree price of \$15.00. During 2002, sales of alcohol, including beer and wine, accounted for 17.7%, 18.9%, 22.1% and 22.7% of the Gaylord, Grand Rapids, Auburn Hills and Grapevine unit sales, respectively.

*Customers.* We believe our restaurants appeal to a wide range of customers and draw clientele from throughout the region in which they are located. Increased customer loyalty to our beers results in repeat business.





**Brewing Operations**



*General.* The brewery at the Gaylord unit presently has the capacity to brew 10,000 barrels of beer per year, and is designed to produce 20,000 barrels per year with the installation of additional fermentation tanks. The Grand Rapids unit features a 7.5-barrel brewing system that can produce 7,000 barrels per year with the installation of additional fermentation tanks. The Auburn Hills unit features a 15-barrel brewing system that can produce 15,000 barrels per year with the installation of additional fermentation tanks. The Grapevine unit features a 15-barrel brewing system that can produce 15,000 barrels per year with the installation of additional fermentation tanks. Each existing brewery has been custom-designed to be integrated into the restaurant layout in an efficient and aesthetically pleasing manner.

*Quality Control.* Quality control of each brewery is under the supervision of our brewmaster. Each unit contains a laboratory to monitor and maintain quality assurance in the brewing and packaging processes.

*Ingredients.* Beer is made primarily from four natural ingredients: malted barley, hops, yeast and water. We use only the finest barley, primarily two row, in our production. The universal spice of beer is hops. Hops, like the grapes used in wine, are varietal. Brewers select hops based on specific varieties grown in select areas around the world. Some hop varieties are selected for their bittering qualities, while others are chosen for their ability to impart distinctive aromas to the beer. Yeast is a uni-cellular organism whose metabolism converts sugar into alcohol and carbon dioxide. We use only specially selected yeast. The entire brewing process from mashing through filtration typically is completed in 14 to 21 days, depending on the formulation and style of the beer being brewed. We purchase the required raw materials from market sources on a competitive bid basis.

**Sales and Marketing**

We advertise primary through four-walls marketing, including the use of table tents, in-house promotions and other events to build customer loyalty. We strive to provide our customers with a dining experience that will encourage repeat business and promote word-of-mouth advertising. To supplement our service-oriented marketing efforts, we sell merchandise, including hats, t-shirts, sweatshirts and other items bearing the Big Buck Brewery & Steakhouse name and logo. During 2002, we incurred approximately \$156,029 in marketing expenses.

**Competition**

*Restaurant competitors.* The restaurant industry is highly competitive with respect to price, service, location and food quality, including taste, freshness and nutritional value. New restaurants have a high failure rate. New restaurants generally experience a decline in revenue growth, or in actual revenues, following a period of excitement that accompanies their opening. The restaurant industry is also generally affected by changes in consumer preferences, national, regional and local economic conditions, and demographic trends. The performance of individual restaurants may also be affected by factors such as traffic patterns, demographic considerations, and the type, number and location of competing restaurants. In addition, factors such as inflation, increased food, labor and employee benefit costs, and unavailability of experienced management and hourly employees may also adversely affect the restaurant industry in general and our units in particular. Restaurant operating costs are further affected by increases in the minimum hourly wage, unemployment tax rates and similar matters over which we have no control. We face numerous well-established competitors, including national, regional and local restaurant chains, possessing substantially greater financial, marketing, personnel and other resources than we do. We also compete with a large variety of locally owned restaurants, diners, and other establishments that offer moderately priced food to the public and with other brewpubs. Competitors

could utilize the Big Buck Brewery & Steakhouse format or a related format. We cannot assure you that we will be able to respond to various competitive factors affecting the restaurant industry.

*Brewing industry competitors.* The domestic beer market is highly competitive due to:

the enormous advertising and marketing expenditures by national and major regional brewers,

the proliferation of craft breweries and brewpubs,

the introduction of fuller-flavored products by certain major national brewers, and

a general surplus of domestic brewing capacity, which facilitates existing contract brewer expansion and the entry of new contract brewers.

We cannot assure you that demand for craft brewed beers will continue. Most of our brewing competitors possess greater financial, marketing, personnel and other resources than we do. We cannot assure you that we will be able to succeed against such competition.

**Government Regulation**

**Beer Regulation.** A significant percentage of our revenue is derived from beer sales. Total sales of alcohol, including beer, wine and hard liquor, accounted for 21.1% of our revenues during 2002. We must comply with federal licensing requirements imposed by the United States Department of Treasury, Alcohol and Tobacco Tax and Trade Bureau, as well as the licensing requirements of states and municipalities where our units are located. Our failure to comply with federal, state or local regulations could cause our licenses to be revoked and force us to cease brewing and selling beer. Typically, licenses must be renewed annually and may be revoked or suspended for cause at any time. We believe we are operating in substantial compliance with applicable laws and regulations governing our operations.

**Restaurant Regulation.** The restaurant industry is subject to numerous federal, state and local government regulations, including those relating to the preparation and sale of food and those relating to building and zoning requirements. We are subject to regulation by air and water pollution control divisions of the Environmental Protection Agency of the United States and by certain states and municipalities in which our units are located. We are also subject to laws governing our relationship with our employees, including minimum wage requirements, overtime, working and safety conditions and citizenship requirements. Restaurant operating costs are affected by increases in the minimum hourly wage, unemployment tax rates, sales taxes and similar matters, such as any government-mandated health insurance, over which we have no control. We believe we are operating in substantial compliance with applicable laws and regulations governing our operations.

**Dram-Shop Laws.** We are subject to dram-shop laws in Michigan and Texas. These laws generally provide someone injured by an intoxicated person the right to recover damages from the establishment that wrongfully served alcoholic beverages to such person. We carry liquor liability coverage as part of our existing comprehensive general liability insurance. However, a judgment against us under a dram-shop statute in excess of our liability coverage could have a material adverse effect on our business, operating results, cash flows and financial condition.

**State Liquor Laws.** We are licensed under Michigan law as a brewpub. A brewpub in Michigan is (1) limited to a combined annual production of not more than 5,000 barrels, (2) limited to no more than three units in Michigan, and (3) prohibited from selling beer on a wholesale basis. Buck & Bass is licensed under Texas law as a brewpub. A brewpub in Texas is limited to the production of not more than 5,000 barrels of malt liquor, ale, and beer for each licensed brewpub established, operated, or



maintained in Texas by the holder of the brewpub license. Brewpubs in Michigan and Texas are also licensed to sell hard liquor with appropriate licensing. Applicable legislation, regulations or administrative interpretations of liquor laws may hinder our operations or increase our operating costs.

*Excise Taxes.* The federal government currently imposes an excise tax of \$18.00 on each barrel of beer produced for domestic consumption in the United States. However, each brewer with production of not more than 2,000,000 barrels per year is taxed only \$7.00 per barrel on the first 60,000 barrels produced annually. We cannot assure you that the federal government will not reduce or eliminate this small brewer rate reduction. Michigan imposes an excise tax of \$6.30 per barrel on each barrel of beer manufactured or sold in Michigan. However, each brewer that manufactures less than 50,000 barrels per year is granted a brewer's excise tax credit in the amount of \$2.00 per barrel for the first 30,000 barrels. Buck & Bass is subject to excise taxes under Texas law. Excise taxes in Texas are \$6.138 per barrel for ale and malt liquor, and \$6.00 per barrel for beer. However, Texas grants a 25% tax exemption for manufacturers of beer whose annual production in Texas does not exceed 75,000 barrels of beer per year. As a result, Buck & Bass faces an effective excise tax of \$4.50 per barrel for beer. If our beer production exceeds the foregoing credit thresholds, our average excise tax rate would increase.

It is possible that the rate of excise taxation could be increased by either federal or state governments, or both. Increased excise taxes on alcoholic beverages have been considered by the federal government as an additional source of tax revenue in connection with various proposals and could be included in future legislation. Future increases in excise taxes on alcoholic beverages, if enacted, could adversely affect our business, operating results, cash flows and financial condition.

**Employees**

At December 29, 2002, we employed 376 persons at our units, including approximately 111 full-time employees. Of our total number of employees, 28 served as restaurant management personnel, 7 served in executive and corporate administrative capacities, and the remainder were hourly personnel. No employee is covered by a collective bargaining agreement and we have never experienced an organized work stoppage, strike or labor dispute. We consider relations with our employees to be satisfactory.

**Trademarks and Service Marks**

We own several trademarks, including BIG BUCK BREWERY & STEAKHOUSE® and BIG BUCK BEER®. Trademark rights generally continue indefinitely, so long as the marks remain in use and periodic filings are made and fees paid. We regard our marks as having substantial value and as being an important factor in the marketing of our restaurants and beer. Our policy is to pursue registration of our marks and to oppose vigorously any infringement of our marks.

**ITEM 2            DESCRIPTION OF PROPERTY**

**Gaylord**

We own the Gaylord unit, including the real property on which it is located. See [Description of Business - Restaurant Operations](#) for a description of the Gaylord unit.

**Grand Rapids and Auburn Hills**

*Grand Rapids*



We purchased the Grand Rapids site in December 1996. The site included an existing structure of approximately 8,200 square feet and is located on 28th Street in Grand Rapids. Seating capacity is approximately 250 for restaurant and bar combined. The Grand Rapids unit opened in March 1997.

In April 1997, we sold the Grand Rapids site, including all improvements thereto, to an entity owned by one of our shareholders, Eyde Brothers Development Co., pursuant to a real estate purchase and leaseback agreement for \$1.4 million. Pursuant to a separate lease agreement, we lease the Grand Rapids site at a minimum annual base rent of \$140,000 and a maximum annual base rent of \$192,500 over a ten-year term. The lease may be extended at our option for up to two additional five-year terms. In addition to the annual base rent, the lease, as amended in March 2000, provides that we are obligated to pay annual percentage rent in the amount of 5% on gross sales at the site in excess of \$1.5 million per year.

If annual gross sales do not exceed \$1.5 million for any lease year, the lessor will obtain the right to require us to repurchase the Grand Rapids site for \$1.4 million, plus \$70,000 for each lease year on a pro rata basis. In March 2002, the lessor waived its right to require repurchase based upon insufficient annual gross sales for the lease years ended April 2001 and April 2002. We do not expect annual gross sales to exceed \$1.5 million for the lease year ended April 2003. Independent of annual gross sales, the lessor has the option to require us to repurchase such site after the seventh full lease year for the same price. We also have the option to purchase the Grand Rapids site from the lessor after the seventh full lease year for the same price. If the lessor requires us to repurchase the site, we would be forced to repurchase it at a premium over its sale price. We cannot assure you that we will have sufficient funds to repurchase the site. If we are required to repurchase the site and cannot do so, it would have a material adverse impact on our business, operating results, cash flows and financial condition.

During 2002, we paid annual rent of \$17 per square foot at the Grand Rapids unit.

*Auburn Hills*

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We purchased the Auburn Hills site in August 1996. The site is just off of Interstate 75 at exit 79. The unit constructed on this site encompasses approximately 26,700 square feet including brewery, bar and restaurant. Seating capacity is approximately 650 for the restaurant and bar combined. The Auburn Hills unit opened in October 1997.

In August 1997, we entered into a real estate purchase and leaseback agreement providing for the sale of the Auburn Hills site to one of our shareholders, Michael G. Eyde, for \$4.0 million. We lease the Auburn Hills site pursuant to a separate lease agreement which provides for a minimum annual base rent of \$400,000, and a maximum annual base rent of \$550,000, over a 25-year term. The lease may be extended at our option for up to two additional ten-year terms. In addition to the annual base rent, we are obligated to pay an annual percentage rent of 5.25% of gross sales at the site in excess of \$8.0 million per year.

Because annual gross sales did not exceed \$8.0 million for the fourth and fifth years of the lease term, the lessor obtained the right to require us to repurchase the Auburn Hills site for \$4.0 million, plus \$200,000 for each lease year on a pro rata basis. We also have the option to purchase the Auburn Hills site from the lessor after the seventh full lease year for the same price. If the lessor requires us to repurchase the site, we would be forced to repurchase it at a premium over its sale price. We cannot assure you that we will have sufficient funds to repurchase the site. If we are required to repurchase the site and cannot do so, it would have a material adverse impact on our business, operating results, cash flows and financial condition.

During 2002, we paid annual rent of \$15.40 per square foot at the Auburn Hills unit.

### *Termination Provisions*

The Grand Rapids and Auburn Hills lessors may terminate in the event of a default which is not cured within the applicable grace period. A default is defined as:

our failure to make a rental payment within 30 days after receipt of written notice that a payment is past due, or

our failure to perform our obligations under the lease, other than rent payments, within 30 days after written notice of a curable violation;

provided, however, that if such default cannot be cured within the 30-day period, a default will be deemed to have occurred only if we have failed to commence a cure within such 30-day period. In the event of a default and termination of either lease, we would be unable to continue operating the related unit, which would have a material adverse effect on our business, operating results, cash flows and financial condition.

**Grapevine**

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The Grapevine unit is owned and operated by Buck & Bass pursuant to our joint venture agreement with Bass Pro. The Grapevine unit is off Highway 121, the major artery between downtown Dallas and the Dallas/Fort Worth airport. The Grapevine site houses a 15-barrel brewing system and encompasses approximately 20,500 square feet including brewery, bar and restaurant, with a total seating capacity of approximately 500.

Pursuant to a commercial sublease agreement, Buck & Bass leases the Grapevine site from Bass Pro over a 15-year term. Buck & Bass may extend the sublease for up to seven additional five-year terms. Buck & Bass is obligated to pay an annual percentage rent in the amount of 5.5% on gross sales less than \$11.0 million per year and 6.5% on gross sales in excess of \$11.0 million per year; provided, however, that the minimum annual base rent is \$385,000. The minimum annual base rent is required whether the Grapevine unit is profitable or not. If Buck & Bass is required to pay in excess of the minimum annual base rent, the funds available to us for other purposes will be reduced. During 2002, Buck & Bass paid annual rent of \$19.25 per square foot at the Grapevine unit (when the second story bar area of such unit is included in the total square footage).

Bass Pro may terminate the sublease in the event of a default which is not cured within the applicable grace period. The sublease provides that a default includes, but is not limited to:

the failure of Buck & Bass to remain open during all business days,

the failure of Buck & Bass to maintain on duty a fully trained service staff,

the failure of Buck & Bass to provide high quality food of the type provided at our Gaylord unit,

the failure of Buck & Bass to achieve gross sales in the first full calendar year immediately following the opening and for each calendar year thereafter of \$7.0 million,

Buck & Bass encumbering in any manner any interest in the subleased premises, or

the failure of Buck & Bass to conduct full and complete customer surveys no less frequently than each calendar quarter.

The failure of Buck & Bass to achieve the required gross sales, the existence in the past of encumbrances upon the subleased premises and the failure of Buck & Bass to perform quarterly customer satisfaction surveys give Bass Pro the ability to declare an event of default under the sublease, terminate the sublease and demand all unpaid and reasonably calculable future rent over the balance of the sublease term. Pursuant to the limited partnership agreement, a material default under the sublease would also





entitle Bass Pro to purchase our interest in the joint venture at 40% of book value, thereby eliminating our interest in the Grapevine unit. The termination of the sublease or the elimination of our interest in the Grapevine unit would have a material adverse effect on our business, operating results, cash flows and financial condition.

#### **Liens and Insurance on Properties**

As of March 21, 2003, we owed Wayne County Employees Retirement System ( WCERS ) approximately \$10.2 million. A first priority lien in favor of WCERS on all of our assets, including the Gaylord unit, our leasehold interest in the Auburn Hills unit, our leasehold interest in the Grand Rapids unit, our limited partnership interest in Buck & Bass, L.P. and all of our other assets, now or hereafter acquired, secures this indebtedness.

In the opinion of management, our properties are adequately covered by insurance.

#### **ITEM 3 LEGAL PROCEEDINGS**

We were not a party to any material litigation as of March 21, 2003.

#### **ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Not applicable.

**Executive Officers of the Registrant**

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The following table provides information with respect to our executive officers as of March 21, 2003. Each executive officer has been appointed to serve until his successor is duly appointed by the board or his earlier removal or resignation from office.

<b>Name</b>	<b>Age</b>	<b>Position with Big Buck</b>
Anthony P. Dombrowski	42	President, Chief Executive Officer, Chief Financial Officer and Treasurer
Timothy J. Pugh	43	Chief Operating Officer

*Anthony P. Dombrowski* became the President and Chief Executive Officer of our company in March 2003. Mr. Dombrowski has also served as the Chief Financial Officer and Treasurer of our company since May 1996. He acted as a consultant to our company, in the capacity of Chief Financial Officer, from January 1996 to May 1996. From February 1995 to May 1996, Mr. Dombrowski operated his own financial and consulting business. From May 1989 to January 1995, Mr. Dombrowski was the Chief Financial Officer of Ward Lake Energy, Inc., an independent producer of natural gas in Michigan. Mr. Dombrowski began his career with Price Waterhouse LLP in 1982.

*Timothy J. Pugh* became our Executive Vice President of Operations in December 2000. He was promoted to Chief Operating Officer in May 2002. From November 1998 to November 2000, he was a franchisee partner of Damon's International, a full-service chain of over 100 casual dining restaurants, in Kalamazoo, Michigan. From April 1996 to October 1998, he was a regional manager at Damon's International. From October 1993 to April 1996, he was a general manager at Damon's International. From April 1991 to October 1993, he managed the Houston's restaurant in Dallas, Texas, and the Houston's restaurant in Memphis, Tennessee.

**PART II****ITEM 5 MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

Our common stock was listed on The Nasdaq SmallCap Market from the completion of our initial public offering in June 1996 through the open of business on October 7, 2002, when it was delisted from The Nasdaq SmallCap Market. Since that time, our common stock has traded on the OTC Bulletin Board under the symbol BBUC. The following table sets forth the approximate high and low bid prices for our common stock for the periods indicated as reported by The Nasdaq SmallCap Market and the OTC Bulletin Board. Such quotations reflect inter-dealer prices, without retail mark-up, markdown or commission, and may not represent actual transactions.

<b>Period</b>	<b>High</b>	<b>Low</b>
<b>2001</b>		
First Quarter	\$ 10.50	\$ 5.03
Second Quarter	\$ 7.91	\$ 4.97
Third Quarter	\$ 9.80	\$ 5.25
Fourth Quarter	\$ 6.93	\$ 2.66
<b>2002</b>		
First Quarter	\$ 3.50	\$ 1.05
Second Quarter	\$ 2.94	\$ 1.05
Third Quarter	\$ 2.37	\$ 0.75
Fourth Quarter	\$ 0.90	\$ 0.21

As of March 7, 2003, we had 134 shareholders of record. As of July 31, 2002, the date of our last broker search, we had 1,982 beneficial owners.

We have never declared or paid cash dividends. We currently intend to retain future earnings for the operation of our business and do not anticipate paying cash dividends on our securities in the foreseeable future. Any payment of cash dividends in the future will be at the discretion of our board of directors and will depend upon our results of operations, earnings, capital requirements, contractual restrictions and other factors deemed relevant by our board. The payment by us of dividends is subject to the terms of the subscription and investment representation agreement governing the 10% convertible secured promissory note due February 2003 we issued to WCERS in February 2000.

**Sales of Unregistered Securities during the Fourth Quarter of 2002**

Not applicable.

**ITEM 6            MANAGEMENT S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION**

**Overview**



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We develop and operate restaurant-brewpubs under the name Big Buck Brewery & Steakhouse. Until May 1995 when we opened our first unit in Gaylord, Michigan, we had no operations or revenues and our activities were devoted solely to development. In March 1997, we opened our second unit in Grand Rapids, Michigan, and in October 1997, we opened our third unit in Auburn Hills, Michigan, a suburb of Detroit. In August 2000, we opened our fourth unit in Grapevine, Texas, a suburb of Dallas. This unit is owned and operated by Buck & Bass pursuant to our joint venture agreement with Bass Pro.

We had planned, subject to obtaining adequate financing, to open our next unit in Nashville, Tennessee. In March 2002, following the recommendation of the landlord and after careful consideration of the marketplace and our limited capital resources, we determined to discontinue our plans to open this unit. For the foreseeable future, we plan to focus on the following objectives:

refinancing existing indebtedness,

continued implementation of cost controls, and

exploration of licensing and franchising opportunities.

Our future revenues and profits will depend upon various factors, including market acceptance of the Big Buck Brewery & Steakhouse concept and general economic conditions.

We use a 52-/53-week fiscal year ending on the Sunday nearest December 31. All references herein to 2002 and 2001 represent the 52-week fiscal years ended December 29, 2002 and December 30, 2001, respectively.

**Results of Operations**

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Our operating results, expressed as a percentage of total revenue, were as follows:

	For the years ended	
	December 29, 2002	December 30, 2001
<b>REVENUE</b>		
Restaurant sales	99.1%	98.4%
Wholesale and retail sales	0.9	1.6
Total revenue	100.0	100.0
<b>COSTS AND EXPENSES:</b>		
Cost of sales	33.1	33.0
Restaurant salaries and benefits	25.9	26.3
Operating expenses	23.2	21.1
Depreciation	8.2	7.6
Preopening expenses and store development costs		2.0
General and administrative expenses	11.8	10.2
Impairment loss	4.9	
Total costs and expenses	107.1	100.2
<b>LOSS FROM OPERATIONS</b>	<b>(7.1)</b>	<b>(0.2)</b>
<b>OTHER INCOME (EXPENSE):</b>		
Interest expense	(12.2)	(9.5)
Interest income		
Other	(2.8)	(2.9)
Minority interest share of joint venture	0.1	
Other income (expense), net	(14.9)	(12.4)
<b>NET LOSS</b>	<b>(22.0)%</b>	<b>(12.6)%</b>

**Results of Operations for the Fiscal Years Ended December 29, 2002 and December 30, 2001**



**Revenues**

Revenues decreased 6.3% to \$16,391,465 in 2002 from \$17,487,957 in 2001. The decrease was mainly due to a weak economy and the lack of a sustained marketing program. We believe that increased spending on marketing, including the use of a sustained, professionally managed marketing program, will increase revenues at our existing units.

**Costs of Sales**

Cost of sales, which consists of food, merchandise and brewery supplies, decreased 5.7% to \$5,436,563 in 2002 compared to \$5,763,345 in 2001. The decrease was primarily due to lower sales volume. As a percentage of revenues, costs of sales increased to 33.1% in 2002 from 33.0% in 2001. The percentage increase was due to an increase in produce and meat cost.





**Restaurant Salaries and Benefits**

Restaurant salaries and benefits, which consist of restaurant management and hourly employee wages and benefits, payroll taxes and workers compensation insurance, decreased 7.6% to \$4,242,593 in 2002 compared to \$4,591,917 in 2001. As a percentage of revenues, restaurant salaries and benefits decreased to 25.9% in 2002 compared to 26.3% in 2001. The decreases were due to improved labor controls and budgeting.

**Operating Expenses**

Operating expenses, which include supplies, utilities, repairs and maintenance, advertising and occupancy costs, increased 2.9% to \$3,801,965 in 2002 compared to \$3,694,304 in 2001. As a percentage of revenues, operating expenses increased to 23.2% in 2002 compared to 21.1% in 2001. The increases were due to increases in employee food expense, repair and maintenance cost and promotion and marketing expense.

**Preopening Expenses and Store Development Costs**

Preopening expenses and store development costs consist of expenses incurred prior to an opening of a new unit, including but not limited to wages and benefits, relocation costs, supplies, advertising expenses and training costs. We had no preopening expenses and store development costs in 2002. The preopening expenses and store development costs of \$354,923 for 2001 related to the development costs incurred in connection with the abandoned plans to open a unit in Nashville.

**General and Administrative Expenses**



General and administrative expenses increased 8% to \$1,928,306 in 2002 compared to \$1,785,886 in 2001. The increase reflected an increase in professional fees related to the legal proceedings involving the Nashville site and the Grapevine unit and the delisting of our securities from The Nasdaq SmallCap Market. As a percentage of revenue, these expenses increased to 11.8% in 2002 compared to 10.2% in 2001.

**Depreciation**

Depreciation expenses increased 0.1% to \$1,340,430 in 2002 compared to \$1,338,650 in 2001. As a percentage of revenues, these expenses increased to 8.2% in 2002 from 7.6% in 2001. The increase was the result of lower sales volume.

**Impairment Loss**

Impairment loss increased to \$800,000 in 2002 compared to \$0 in 2001. The increase reflected the recording of asset impairment charges of \$800,000 to write-down the building and improvements of the Grand Rapids unit.

**Interest Expense**

Interest expense increased \$350,116 to \$2,008,525 in 2002 compared to \$1,658,409 in 2001. The increase reflected the purchase price premium on the Grand Rapids unit due to the possible need to repurchase such unit based upon annual gross sales for the lease year ended April 2003. As a percentage of revenues, interest expense increased to 12.2% in 2002 from 9.5% in 2001.





**Other Income and Expense**



Other income and expense includes miscellaneous income and amortization expense. Other expenses were \$461,298 in 2002 compared to \$501,086 in 2001.

**Liquidity and Capital Resources**



*Overview*

We have not made any required debt service payments to Wayne County Employees Retirement System ( WCERS ) since September 2001. On February 1, 2003, the entire \$8,912,786 principal amount of the secured debt held by WCERS became due and payable. As of March 21, 2003, we had defaulted on \$10,235,392 of principal and interest payments to WCERS and \$650,000 of principal payments to holders of our convertible subordinated promissory notes. We cannot assure you that we will have sufficient financial resources to repay existing indebtedness or to continue operations.

We used \$1,169,458 and \$431,899 in cash for operating activities during 2002 and 2001, respectively. We had working capital deficits of approximately \$16.4 million at December 29, 2002 and approximately \$3.0 million at December 30, 2001. The reclassification of our indebtedness to WCERS from a long-term obligation to a short-term obligation was primarily responsible for the increase in our working capital deficit, partially offset by the loan we obtained for \$5.0 million from United Bank and Trust Company during the first quarter of 2002. During 2002, we spent \$479,983 in new equipment for existing units and project management fees. At the direction of WCERS, we have been making interest and principal payments to United Bank and Trust Company. We have been making interest only payments to most of the holders of our convertible subordinated promissory notes.

In general, we have experienced operating losses in each quarterly and annual period since inception. We incurred net losses of approximately \$3.6 million for the fiscal year ended December 29, 2002, and approximately \$2.2 million for the fiscal year ended December 30, 2001. As of December 29, 2002, we had an accumulated deficit of \$13.4 million. We currently depend upon our existing units for all of our revenues. We expect to incur significant losses for the foreseeable future. We will need to generate significant increases in our revenues to achieve and maintain profitability. If our revenues fail to grow or grow more slowly than we anticipate, or our operating expenses exceed our expectations, our losses could significantly increase, which would harm our business, operating results, cash flows and financial condition. In addition, our failure to become and remain profitable may adversely affect the market price of our securities and our ability to raise capital and continue operations. The reports of our independent public accountants for the years ended December 29, 2002 and December 30, 2001 include explanatory paragraphs expressing doubt about our ability to continue as a going concern. In addition, our securities were delisted from The Nasdaq SmallCap Market on October 7, 2002, which may adversely affect our ability to raise capital.

Since inception, our principal capital requirements have been the funding of (a) our operations and promotion of the Big Buck Brewery & Steakhouse format and (b) the construction of units and the acquisition of furniture, fixtures and equipment for such units. Total capital expenditures for the Gaylord, Grand Rapids and Auburn Hills units were approximately \$6.2 million, \$3.2 million and \$10.2 million, respectively. Total capital expenditures of Buck & Bass for the Grapevine unit were approximately \$7.6 million. Pursuant to our joint venture agreement with Bass Pro, we funded approximately \$6.4 million of that cost, including our \$1.5 million loan to Buck & Bass.

*Financing activities in 2002*

In February 2002, we received a \$500,000 advance from WCERS to cover unpaid real estate taxes in Michigan. In March 2002, we obtained a loan from United Bank and Trust Company for \$5,000,000 which matures in March 2004. The collateral of this loan is a \$5,000,000 letter of credit from WCERS. Of the proceeds of such loan, we had used approximately \$3,940,000 through March 21, 2003 for the following purposes:

\$200,000 to terminate our lease of the Nashville site,

\$500,000 to repay the advance from WCERS,

\$1,000,000 to repay our indebtedness to Crestmark Bank,

\$825,000 to settle the dispute between Buck & Bass and the general contractor of the Grapevine unit,

\$380,000 to make principal and interest payments to United Bank and Trust Company,

\$108,000 to pay Columbia Construction Services, an entity controlled by one of our directors, Mark S. Provenzano, for services rendered in connection with the Nashville site,

\$163,000 to pay certain accounts payable,

\$273,000 to pay property taxes, and

\$491,000 for other working capital purposes.

*Financing activities during 2001*

In February 2001, we agreed with WCERS to extend the maturity dates of certain promissory notes held by WCERS, with an aggregate principal amount of approximately \$7,400,000, to February 2003. As a consequence, each of our outstanding promissory notes held by WCERS has a maturity date of February 1, 2003. On the same day, we also issued 46,200 shares of our common stock to WCERS in lieu of \$327,610 in principal and/or interest otherwise payable to WCERS in February, March, April and May 2001. In March 2001, we entered into a first amendment and acknowledgment of partial payment with the holder of one of our convertible subordinated promissory notes with a principal amount of \$250,000. Pursuant to such agreement, we repaid \$75,000 of principal, agreed to a repayment schedule involving monthly payments of principal and interest commencing May 1, 2001, and adjusted the conversion price on such note from \$10.3264 to \$5.11 per share. We repaid such note in full in March 2002. Also in March 2001, we entered into two amendments with Michael G. Eyde, one of our shareholders and the holder of two of our subordinated promissory notes. Pursuant to such agreements, we made his \$100,000 non-convertible note convertible into shares of our common stock at a conversion price of \$7.00, adjusted the conversion price of his \$100,000 convertible note from \$13.4316 to \$7.00 and extended the maturity date of both notes until October 2001. In April 2001, we entered into a first amendment with the holder of one of our convertible subordinated promissory notes with a principal amount of \$50,000. Pursuant to such agreement, the maturity date of such note was extended until January 2002 and the conversion price was adjusted from \$13.3875 to \$5.11 per share. In April 2001, we entered into a first amendment with the holder of one of our convertible subordinated promissory notes with a principal amount of \$250,000. Pursuant to such agreement, the maturity date of such note was extended until October 2001 and the conversion price was adjusted from \$10.3264 to \$5.11 per share. We subsequently agreed to a repayment schedule involving monthly payments of principal and interest on



this note commencing November 1, 2001. In July 2001, we generated \$100,000 in net proceeds from the private placement of a \$100,000 principal amount convertible subordinated promissory note to Thomas E. Zuhl, who became one of our directors in January 2002. The note, which is convertible into 16,496 shares of common stock at a conversion price of \$6.062 per share, matured in July 2002. In December 2001, we generated \$100,000 in net proceeds from the private placement of a \$100,000 principal amount convertible promissory note to Pac Rim Associates, Inc. Such entity is owned by Thomas E. Zuhl, who became one of our directors in January 2002. The note, which is convertible into 27,793 shares of common stock at a conversion price of \$3.598 per share, matured in December 2002. We used the funds provided by this subordinated debt financing for working capital purposes.

*Additional financing is required for debt repayment*



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Without additional financing, our leveraged position, requirements for payments to the holders of our secured and subordinated debt and requirements for payments on our loan agreement may require us to liquidate all or a portion of our assets. We had working capital deficits of approximately \$16.4 million at December 29, 2002 and approximately \$3.0 million at December 30, 2001. As of March 21, 2003, we had outstanding (1) convertible secured debt aggregating \$7,412,786, (2) non-convertible secured debt aggregating \$5,674,940, and (3) convertible subordinated debt aggregating \$650,000. The outstanding convertible secured debt and \$1.5 million of the outstanding non-convertible secured debt matured on February 1, 2003. Of the outstanding convertible subordinated debt, \$100,000 matured in November 2000, \$300,000 matured in October 2001, \$50,000 matured in January 2002, \$100,000 matured in July 2002 and \$100,000 matured in December 2002. Our outstanding debt must be repaid in full as follows:

Type of Debt	Principal Amount	Repayment Required
Convertible Secured Debt	\$ 7,412,786	Immediate
Non-Convertible Secured Debt	\$ 1,500,000	Immediate
Non-Convertible Secured Debt	\$ 4,174,940	March 2004
Convertible Subordinated Debt	\$ 650,000	Immediate

To fund the maturity of our outstanding debt, we must obtain additional financing or refinance the debt. However, we cannot assure you that we will be able to obtain the required funds or refinance the debt, which could materially adversely affect our business, operating results, cash flows and financial condition.

*WCERS payment defaults and covenant violations*

We have not made any required debt service payments to WCERS since September 2001. On February 1, 2003, the entire \$8,912,786 principal amount of the secured debt held by WCERS became due and payable. As of March 21, 2003, we had defaulted on \$10,235,392 of principal and interest payments to WCERS. We cannot assure you that we will have sufficient financial resources to repay existing indebtedness or to continue operations.

Among other things, we also agreed with WCERS that (1) we would not create, incur or suffer to be created or incurred or to exist, any lien of any kind upon any of our property or assets of any character whether then owned or thereafter acquired, or upon the income or profits therefrom except for certain permitted liens, (2) we would keep and maintain tangible net worth plus subordinated debt in an amount not less than \$8.5 million, (3) we would keep and maintain a minimum debt coverage ratio of 1.25 to 1.0 (excluding Grapevine pre-opening and financing costs), (4) we would maintain our then current cash flow position, and (5) we would not permit the difference between our current assets and our current liabilities (other than subordinated debt) to be less than \$500,000. We have notified WCERS that we have violated each of the foregoing covenants. On April 3, 2001, we entered into a letter agreement with WCERS pursuant to which the foregoing covenants were modified to provide that (1) we must maintain tangible net worth plus subordinated debt in an amount not less than \$6.25 million and (2) we had until January

1, 2002 to meet all other covenants set forth in the loan documents (unless modified by the parties in writing). We notified WCERS that we violated the amended covenants. On April 1, 2002, we entered into a letter agreement with WCERS pursuant to which the foregoing covenants were modified to provide that (1) we must maintain tangible net worth plus subordinated debt in an amount not less than \$4.5 million and (2) we had until January 1, 2003 to meet all other covenants set forth in the loan documents (unless modified by the parties in writing). We have notified WCERS that we have violated each of the foregoing covenants.

Because we have not made timely payments of principal and interest on our indebtedness to WCERS and are in violation of various covenants, we are in default under our agreements with WCERS. As a result, WCERS may, by notice in writing to us, declare all amounts owing with respect to the agreements to be immediately due and payable without presentment, demand, protest or other notice of any kind, all of which we previously waived. Our assets are, as a consequence, subject to foreclosure by WCERS. Foreclosure by WCERS would force us to cease all operations. We cannot assure you that we will be able to repay or refinance our indebtedness to WCERS or regain compliance with the amended covenants.

*Grapevine covenant violations*

The failure of Buck & Bass to achieve the required gross sales, the existence in the past of encumbrances upon the subleased premises and the failure of Buck & Bass to perform quarterly customer satisfaction surveys give Bass Pro the ability to declare an event of default under the sublease, terminate the sublease and demand all unpaid and reasonably calculable future rent over the balance of the sublease term. Pursuant to the limited partnership agreement, a material default under the sublease would also entitle Bass Pro to purchase our interest in the joint venture at 40% of book value, thereby eliminating our interest in the Grapevine unit. The termination of the sublease or the elimination of our interest in the Grapevine unit would have a material adverse effect on our business, operating results, cash flows and financial condition.

*Site repurchase obligations*

If annual gross sales do not exceed \$1.5 million for any lease year, the lessor of the Grand Rapids unit will obtain the right to require us to repurchase such site for \$1.4 million, plus \$70,000 for each lease year on a pro rata basis. In March 2002, the lessor waived its right to require repurchase based upon insufficient annual gross sales for the lease years ended April 2001 and April 2002. We do not expect annual gross sales to exceed \$1.5 million for the lease year ended April 2003.

Because annual gross sales did not exceed \$8.0 million for the fourth and fifth years of the lease term, the lessor of the Auburn Hills unit obtained the right to require us to repurchase such site for \$4.0 million, plus \$200,000 for each lease year on a pro rata basis.

If either lessor elects to exercise his option to require us to repurchase a site, we would be forced to repurchase such site at a premium over its sale price. We cannot assure you that we will have sufficient funds to repurchase either site. If we are required to repurchase a site and cannot do so, it would have a material adverse impact on our business, operating results, cash flows and financial condition.

*Limitations on ability to incur additional indebtedness*

We granted the following security interests to WCERS in connection with their provision of certain debt financing:

a pledge of our limited partnership interest in Buck & Bass,



a pledge of our shares of the issued and outstanding common stock of BBBP Management Company, and

a security interest, assignment or mortgage, as applicable, in our interest in all assets now or hereafter owned, ownership interests, licenses, and permits, including, without limitation, a mortgage encumbering the Gaylord, Auburn Hills and Grand Rapids sites.

We also granted to WCERS a right of first refusal pursuant to which WCERS may, for so long as the approximately \$5.8 million promissory note is outstanding or WCERS owns more than 15% of our common stock, elect to purchase securities offered by us, within 45 days of the receipt of notice by WCERS, at the same price and on the same terms and conditions as are offered to a third party.

Our agreement with WCERS imposes limitations on our ability to incur additional indebtedness. We agreed that we would not create, incur, assume, guarantee or be or remain liable, contingently or otherwise, with respect to any indebtedness, except for indebtedness incurred in the ordinary course of business not to exceed at any time \$1.5 million in the aggregate. Any indebtedness not in the ordinary course of business or in excess of \$1.5 million requires the approval of WCERS. These restrictions may impede our ability to secure financing for continued operations. Our failure to raise capital when needed would have a material adverse effect on our business, operating results, cash flows and financial condition.

*Liquidity plans*

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We seek to refinance our indebtedness to WCERS. We hope to refinance such indebtedness at lower interest rates. We also plan to continue searching for ways of reducing our operating costs, including reduced general and administrative expenses. At the beginning of 2001, we set goals to equal or exceed the operating benchmarks of several of our competitors. We believe that we have attained those goals and we seek continued improvement. We also intend to explore licensing and franchising arrangements. We are in discussions with several parties regarding the possible licensing of the Big Buck Brewery & Steakhouse concept in and outside the state of Michigan. We have entered into a license agreement with Up North Adventures, an entity owned by one of our directors, Thomas E. Zuhl, pursuant to which we hope to introduce our concept to various Asian markets.

**Seasonality**



**Our operating results are expected to fluctuate based on seasonal patterns. Based on our existing units, we anticipate that our highest revenues will occur in the second and third calendar quarters due to the milder climate during those quarters in Michigan. Because of the effect of seasonality on our business, results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year and cannot be used to indicate financial performance for a full fiscal year.**



**Cautionary Statement**



*Big Buck Brewery & Steakhouse, Inc., or persons acting on our behalf, or outside reviewers retained by us making statements on our behalf, or underwriters of our securities, from time to time, may make, in writing or orally, forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. This Cautionary Statement, when used in conjunction with an identified forward-looking statement, is for the purpose of qualifying for the safe harbor provisions of the Litigation Reform Act and is intended to be a readily available written document that contains factors which could cause results to differ materially from such forward-looking statements. These factors are in addition to any other cautionary statements, written or oral, which may be made, or referred to, in connection with any such forward-looking statement.*

*The following matters, among others, may have a material adverse effect on our business, financial condition, liquidity, results of operations or prospects, financial or otherwise. Reference to this Cautionary Statement in the context of a forward-looking statement or statements shall be deemed to be a statement that any one or more of the following factors may cause actual results to differ materially from those in such forward-looking statement or statements.*

**We may be unable to repay current** maturities of existing indebtedness, forcing us to liquidate all or a portion of our assets.



*Overview*

Without additional financing, our leveraged position, requirements for payments to the holders of our secured and subordinated debt and requirements for payments on our loan agreement may require us to liquidate all or a portion of our assets. We had working capital deficits of approximately \$16.4 million at December 29, 2002 and approximately \$3.0 million at December 30, 2001. As of March 21, 2003, we had outstanding (1) convertible secured debt aggregating \$7,412,786, (2) non-convertible secured debt aggregating \$5,674,940, and (3) convertible subordinated debt aggregating \$650,000. The outstanding convertible secured debt and \$1.5 million of the outstanding non-convertible secured debt matured on February 1, 2003. Of the outstanding convertible subordinated debt, \$100,000 matured in November 2000, \$300,000 matured in October 2001, \$50,000 matured in January 2002, \$100,000 matured in July 2002 and \$100,000 matured in December 2002.

To fund the maturity of the outstanding debt, we must obtain additional financing or refinance the debt. However, we cannot assure you that we will be able to obtain the required funds or refinance the debt, which could materially adversely affect our business, operating results, cash flows and financial condition.

*Convertible Secured and Non-Convertible Secured Debt*

We have not made any required debt service payments to WCERS since September 2001. On February 1, 2003, the entire \$8,912,786 principal amount of the secured debt held by WCERS became due and payable. As of March 21, 2003, we had defaulted on \$10,235,392 of principal and interest payments to WCERS. We cannot assure you that we will have sufficient financial resources to repay existing indebtedness or to continue operations. As of March 21, 2003, we were also in violation of various covenants under our agreements with WCERS.

Because we have not made timely payments of principal and interest on our indebtedness to WCERS and are in violation of various covenants, we are in default under our agreements with WCERS. As a result, WCERS may, by notice in writing to us, declare all amounts owing with respect to the agreements to be immediately due and payable without presentment, demand, protest or other notice of any kind, all of which we previously waived. Our assets are, as a consequence, subject to foreclosure by

WCERS. Foreclosure by WCERS would force us to cease all operations. We cannot assure you that we will be able to repay or refinance our indebtedness to WCERS or regain compliance with the amended covenants.

In March 2002, we obtained a loan from United Bank and Trust Company for \$5.0 million which matures in March 2004. The collateral of this loan is a \$5.0 million letter of credit from WCERS. We cannot assure you that we will be able to repay our indebtedness to United Bank.



*Convertible Subordinated Promissory Notes*

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To fund the maturity of the outstanding convertible subordinated promissory notes, we must obtain additional financing or refinance the debt. However, we cannot assure you that we will be able to obtain the required funds or refinance the debt, which could materially adversely affect our business, operating results, cash flows and financial condition. As of March 21, 2003, our outstanding convertible subordinated promissory notes had the following terms and conditions:

Principal Amount	Date of Issuance	Maturity Date	Shares Issuable Upon Conversion	Conversion Price
\$ 100,000	10 08-99	10-07-01	9,523 \$	10.5000
\$ 100,000	11-17-99	11-01-00	5,890 \$	16.9764
\$ 100,000	01-19-00	10-01-01	14,285 \$	7.0000
\$ 100,000	12-04-00	10-01-01	14,285 \$	7.0000
\$ 50,000	01-27-00	01-01-02	9,784 \$	5.1100
\$ 100,000	07-20-01	07-20-02	16,496 \$	6.0620
\$ 100,000	12-11-01	12-11-02	27,793 \$	3.5980

Because we have not made timely payments of principal on this indebtedness, the note holders may declare all amounts owing to be immediately due and payable without presentment, demand, protest or other notice of any kind, all of which we previously waived. We cannot assure you that we will be able to repay or refinance this indebtedness.

**We have incurred losses and we expect to incur substantial future losses. This may prevent us from raising capital and continuing operations.**

In general, we have experienced operating losses in each quarterly and annual period since inception. We incurred net losses of approximately \$3.6 million for the fiscal year ended December 29, 2002 and approximately \$2.2 million for the fiscal year ended December 30, 2001. As of December 29, 2002, we had an accumulated deficit of \$13.4 million. We currently depend upon our existing units for all of our revenues. We expect to incur significant losses for the foreseeable future. We will need to generate significant increases in our revenues to achieve and maintain profitability. If our revenues fail to grow or grow more slowly than we anticipate, or our operating expenses exceed our expectations, our losses could significantly increase, which would harm our business, operating results, cash flows and financial condition. In addition, our failure to become and remain profitable may adversely affect the market price of our securities and our ability to raise capital and continue operations. The reports of our independent public accountants for the years ended December 29, 2002 and December 30, 2001 include explanatory paragraphs expressing doubt about our ability to continue as a going concern.

**If we are unable to obtain additional capital or secure refinancing, we may be required to scale back our operations or cease our operations.**

If additional capital does not become available to us, we may be required to scale back our operations or cease our operations. We cannot assure you that we will be able to secure additional

financing or refinancing. If we are able to obtain financing or refinancing, we cannot assure you that it will be on favorable or acceptable terms. To obtain additional financing, we anticipate that we will be required to sell additional debt or equity securities. New investors may seek and obtain substantially better terms than those available in connection with open market purchases and our issuance of securities in the future may result in substantial dilution. To obtain refinancing, we may be required to agree to certain negative covenants with which we may be unable to comply. In addition, our securities were delisted from The Nasdaq SmallCap Market on October 7, 2002, which may adversely affect our ability to raise capital.

Our agreement with WCERS imposes limitations on our ability to incur additional indebtedness. We agreed that we would not create, incur, assume, guarantee or be or remain liable, contingently or otherwise, with respect to any indebtedness, except for indebtedness incurred in the ordinary course of business not to exceed at any time \$1.5 million in the aggregate. Any indebtedness not in the ordinary course of business or in excess of \$1.5 million requires the approval of WCERS. We also granted to WCERS a right of first refusal pursuant to which WCERS may, for so long as the approximately \$5.8 million promissory note is outstanding or WCERS owns more than 15% of our common stock, elect to purchase securities offered by us, within 45 days of the receipt of notice by WCERS, at the same price and on the same terms and conditions as are offered to a third party. These restrictions may impede our ability to secure financing for continued operations. Our failure to raise capital when needed would have a material adverse effect on our business, operating results, cash flows and financial condition.

**We cannot assure you that future operations of any unit will be profitable.**



Future revenues and profits, if any, will depend upon various factors, including:

the quality of restaurant and brewery operations,

the acceptance of our food and beer, and

general economic conditions.

We cannot assure you that we will ever operate profitably.

**You may have difficulty reselling your securities.**

Our securities are subject to certain rules of the SEC relating to penny stocks. Such rules require broker-dealers to make a suitability determination for purchasers and to receive the purchaser's prior written consent for a purchase transaction, thus restricting the ability to purchase or sell the securities in the open market. In addition, trading in our securities is conducted in the over-the-counter market on the OTC Bulletin Board, which was established for securities that do not meet Nasdaq listing requirements. Selling our securities may be difficult because of the quantity of securities that may be bought and sold, the possibility that transactions may be delayed, and the low level of security analyst and news media coverage given to over-the-counter stocks. These factors could contribute to lower prices and larger spreads in the bid and ask prices for our securities.

**Our interest in the Grapevine unit may be reduced or eliminated by Bass Pro.**

The failure of Buck & Bass to achieve the required gross sales, the existence in the past of encumbrances upon the subleased premises and the failure of Buck & Bass to perform quarterly customer satisfaction surveys give Bass Pro the ability to declare an event of default under the sublease, terminate the sublease and demand all unpaid and reasonably calculable future rent over the balance of the sublease term. Pursuant to the limited partnership agreement, a material default under the sublease would also entitle Bass Pro to purchase our interest in the joint venture at 40% of book value, thereby eliminating our

interest in the Grapevine unit. The termination of the sublease or the elimination of our interest in the Grapevine unit would have a material adverse effect on our business, operating results, cash flows and financial condition.

**If Buck & Bass is required to pay more than the minimum annual base rent for the Grapevine site, funds available to us for other purposes will be reduced.**

Pursuant to a commercial sublease agreement, Buck & Bass leases the Grapevine site from Bass Pro over a 15-year term. Buck & Bass is obligated to pay annual percentage rent in the amount of 5.5% on gross sales less than \$11.0 million per year and 6.5% on gross sales in excess of \$11.0 million per year; provided, however, that the minimum annual base rent is \$385,000. Bass Pro may terminate the sublease in the event of a default which is not cured within the applicable grace period. In March 2000, we agreed with Bass Pro in writing to revise the definition of default under the sublease. As amended, the sublease provides that a default includes, but is not limited to:

the failure of Buck & Bass to remain open during all business days,

the failure of Buck & Bass to maintain on duty a fully trained service staff,

the failure of Buck & Bass to provide high quality food of the type provided at our Gaylord unit,

the failure of Buck & Bass to achieve gross sales in the first full calendar year immediately following the opening and for each calendar year thereafter of \$7.0 million,

Buck & Bass encumbering in any manner any interest in the subleased premises, or

the failure of Buck & Bass to conduct full and complete customer surveys no less frequently than each calendar quarter.

The minimum annual base rent is required whether the Grapevine unit is profitable or not. If Buck & Bass is required to pay in excess of the minimum annual base rent, the funds available to us for other purposes will be reduced. In the event of a default and termination of the joint venture agreement, our interest in the Grapevine unit would be eliminated. This would have a material adverse effect on our business, operating results, cash flows and financial condition.

**If we are required to pay more than the minimum annual base rent for the Grand Rapids or Auburn Hills sites, funds available to us for other purposes will be reduced.**

In April 1997, we sold the Grand Rapids site, including all improvements thereto, to an entity owned by one of our shareholders, Eyde Brothers Development Co., pursuant to a real estate purchase and leaseback agreement for \$1.4 million. Pursuant to a separate lease agreement, we lease the Grand Rapids site at a minimum annual base rent of \$140,000 and a maximum annual base rent of \$192,500 over a ten-year term. The lease may be extended at our option for up to two additional five-year terms. In addition to the annual base rent, the lease, as amended in March 2000, provides that we are obligated to pay annual percentage rent in the amount of 5% on gross sales at the site in excess of \$1.5 million per year.

In August 1997, we entered into a real estate purchase and leaseback agreement providing for the sale of the Auburn Hills site to one of our shareholders, Michael G. Eyde, for \$4.0 million. In connection with this transaction, we granted a five-year stock option, exercisable at \$35.00 per share, for 7,142 shares of our common stock to Mr. Eyde. We lease the Auburn Hills site pursuant to a separate lease agreement which provides for a minimum annual base rent of \$400,000, and a maximum annual base rent of

\$550,000, over a 25-year term. The lease may be extended at our option for up to two additional ten-year terms. In addition to the annual base rent, we are obligated to pay annual percentage rent of 5.25% of gross sales at the site in excess of \$8.0 million per year.

Annual percentage rent is required whether or not such units are profitable. If we are required to pay annual percentage rent, the funds available to us for other purposes will be reduced.

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**If we default and the lessor of the Grand Rapids site or the lessor of the Auburn Hills site terminates the related lease, we would be unable to continue operating such unit.**

The Grand Rapids and Auburn Hills lessors may terminate in the event of a default which is not cured within the applicable grace period. A default is defined as:

our failure to make a rental payment within 30 days after receipt of written notice that a payment is past due, or

our failure to perform our obligations under the lease, other than rent payments, within 30 days after written notice of a curable violation;

provided, however, that if such default cannot be cured within the 30-day period, a default will be deemed to have occurred only if we have failed to commence a cure within such 30-day period. In the event of a default and termination of either lease, we would be unable to continue operating the related unit, which would have a material adverse effect on our business, operating results, cash flows and financial condition.



**If we are required to repurchase the Grand Rapids site or the Auburn Hills site and cannot do so, we would be unable to continue operating such unit.**

If annual gross sales do not exceed \$1.5 million for any lease year, the lessor of the Grand Rapids unit will obtain the right to require us to repurchase such site for \$1.4 million, plus \$70,000 for each lease year on a pro rata basis. In March 2002, the lessor waived its right to require repurchase based upon insufficient annual gross sales for the lease years ended April 2001 and April 2002. We do not expect annual gross sales to exceed \$1.5 million for the lease year ended April 2003.

Because annual gross sales did not exceed \$8.0 million for the fourth and fifth years of the lease term, the lessor of the Auburn Hills unit obtained the right to require us to repurchase such site for \$4.0 million, plus \$200,000 for each lease year on a pro rata basis.

If either lessor elects to exercise his option to require us to repurchase a site, we would be forced to repurchase such site at a premium over its sale price. We cannot assure you that we will have sufficient funds to repurchase either site. If we are required to repurchase a site and cannot do so, it would have a material adverse impact on our business, operating results, cash flows and financial condition.

**We may be unable to compete with larger, better-established restaurant competitors.**

The restaurant industry is highly competitive with respect to price, service, location and food quality, including taste, freshness and nutritional value. New restaurants have a high failure rate. New restaurants generally experience a decline in revenue growth, or in actual revenues, following a period of excitement that accompanies their opening. The restaurant industry is also generally affected by changes in consumer preferences, national, regional and local economic conditions, and demographic trends. The performance of individual restaurants may also be affected by factors such as traffic patterns, demographic considerations, and the type, number and location of competing restaurants. In addition,

factors such as inflation, increased food, labor and employee benefit costs, and the unavailability of experienced management and hourly employees may also adversely affect the restaurant industry in general and our units in particular. Restaurant operating costs are further affected by increases in the minimum hourly wage, unemployment tax rates and similar matters over which we have no control. We face numerous well-established competitors, including national, regional and local restaurant chains, possessing substantially greater financial, marketing, personnel and other resources than we do. We also compete with a large variety of locally owned restaurants, diners and other establishments that offer moderately priced food to the public and with other brewpubs. Competitors could utilize the Big Buck Brewery & Steakhouse format or a related format. We cannot assure you that we will be able to respond to various competitive factors affecting the restaurant industry.

**If we are unable to comply with applicable restaurant regulations, we will be unable to operate; compliance with such regulations may increase our operating expenses.**

The restaurant industry is subject to numerous federal, state and local government regulations, including those relating to the preparation and sale of food and those relating to building and zoning requirements. We are subject to regulation by air and water pollution control divisions of the Environmental Protection Agency of the United States and by certain states and municipalities in which our units are located. We are also subject to laws governing our relationship with our employees, including minimum wage requirements, overtime, working and safety conditions and citizenship requirements. Restaurant operating costs are affected by increases in the minimum hourly wage, unemployment tax rates, sales taxes and similar matters, such as any government-mandated health insurance, over which we have no control.

**Our operations depend upon obtaining and maintaining governmental licenses and permits required for brewing and selling beer.**

A significant percentage of our revenue is derived from beer sales. Total sales of alcohol, including beer, wine and hard liquor, accounted for 21.1% of our revenues during 2002. We must comply with federal licensing requirements imposed by the United States Department of Treasury, Alcohol and Tobacco Tax and Trade Bureau, as well as the licensing requirements of states and municipalities where our units are located. Our failure to comply with federal, state or local regulations could cause our licenses to be revoked and force us to cease brewing and selling our beer. Typically, licenses must be renewed annually and may be revoked or suspended for cause at any time.

**We may face liability under dram-shop laws.**

We are subject to dram-shop laws in Michigan and Texas. These laws generally provide someone injured by an intoxicated person the right to recover damages from the establishment that wrongfully served alcoholic beverages to such person. We carry liquor liability coverage as part of our existing comprehensive general liability insurance. However, a judgment against us under a dram-shop statute in excess of our liability coverage could have a material adverse effect on our business, operating results, cash flows and financial condition.

**We must pay federal and state excise taxes on our beer; we may be unable to retain the credits that help us to offset part of such taxes.**

The federal government currently imposes an excise tax of \$18.00 on each barrel of beer produced for domestic consumption in the United States. However, each brewer with production of not more than 2,000,000 barrels per year is taxed only \$7.00 per barrel on the first 60,000 barrels produced annually. We cannot assure you that the federal government will not reduce or eliminate this small brewer rate reduction.

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Michigan imposes an excise tax of \$6.30 per barrel on each barrel of beer manufactured or sold in Michigan. However, each brewer that manufactures less than 50,000 barrels per

year is granted a brewer's excise tax credit in the amount of \$2.00 per barrel for the first 30,000 barrels. Buck & Bass is subject to excise taxes under Texas law. Excise taxes in Texas are \$6.138 per barrel for ale and malt liquor, and \$6.00 per barrel for beer. However, Texas grants a 25% tax exemption for manufacturers of beer whose annual production in Texas does not exceed 75,000 barrels of beer per year. As a result, Buck & Bass faces an effective excise tax of \$4.50 per barrel for beer. If our beer production exceeds the foregoing credit thresholds, our average excise tax rate would increase.

It is possible that the rate of excise taxation could be increased by either federal or state governments, or both. Increased excise taxes on alcoholic beverages have been considered by the federal government as an additional source of tax revenue in connection with various proposals and could be included in future legislation. Future increases in excise taxes on alcoholic beverages, if enacted, could adversely affect our business, operating results, cash flows and financial condition.

**Our management possesses significant control which could reduce your ability to receive a premium for your securities through a change in control.**

As of February 28, 2003, our officers and directors beneficially owned approximately 45.5% of our outstanding common stock. Accordingly, such persons can:

exert substantial influence over the composition of our board of directors,

generally direct our affairs, and

may have the power to control the outcome of shareholder approvals of business acquisitions, mergers and combinations and other actions.

We are also subject to Michigan statutes regulating business combinations and restricting voting rights of certain persons acquiring shares of common stock which may hinder or delay a change in control.

**Fluctuations in our operating results may result in decreases in the market price of our securities.**

Our sales and earnings are expected to fluctuate based on seasonal patterns. Based on our existing units, we anticipate that our highest earnings will occur in the second and third calendar quarters due to the milder climate during those quarters in Michigan. Because of the effect of seasonality on our business, results for any quarter are not necessarily indicative of the results for a full fiscal year.

**You may not be able to sell our securities at the same price at which you purchase our securities due to significant volatility in the market price of our securities.**

The market price of our common stock has been subject to significant fluctuations in response to numerous factors, including:

variations in our annual or quarterly financial results or those of our competitors,

changes by financial research analysts in their estimates of our earnings or those of our competitors,

conditions in the economy in general or in the brewing industry in particular,

unfavorable publicity, and

changes in applicable laws and regulations, or judicial or administrative interpretations thereof, affecting us or the brewing industry.

We cannot assure purchasers of our securities that they will be able to sell such securities at or above the prices at which they were purchased. In addition, our securities were delisted from The Nasdaq SmallCap Market on October 7, 2002, which may adversely affect the liquidity of our securities.

**The sale of additional securities may be dilutive to existing security holders.**

We had 861,997 shares of common stock outstanding as of March 21, 2003. On that date, we also had warrants, stock options, convertible debt and other rights outstanding to purchase an additional 840,685 shares of common stock, exercisable at prices ranging from \$0.28 to \$36.75 per share. We have also registered certain shares of our common stock for resale on the public market. The sale of such shares, and the sale of additional shares which may become eligible for sale in the public market from time to time upon the exercise of warrants, stock options, convertible debt and other rights, may be dilutive to existing security holders and could have the effect of depressing the market price of our securities.

ITEM 7 FINANCIAL STATEMENTS

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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

To Big Buck Brewery & Steakhouse, Inc.:

We have audited the accompanying consolidated balance sheet of Big Buck Brewery & Steakhouse, Inc. (a Michigan corporation) as of December 29, 2002 and December 30, 2001, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Big Buck Brewery & Steakhouse, Inc. as of December 29, 2002 and December 30, 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 9 to the financial statements, the Company has suffered recurring losses from operations and has a net working capital deficiency, which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 9. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ PLANTE & MORAN, PLLC

Grand Rapids, Michigan,  
March 28, 2003



**BIG BUCK BREWERY & STEAKHOUSE, INC.**

## Consolidated Balance Sheets

	December 29, 2002	December 30, 2001
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 1,516,821	\$ 96,453
Accounts receivable	145,811	237,187
Inventories (Note 1)	216,428	223,891
Prepays and other	478,182	592,927
Total current assets	2,357,242	1,150,458
PROPERTY AND EQUIPMENT (Note 1)	21,237,757	22,926,270
OTHER ASSETS, net	534,982	803,881
	\$ 24,129,981	\$ 24,880,609
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 1,016,370	\$ 1,925,998
Accrued expenses	1,448,647	899,016
Current maturities of long-term obligations	16,311,999	1,351,728
Total current liabilities	18,777,016	4,176,742
LONG-TERM OBLIGATIONS, less current maturities (Note 2)	3,378,737	15,084,690
Total liabilities	22,155,753	19,261,432
MINORITY INTEREST (Note 8)	449,452	466,143
<b>SHAREHOLDERS' EQUITY (Notes 5 and 6):</b>		
Common stock, \$0.01 par value, 15,000,000 and 20,000,000 shares authorized; 861,997 and 6,083,358 shares issued and outstanding	8,620	60,834
Additional paid-in capital	14,905,621	14,870,141
Accumulated deficit	(13,389,465)	(9,777,941)
Total shareholders' equity	1,524,776	5,153,034
	\$ 24,129,981	\$ 24,880,609

The accompanying notes are an integral part of these financial statements.

**BIG BUCK BREWERY & STEAKHOUSE, INC.**

## Consolidated Statements of Operations

	For the Years Ended	
	December 29, 2002	December 30, 2001
<b>REVENUE:</b>		
Restaurant sales	\$ 16,244,594	\$ 17,207,829
Wholesale and retail sales	146,871	280,128
Total revenue	16,391,465	17,487,957
<b>COSTS AND EXPENSES:</b>		
Cost of sales	5,436,563	5,763,345
Restaurant salaries and benefits (Notes 6 and 7)	4,242,593	4,591,917
Operating expenses	3,801,965	3,694,304
Depreciation	1,340,430	1,338,650
Preopening expenses and store development costs (Note 3)		354,923
General and administrative expenses	1,928,306	1,785,886
Impairment loss (Note 1)	800,000	
Total costs and expenses	17,549,857	17,529,025
<b>LOSS FROM OPERATIONS</b>	<b>(1,158,392)</b>	<b>(41,068)</b>
<b>OTHER EXPENSE:</b>		
Interest expense	(2,008,525)	(1,658,409)
Other expense/amortization of financing cost	(461,298)	(501,086)
Other expense, net	(2,469,823)	(2,159,495)
<b>LOSS BEFORE INCOME TAXES AND MINORITY INTEREST</b>	<b>(3,628,215)</b>	<b>(2,200,563)</b>
<b>INCOME TAX EXPENSE</b>		
<b>LOSS BEFORE MINORITY INTEREST</b>	<b>(3,628,215)</b>	<b>(2,200,563)</b>
<b>MINORITY INTEREST SHARE OF JOINT VENTURE</b>	<b>16,691</b>	<b>(2,332)</b>
<b>NET LOSS</b>	<b>\$ (3,611,524)</b>	<b>\$ (2,202,895)</b>
<b>BASIC AND DILUTED LOSS PER COMMON SHARE</b>	<b>\$ (4.19)</b>	<b>\$ (2.53)</b>
<b>OUTSTANDING WEIGHTED AVERAGE SHARES</b>	<b>866,000</b>	<b>840,488</b>

The accompanying notes are an integral part of these financial statements.



**BIG BUCK BREWERY & STEAKHOUSE, INC.**

## Consolidated Statements of Shareholders Equity

For the Years Ended

	Common Stock		Warrants	Additional Paid-In Capital	Accumulated Deficit	Total
	Shares	Amount				
BALANCE, January 1, 2001	5,474,562	54,746	153,650	14,153,174	(7,575,046)	6,786,524
Issuance of common stock for debt and interest to WCERS	323,406	3,234	—	324,376	—	327,610
Issuance of common stock for services to Morgan James	125,000	1,250	—	112,500	—	113,750
Issuance of common stock for employee stock purchase plan at \$0.478125	20,914	209	—	9,791	—	10,000
Issuance of common stock for services to Columbia Construction	50,000	500	—	45,000	—	45,500
Issuance of common stock for services to Morgan James	75,000	750	—	66,750	—	67,500
Issuance of common stock for employee stock purchase plan at \$0.3485	14,476	145	—	4,900	—	5,045
Expiration of warrants	—	—	(153,650)	153,650	—	—
Net loss	—	—	—	—	(2,202,895)	(2,202,895)
BALANCE, December 30, 2001	6,083,358	60,834	—	14,870,141	(9,777,941)	5,153,034
Issuance of common stock for employee stock purchase plan	11,422	114	—	2,507	—	2,621
Stock repurchased by Company	(37,600)	(376)	—	(9,624)	—	(10,000)
Stock repurchased by Company	(23,100)	(231)	—	(9,124)	—	(9,355)
Reverse Stock Split 1 for 7	(5,172,083)	(51,721)	—	51,721	—	—
Net loss	—	—	—	—	(3,611,524)	(3,611,524)
BALANCE, December 29, 2002	861,997	8,620	—	14,905,621	(13,389,465)	1,524,776

The accompanying notes are an integral part of these financial statements.

**BIG BUCK BREWERY & STEAKHOUSE, INC.**

Consolidated Statements of Cash Flows

**For the Years Ended**