



**Important U.S. Federal Income Tax Information for Shareholders of Diversified Restaurant Holdings, Inc.
Concerning the Bagger Dave's Burger Tavern, Inc. Common Stock Distribution**

January 15, 2017

Dear Shareholder,

On August 4, 2016, the Board of Directors of Diversified Restaurant Holdings, Inc. ("DRH") announced its intention to distribute 100% of the outstanding shares of Bagger Dave's Burger Tavern, Inc. ("BDBT") common stock to DRH shareholders of record as of the close of business on December 19, 2016 (the "Record Date") and payable on December 25, 2016 (the "Distribution Date"). On the Distribution Date, DRH completed the spin-off of BDBT (the "Distribution"). For each share of DRH common stock held as of the close of business on the Record Date, DRH shareholders received one share of BDBT common stock on the Distribution Date. No fractional shares of BDBT were issued. Shareholders received one full share of BDBT common stock in lieu of fractional shares.

This letter explains certain U.S. federal income tax consequences of the Distribution and describes how to allocate your tax basis between your DRH common stock and the BDBT common stock you received in the Distribution. The information contained herein is being provided pursuant to the requirements of Section 6045B of the Internal Revenue Code of 1986, as amended (the "Code"), and includes a general summary regarding the application of certain U.S. federal income tax laws and regulations related to the Distribution on the tax basis of DRH stock and the allocation of the tax basis between the stock of DRH and BDBT following the Distribution. The information contained herein does not constitute tax advice and does not purport to be complete or describe the consequences that may apply to particular categories of shareholders. Neither DRH nor BDBT provides tax advice to shareholders. The example provided below is illustrative and is being provided pursuant to Section 6045B of the Code and as a convenience to the shareholders and their tax advisors. You are urged to consult your own tax advisor regarding the particular consequences of the Distribution to you, including the applicability and effect of all U.S. federal, state, local and foreign tax laws.

This notice does not apply to a share of DRH stock sold, exchanged, or otherwise disposed of prior to the time of the Distribution.

Tax Treatment of the Distribution. DRH received an opinion from its tax advisor, BDO, USA, LLP, concluding, based on certain representations of DRH and BDBT with respect to (among other things) the activities of DRH and BDBT, that the Distribution should qualify as a reorganization within the meaning of sections 368(a)(1)(D) and 355 of the Code. As a result, you will generally not recognize gain or loss for U.S. federal income tax purposes on receipt of the BDBT common stock in the Distribution.

Tax Basis. For U.S. federal income tax purposes, your aggregate tax basis in the DRH common stock you owned immediately before the Distribution must be allocated between your DRH common stock and the shares of BDBT common stock you received in the Distribution.

This allocation is based on the relative fair market values of your DRH common stock and your BDBT common stock as of the date of the Distribution. Although U.S. federal income tax laws do not specify how to determine fair market value, one approach is to use the closing trading price quoted on the NASDAQ Stock Exchange and the OTC QX Over the Counter market on December 27, 2016, the first trading day after the Distribution. However, the BDBT shares had not yet commenced trading on that date. Another approach is to use the relative estimated fair market value of BDBT on December 25, 2016. You should consult your tax advisor to determine the appropriate fair market values.

Our example below uses the estimated fair market value of BDBT.

The following is an example to be used solely for illustrative purposes (this does not represent your actual tax basis):

- Assume you own a single block of 1,000 shares of DRH common stock with a tax basis of \$1.50 per share (and a total tax basis of \$1,500.00)
- You are entitled to receive 1,000 shares of Bagger Dave's Burger Tavern, Inc. common stock in the Distribution
- BDBT's estimated fair market value on the Distribution Date was \$10,000,000.
- DRH's combined market capitalization just prior to the Distribution Date was \$37,605,808.
- This means that BDBT's relative share of the combined market capitalization was 26.6% ($10,000,000 \div 37,605,808 = 26.6\%$) of the combined total.
- DRH's relative share of the combined market capitalization was 73.4% ($27,605,808 \div 37,605,808 = 73.4\%$) of the combined total.
- Accordingly your basis of \$1,500 will be allocated \$399 ($.266 \times \$1,500$) to the BDBT shares and \$1,101 ($.734 \times \$1,500$) to the DRH shares.
- The per share basis would then be \$.399 ($.266 \times 1.50$) for the BDBT shares and \$1.101 ($.734 \times 1.50$) for the DRH shares.

If you own DRH common stock with a different tax basis for alternative minimum tax ("AMT") purposes than your tax basis for regular federal income tax purposes, you will need to allocate your AMT basis between your DRH common stock and your BDBT common stock in the same manner as described above.

U.S. Federal Income Tax Reporting Requirements. Any shareholder of DRH that is a "significant distributee" is required to attach a statement describing the details of the Distribution to his, her or its U.S. federal income tax return for the period that includes the Distribution Date. This would be the 2016 U.S. Federal income tax return for calendar year shareholders. You are a significant distributee if, immediately before the Distribution, you owned (i) at least five percent (by vote or value) of the total outstanding stock of DRH or (ii) securities in DRH with a basis of \$1,000,000 or more. If a significant distributee is a "controlled foreign corporation" (within the meaning of section 957 of the Code), each "United States shareholder" (within the meaning of section 951(b) of the Code) with respect thereto must include a statement on or with its return.

THE INFORMATION SET FORTH ABOVE IS FOR GENERAL INFORMATION PURPOSES ONLY AND DOES NOT PURPORT TO ADDRESS ALL ASPECTS OF FEDERAL TAXATION THAT MAY BE RELEVANT TO PARTICULAR SHAREHOLDERS. THIS INFORMATION DOES NOT CONSTITUTE TAX ADVICE AND MAY NOT BE APPLICABLE TO SHAREHOLDERS WHO ARE NOT CITIZENS OR RESIDENTS OF THE UNITED STATES. NOR DOES IT ADDRESS TAX CONSEQUENCES WHICH MAY VARY WITH YOUR INDIVIDUAL CIRCUMSTANCES. ACCORDINGLY, YOU ARE URGED TO CONSULT YOUR TAX ADVISORS TO DETERMINE THE APPLICATION OF THE INFORMATION SET FORTH ABOVE TO YOUR INDIVIDUAL CIRCUMSTANCES AND THE PARTICULAR FEDERAL, FOREIGN, STATE AND LOCAL TAX CONSEQUENCES OF THE SPIN-OFF TO YOU.

Report of Organizational Actions Affecting Basis of Securities

▶ See separate instructions.

Part I Reporting Issuer

1 Issuer's name		2 Issuer's employer identification number (EIN)	
3 Name of contact for additional information	4 Telephone No. of contact	5 Email address of contact	
6 Number and street (or P.O. box if mail is not delivered to street address) of contact		7 City, town, or post office, state, and Zip code of contact	
8 Date of action		9 Classification and description	
10 CUSIP number	11 Serial number(s)	12 Ticker symbol	13 Account number(s)

Part II Organizational Action Attach additional statements if needed. See back of form for additional questions.

14 Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action ▶ _____

15 Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis ▶ _____


16 Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates ▶ _____

Part II Organizational Action (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ▶ _____

18 Can any resulting loss be recognized? ▶ _____

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ▶ _____

Sign Here
Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.
Signature ▶  Date ▶ January 15, 2017
Print your name ▶ _____ Title ▶ _____

Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Firm's name ▶	Firm's EIN ▶			
	Firm's address ▶	Phone no.			

Diversified Restaurant Holdings, Inc.

**Distribution of Bagger Dave's Burger Tavern, Inc. Common
Stock**

Attachment to IRS Form 8937

Part II

Line 14 Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action.

On August 4, 2016, the Board of Directors of Diversified Restaurant Holdings, Inc. ("DRH") announced its intention to distribute 100% of the outstanding shares of Bagger Dave's Burger Tavern, Inc. ("BDBT") common stock to DRH shareholders of record as of the close of business on December 19, 2016 (the "Record Date") and payable on December 25, 2016 (the "Distribution Date"). On the Distribution Date, DRH completed the spin-off of BDBT (the "Distribution"). For each share of DRH common stock held as of the close of business on the Record Date, DRH shareholders received one share of BDBT common stock on the Distribution Date. No fractional shares of BDBT were issued. Shareholders received one whole share of Bagger Dave's Burger Tavern, Inc. common stock in lieu of fractional shares.

DRH common shares continue to trade on the NASDAQ under the ticker symbol "SAUC". Shares of BDBT common stock will trade on the O T C Q X M a r k e t under the ticker symbol "BAGR".

The information contained herein does not constitute tax advice and is not intended or written to be used for the purpose of avoiding penalties under the Internal Revenue Code. In addition, this information does not purport to be complete or to describe the consequences that may apply to particular categories of DRH shareholders.

Shareholders are urged to consult their own tax advisor regarding the particular consequences of the Distribution, including the applicability and effect of all U.S. federal, state and local, and foreign tax laws.

Line 15 Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis.

DRH shareholders should allocate their aggregate tax basis in their DRH common stock held immediately prior to the Distribution among the shares of BDBT common stock received in the Distribution and the DRH common stock in respect of which such BDBT common stock was received in proportion to their respective fair market values immediately after the Distribution

Line 16 Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates.

For U.S. federal income tax purposes, the calculation of aggregate tax basis in the DRH common stock owned immediately before the Distribution must be allocated between shareholders' DRH common stock and the shares of BDBT common stock received in the Distribution.

This allocation is based on the relative fair market values of your DRH common stock and your BDBT common stock as of the date of the Distribution. Although U.S. federal income tax laws do not specify how to determine fair market value, one approach is to use the closing trading price quoted on the NASDAQ Stock Exchange and the OTC QX Over the Counter market on December 27, 2016, the first trading day after the Distribution. However, the BDBT shares had not yet commenced trading on that date. Another approach is to use the relative estimated fair market value of BDBT on December 25, 2016. You should consult your tax advisor to determine the appropriate fair market values.

Our example below uses the estimated fair market value of BDBT.

The following is an example to be used solely for illustrative purposes (this does not represent your actual tax basis):

- Assume you own a single block of 1,000 shares of DRH common stock with a tax basis of \$1.50 per share (and a total tax basis of \$1,500.00)
- You are entitled to receive 1,000 shares of Bagger Dave's Burger Tavern, Inc. common stock in the Distribution
- BDBT's estimated fair market value on the Distribution Date was \$10,000,000.
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- The per share basis would then be \$.399 ($.266 \times 1.50$) for the BDBT shares and \$1.101 ($.734 \times 1.50$) for the DRH shares.

If shareholders own DRH common stock with a different tax basis for alternative minimum tax (“AMT”) purposes than tax basis for regular federal income tax purposes, they will need to allocate their AMT basis between their DRH common stock and BDBT common stock in the same manner as described above.

Line 17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based.

DRH shareholders should not recognize income, gain or loss for U.S. federal income tax purposes on the receipt of BDBT common stock pursuant to the Distribution under Section 355(a) of the Code. The tax basis calculations resulting from the Distribution are generally governed by Sections 358(a) and (b) of the Code and the Treasury Regulations promulgated thereunder.

Line 18 Can any resulting loss be recognized?

DRH intends for the Distribution to qualify as a “reorganization” under Sections 355 and 368(a)(1)(D) of the Internal Revenue Code. Assuming that this characterization is respected, DRH shareholders generally will not recognize any loss on the Distribution for U.S. federal income tax purposes.

Line 19 Provide any other information necessary to implement the adjustment, such as the reportable tax year.

The Distribution occurred on December 25, 2016. As a result, the basis adjustments in the shares of DRH common stock and BDBT common stock should be reported in the taxable year that includes this date. In the case of shareholders who are calendar year taxpayers, the Distribution is reportable in the tax year ending December 31, 2016.

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