

Zoe's Kitchen, Inc.
Form 10-Q
May 24, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarter ended April 16, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File No. 001-36411

ZOE'S KITCHEN, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

51-0653504
(IRS Employer
Identification No.)

5760 State Highway 121, Suite 250
Plano, Texas
(Address of principal executive offices) (Zip Code)

75024

Registrant's telephone number, including area code:
(214) 436-8765

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Edgar Filing: Zoe's Kitchen, Inc. - Form 10-Q

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

On May 24, 2018 there were 19,603,222 shares of common stock outstanding.

Table of Contents

Table of Contents	
<u>Part I - Financial Information</u>	Page
<u>Item 1. Financial Statements</u>	<u>2</u>
<u>Unaudited Condensed Consolidated Balance Sheets</u>	<u>2</u>
<u>Unaudited Condensed Consolidated Statements of Operations</u>	<u>3</u>
<u>Unaudited Condensed Consolidated Statements of Cash Flows</u>	<u>4</u>
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>5</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>13</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>25</u>
<u>Item 4. Controls and Procedures</u>	<u>26</u>
<u>Part II - Other Information</u>	<u>27</u>
<u>Item 1. Legal Proceedings</u>	<u>27</u>
<u>Item 1A. Risk Factors</u>	<u>27</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>27</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>27</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>27</u>
<u>Item 5. Other Information</u>	<u>27</u>
<u>Item 6. Exhibits</u>	<u>28</u>
<u>Signatures</u>	<u>29</u>

Table of Contents

Part I - Financial Information

Item 1. Financial Statements

Zoe's Kitchen, Inc. and Subsidiaries

Unaudited Condensed Consolidated Balance Sheets

(in thousands, except share and per share data)

	April 16, 2018	December 25, 2017
Assets		
Current Assets:		
Cash and cash equivalents	\$3,703	\$ 2,276
Trade accounts receivable, net of allowance for doubtful accounts	2,152	3,148
Other accounts receivable	1,317	2,231
Inventories	2,623	2,374
Prepaid expenses and other	3,666	1,949
Total current assets	13,461	11,978
Property and equipment, net	193,276	191,686
Goodwill	29,528	29,528
Intangibles, net	6,124	6,482
Other long-term assets, net	830	848
Total long-term assets	229,758	228,544
Total assets	\$243,219	\$ 240,522
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$9,639	\$ 8,629
Accrued expenses and other	14,742	14,644
Total current liabilities	24,381	23,273
Long-term liabilities:		
Long-term debt	16,500	12,500
Deemed landlord financing	31,134	33,240
Deferred rent	38,432	36,390
Deferred income taxes	4,162	4,022
Other long-term liabilities, net	—	18
Total long-term liabilities	90,228	86,170
Total liabilities	114,609	109,443
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Common stock: \$0.01 par value, 135,000,000 shares authorized as of April 16, 2018 and December 25, 2017; 19,597,482 and 19,556,044 issued and outstanding as of April 16, 2018 and December 25, 2017, respectively.	\$196	\$ 196
Additional paid-in capital	153,018	151,868
Accumulated deficit	(24,604)	(20,985)
Total stockholders' equity	128,610	131,079
Total liabilities and stockholders' equity	\$243,219	\$ 240,522

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

Table of Contents

Zoe's Kitchen, Inc. and Subsidiaries
 Unaudited Condensed Consolidated Statements of Operations
 (in thousands, except share and per share data)

	Sixteen Weeks Ended	
	April 16, 2018	April 17, 2017
Revenue:		
Restaurant sales	\$ 102,029	\$ 90,504
Royalty fees	45	57
Total revenue	102,074	90,561
Operating expenses:		
Restaurant operating costs (excluding depreciation and amortization):		
Cost of sales	29,736	26,496
Labor	32,512	26,952
Store operating expenses	23,257	19,049
General and administrative expenses	10,992	9,985
Depreciation	6,340	5,052
Amortization	358	489
Pre-opening costs	523	567
Loss from disposal of equipment	158	259
Total operating expenses	103,876	88,849
Income (loss) from operations	(1,802)	1,712
Other income and expenses:		
Interest expense, net	1,623	1,368
Other income	(27)	(29)
Total other income and expenses	1,596	1,339
Income (loss) before provision for income taxes	(3,398)	373
Provision for income taxes	221	354
Net income (loss)	\$(3,619)	\$ 19
Earnings (loss) per share:		
Basic	\$(0.19)	\$ 0.00
Diluted	\$(0.19)	\$ 0.00
Weighted average shares of common stock outstanding:		
Basic	19,507,441	19,472,124
Diluted	19,507,441	19,528,915

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

Table of Contents

Zoe's Kitchen, Inc. and Subsidiaries
 Unaudited Condensed Consolidated Statements of Cash Flows
 (in thousands)

	Sixteen Weeks Ended	
	April 16, 2018	April 17, 2017
Cash flows from operating activities:		
Net income (loss)	\$(3,619)	\$ 19
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	6,340	5,052
Amortization of intangible assets	358	489
Equity-based compensation	1,140	888
Deferred income taxes	141	264
Amortization of loan costs	21	7
Bad debt expense	2	3
Loss from disposal of equipment	158	259
Accretion of deemed landlord financing	84	92
Changes in operating assets and liabilities:		
Trade accounts receivable	994	510
Other accounts receivable	925	907
Inventories	(249)	(224)
Prepaid expenses and other	(1,718)	(1,783)
Accounts payable	912	2,095
Accrued expenses and other	427	350
Deferred rent	2,071	1,705
Net cash provided by operating activities	7,987	10,633
Cash flows from investing activities:		
Purchase of property and equipment	(10,598)	(13,217)
Proceeds from sale of property and equipment	18	—
Net cash used in investing activities	(10,580)	(13,217)
Cash flows from financing activities:		
Proceeds from line of credit	4,000	—
Proceeds from deemed landlord financing	10	121
Proceeds from exercise of stock options	11	—
Payments of loan acquisition fees	(1)	—
Net cash provided by financing activities	4,020	121
Net change in cash and cash equivalents	1,427	(2,463)
Cash and cash equivalents:		
Beginning of period	2,276	5,493
End of period	\$3,703	\$ 3,030
Supplemental disclosure of cash flow information:		
Cash paid for interest related to long-term debt	\$ 144	\$ —
Cash paid for interest related to deemed landlord financing	1,462	1,455
Non-cash deemed landlord financing	(2,200)	2,450
Change in accrued purchases of property and equipment	(260)	2,400

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

Table of Contents

Zoe's Kitchen, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

1. Nature of Operations and Basis of Presentation

Nature of Operations

Zoe's Kitchen, Inc. (the "Company", "Zoës", "we" or "us") primarily develops and operates fast-casual restaurants serving a distinct menu of freshly prepared Mediterranean-inspired dishes. As of April 16, 2018, we operated 251 Company-owned restaurants and three franchise restaurants in 20 states across the United States. We have determined that we have one operating and reportable segment. All of our revenues are derived in the United States. All of our assets are located in the United States.

Interim Financial Statements

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles and practices of the United States of America ("GAAP") for interim financial information. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair statement of the results for interim periods have been included.

Certain information and footnote disclosures normally included in audited consolidated financial statements presented in accordance with GAAP have been omitted pursuant to rules and regulations of the Securities and Exchange Commission (the "SEC"). Due to the seasonality of our business, results for any interim financial period are not necessarily indicative of the results that may be achieved for a full fiscal year. In addition, quarterly results of operations may be impacted by the timing and amount of sales and costs associated with the opening of new restaurants. These interim unaudited condensed consolidated financial statements do not represent complete financial statements and should be read in conjunction with our annual financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 25, 2017 (the "2017 Form 10-K"). While the condensed consolidated balance sheet data as of December 25, 2017 was derived from audited financial statements, it does not include all disclosures required by GAAP.

Comprehensive Income (Loss)

Comprehensive income (loss) is the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Comprehensive income (loss) is the same as net income (loss) for all periods presented. Therefore, a separate statement of comprehensive income (loss) is not included in the accompanying condensed consolidated financial statements.

Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of Zoe's Kitchen, Inc. and its wholly owned subsidiaries, Zoe's Kitchen USA, LLC and Soho Franchising, LLC. All intercompany accounts and transactions have been eliminated in consolidation. The condensed consolidated financial statements presented herein reflect our financial position, results of operations and cash flows in conformity with GAAP.

Fiscal Year

We operate on a 52- or 53-week fiscal year that ends on the last Monday of the calendar year. Fiscal year ended December 31, 2018 consists of 53 weeks and fiscal year ended December 25, 2017 consisted of 52 weeks. Our first fiscal quarter consists of 16 weeks, and each of our second, third and fourth fiscal quarters consists of 12 weeks, except for a 53-week year when the fourth quarter has 13 weeks.

Table of Contents

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions, such as valuation of long-lived, definite and indefinite-lived assets, estimated useful lives of assets, the reasonably assured lease terms of operating leases, the construction costs of leases where the Company is considered the owner during and after the construction period, allowance for doubtful accounts, the fair value related to equity-based compensation, the calculation of self-insurance reserves, and deferred tax valuation allowances, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Recently Adopted Accounting Standards

In March 2018, the FASB issued ASU No. 2018-05, "Income Taxes (Topic 740) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin ("SAB") No. 118," which incorporates paragraphs from SAB 118 in to the accounting codification. SAB 118 addressed the application of GAAP in the reporting period in which the Tax Cuts and Jobs Act (the "2017 Tax Act"), which the Company has adopted. See Note 8 for more information regarding effects of the 2017 Tax Act.

In May 2017, the FASB issued ASU No. 2017-09, "Compensation - Stock Compensation (Topic 718) - Scope of Modification Accounting," which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. An entity will account for the effects of a modification unless the fair value of the modified award is the same as the original award, the vesting conditions of the modified award are the same as the original award, and the classification of the modified award as an equity instrument or liability instrument is the same as the original award. We adopted this amendment effective December 26, 2017. The adoption of this guidance did not impact our condensed consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments," which provides specific guidance regarding presentation and classification on a variety of cash payments and receipts. Among the issues addressed is the classification of proceeds from the settlement of insurance claims. We adopted this amendment effective December 26, 2017. The adoption of this guidance did not impact our condensed consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-04, "Liabilities - Extinguishments of Liabilities (Subtopic 405-20)", which amends subtopic 405-20 to provide a scope exception that requires breakage for prepaid stored-value product liabilities to be accounted for consistent with the breakage guidance in Topic 606. We adopted this amendment effective December 26, 2017. The adoption of this guidance did not impact our condensed consolidated financial statements.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers." This update was issued to replace the current revenue recognition guidance, creating a more comprehensive revenue model. In August 2015, the FASB issued ASU 2015-14 to defer the effective date for adoption. The update is now effective for reporting periods beginning after December 15, 2017. In March 2016, April 2016, May 2016, and December 2016 the FASB also issued ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20, respectively, to further clarify performance obligations and licensing implementation guidance and other general topics. We adopted this amendment using the modified retrospective approach for the fiscal year and quarter beginning December 26, 2017. See Note 2 for additional information regarding our revenue policies, sources of revenue, and contract balances.

Recently Issued Accounting Standards

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles - Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment," which eliminates Step 2 from the goodwill impairment test. Under the new standard, annual and interim goodwill impairment tests will compare the fair value of a reporting unit with its carrying amount. An impairment charge will be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill. The pronouncement is effective for goodwill impairments tests in fiscal years beginning after December 15, 2019 and

Table of Contents

should be applied on a prospective basis. Early adoption is permitted for goodwill impairment tests performed after January 1, 2017. We do not expect the adoption of ASU 2017-04 to have a material impact on our financial position or results of operations.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," which requires entities to recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. Previous lease accounting did not require certain lease types to be recognized on the balance sheet. In January 2018, the FASB issued ASU 2018-01 which provides an optional transition practical expedient under Topic 842 to not evaluate land easements that were not previously accounted for as leases under current lease guidance. This update is an amendment to the codification and is effective for fiscal years beginning after December 15, 2018 including interim periods within those fiscal years applied using a modified retrospective approach. Early adoption is permitted. We are currently evaluating the impact of the adoption of ASU 2016-02 on our financial position and results of operations, but expect that it will result in a significant increase in our long-term assets and liabilities given we have a significant number of leases which are not reflected on the balance sheet under current GAAP. In addition, rental payments under most of our leases for which we are the accounting owner will no longer be considered debt service applied to deemed landlord financing and interest expense. Instead, these rental payments will be classified as rent expense.

2. Revenue

On December 26, 2017 we adopted Accounting Standards Codification ("ASC") 606, Revenue from Contracts with Customers, using the modified retrospective approach. The adoption of the standard did not have a material impact on our financial position or results from operations. The new standard did not impact our recognition of restaurant sales or royalty fees. Revenue recognized related to gift card breakage was also not impacted as we have historically recognized breakage in proportion to the pattern of customer redemption. Refer to Note 1 of our 2017 Form 10-K for our policies on revenue recognition from restaurant sales, gift cards and royalty fee accounting. Comparative period information presented in this report has not been restated and it continues to be reported under the accounting standard in effect during those periods.

Contract Balances

Contract liabilities and receivables from customers consisted of the following (in thousands):

	April 16, December 25,	
	2018	2017
Sales receivable ⁽¹⁾	1,000	1,170
Gift card liability ⁽²⁾	1,197	1,732
Deferred revenue, current ⁽²⁾	128	23

(1) Included in balance of Trade accounts receivable, net of allowance for doubtful accounts on our unaudited condensed consolidated balance sheet.

(2) Included in balance of Accrued expenses and other on our unaudited condensed consolidated balance sheet.

Revenue recognized during the period that was included in liability balances at the beginning of the period consisted of the following (in thousands):

	Sixteen weeks ended April 16, 2018
Gift card liability	\$ 1,009

Deferred revenue, current \$ 23

7

Table of Contents

3. Supplemental Information

Property and equipment, net consisted of the following (in thousands):

	April 16, 2018	December 25, 2017
Buildings under deemed landlord financing	24,380	26,580
Leasehold improvements	161,032	153,425
Machinery and equipment	41,344	39,510
Furniture and fixtures	8,427	7,988
Automobiles	3,825	3,946
Computer equipment	17,808	17,013
Construction in progress	5,322	6,073
Property and equipment, gross	262,138	254,535
Less: Accumulated depreciation	(68,862)	(62,849)
Total Property and equipment, net	\$193,276	\$ 191,686

Accrued expenses and other consisted of the following (in thousands):

	April 16, 2018	December 25, 2017
Accrued payroll and payroll taxes	\$5,136	\$ 5,168
Accrued capital purchases	1,747	2,031
Sales tax payable	2,184	945
Gift card liability	1,197	1,732
Other accrued expenses	4,478	4,768
Total Accrued expenses and other	\$14,742	\$ 14,644

4. Fair Value Measurements

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and all other current liabilities approximate fair values due to the short maturities of these instruments.

5. Bank Line of Credit and Term Loan

On November 7, 2017, we entered into a credit facility with JPMorganChase Bank, National Association (the "2017 Credit Facility"). The 2017 Credit Facility consists of a revolving loan commitment in the aggregate amount of \$50.0 million, together with an incremental revolving credit commitment up to an aggregate amount of \$25.0 million. The 2017 Credit Facility has a five year term and matures on November 7, 2022. As of April 16, 2018, we had \$16.5 million of indebtedness under the 2017 Credit Facility.

On November 7, 2017, we repaid in full our outstanding \$12.5 million indebtedness under our previous credit facility with Wells Fargo Bank, National Association (the "2015 Credit Facility") using funds drawn on our 2017 Credit Facility. Upon repayment, the 2015 Credit Facility and all related agreements were terminated. In addition, we wrote-off all unamortized loan costs, resulting in a loss on extinguishment of debt of \$0.1 million.

Revolving credit loans under the 2017 Credit Facility bear interest, at the Company's election, at either the LIBOR plus an applicable margin or the base rate plus an applicable margin. The base rate consists of the highest of the prime rate, the federal funds rate plus 0.5% and LIBOR for a one-month interest period plus 1.0%. The applicable margin and associated loan commitment fee consists of four pricing levels based on the Company's consolidated total debt ratio. The weighted-average interest rate was 3.1% for the sixteen weeks ended April 16, 2018.

Table of Contents

Applicable margin and commitment fee rates shall be the rates per annum set for in the table below:

Total Debt Ratio	Applicable Margin		
	Base Rate	LIBOR	Commitment Fee Rate
>2.0 to 1.0	0.875%	1.875%	0.35%
≤ 2.0 to 1.0 but > 1.5 to 1.0	0.750%	1.750%	0.30%
≤ 1.5 to 1.0 but > 1.0	0.625%	1.625%	0.25%
≤ 1.0 to 1.0	0.500%	1.500%	0.20%

The 2017 Credit Facility includes specific financial covenants such as a leverage ratio and an interest coverage ratio. We are also subject to other customary covenants, including limitations on additional borrowings, dividend payments and acquisitions. As of April 16, 2018, we were in compliance with these financial and other covenants.

6. Equity-based Compensation

In connection with our initial public offering in April 2014 (the "IPO"), we adopted the 2014 Omnibus Incentive Plan (the "2014 Incentive Plan"), which provides for grants of stock options, stock appreciation rights, restricted stock, other stock-based awards and other cash-based awards available to directors, officers and other employees of us and our subsidiaries, as well as others performing consulting or advisory services to us. The number of shares of common stock available for issuance under the 2014 Incentive Plan may not exceed 1,905,799.

The following table summarizes our stock option plan activity during the sixteen weeks ended April 16, 2018:

	Stock Options	Weighted Average Exercise Price
Outstanding as of December 25, 2017	1,092,123	\$ 23.27
Granted	144,565	14.05
Exercised	(717)	15.00
Forfeited	(6,485)	22.82
Expired	(4,652)	25.75
Outstanding as of April 16, 2018	1,224,834	\$ 22.18

Included in the stock option plan activity above are 250,000 stock options that vested immediately upon completion of the IPO and 185,679 stock options that vest in five equal annual installments following the date of the grant. All other options vest in four equal annual installments following the date of the grant. All options have a contractual term of 10 years.

The following table reflects the weighted-average assumptions utilized in the Black-Scholes option-pricing model to value the stock options granted.

	Sixteen Weeks Ended April 16, 2018
Expected volatility ⁽¹⁾	31.0%
Risk-free rate of return	2.7%
Expected life (in years) ⁽²⁾	6.3
Dividend yield	0%
Weighted-average fair value per share at date of grant	\$5.09

(1) Expected volatility was based on competitors within the industry.

(2) Expected life was calculated using the simplified method, which is an average of the contractual term of the option and its ordinary vesting period, as we do not have sufficient historical data for determining the expected term of our stock option awards.

Table of Contents

The following table summarizes our restricted stock unit plan activity during the sixteen weeks ended April 16, 2018:

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Non-vested at December 25, 2017	106,620	\$ 24.32
Granted	191,914	14.07
Vested	(40,721)	25.76
Forfeited	(2,605)	21.45
Non-vested at April 16, 2018	255,208	\$ 16.41

The fair value of the non-vested restricted stock units is based on the closing price on the date of grant. All of our non-vested restricted stock units vest in three or four equal annual installments following the date of the grant.

As of April 16, 2018 and December 25, 2017, 65,516 shares of restricted stock with a weighted average grant date fair value of \$13.36 were non-vested. All shares of restricted stock vest in five equal annual installments following the date of the grant.

We recognized equity-based compensation as a component of general and administrative expenses of \$1.1 million and \$0.9 million during the sixteen weeks ended April 16, 2018 and April 17, 2017, respectively. As of April 16, 2018, total unrecognized compensation expense related to non-vested stock awards was \$9.2 million, which is expected to be recognized over a weighted-average period of 3.0 years.

7. Earnings Per Share

Basic net income (loss) per share is calculated by dividing net income (loss) by the weighted average shares outstanding during the period, without consideration of common stock equivalents. Diluted net income (loss) per share is calculated by adjusting weighted average shares outstanding for the dilutive effect of common stock equivalents outstanding for the period, determined using the treasury-stock method.

The following table presents the computation of basic and diluted net income (loss) per share for the period indicated:

	Sixteen Weeks Ended	
	April 16, 2018	April 17, 2017
Net income (loss) (in thousands):	\$(3,619)	\$ 19
Shares:		
Basic weighted average shares outstanding	19,507,441	19,472,124
Diluted weighted average shares outstanding	19,507,441	19,528,915
Earnings (loss) per share:		
Basic EPS	\$(0.19)	\$ 0.00
Diluted EPS	\$(0.19)	\$ 0.00

During the sixteen weeks ended April 16, 2018, there were 1,069,105 stock options, 82,004 restricted stock units and 14,489 restricted stock shares excluded from the diluted earnings per share calculation because their inclusion would have been anti-dilutive. During the sixteen weeks ended April 17, 2017, there were 607,105 stock options, 85,094 restricted stock units and no restricted stock shares excluded from the diluted earnings per share calculation because their inclusion would have been anti-dilutive.

Table of Contents

8. Income Taxes

In December 2017, the Tax Cuts and Jobs Act (the "2017 Tax Act") was enacted. The 2017 Tax Act includes a number of changes to existing U.S. tax laws that impact the Company, most notably a reduction of the U.S. corporate income tax rate from 35 percent to 21 percent for tax years beginning after December 31, 2017.

The Company recognized the income tax effects of the 2017 Tax Act in its 2017 financial statements in accordance with Staff Accounting Bulletin No. 118, which provides SEC staff guidance for the application of ASC Topic 740, "Income Taxes", in the reporting period in which the 2017 Tax Act was signed into law. As such, the Company's financial results reflect the income tax effects of the 2017 Tax Act for which the accounting under ASC Topic 740 is complete and provisional amounts for those specific income tax effects of the 2017 Tax Act for which the accounting under ASC Topic 740 is incomplete but a reasonable estimate could be determined. The Company included provisional estimates of income tax effects of the 2017 Tax Act as of April 18, 2016.

Provision for income taxes was \$0.2 million for the sixteen weeks ended April 16, 2018 compared to \$0.4 million for the sixteen weeks ended April 17, 2017. The effective tax rate was (6)% and 95% for the sixteen weeks ended April 16, 2018 and April 17, 2017, respectively. Our tax expense for the year primarily reflects the accrual of income tax expense related to a valuation allowance in connection with the tax amortization of the Company's goodwill that was not available to offset existing deferred tax assets. Due to the uncertain timing of the reversal of this temporary difference, it cannot be considered as a source of future taxable income for purposes of determining a valuation allowance; therefore the deferred tax liability cannot offset deferred tax assets. As part of the 2017 Tax Act, NOL's generated in 2018 and later are not subject to an expiration period and are available to offset 80% of taxable income in the year in which they are utilized. The indefinite carryforward period of 2018 and subsequent NOL's can be used as support for the realization of indefinite-lived deferred tax liabilities to the extent that such NOL's do not exceed 80% of the goodwill that was not available to offset existing deferred tax assets. Accordingly, the Company has recognized a deferred tax asset for the estimated NOL generated during 2018. Our quarterly provision for income taxes is measured using an annual estimated effective tax rate for the full year applied to period earnings. The comparison of our effective tax rate between periods is significantly impacted by the level of pre-tax income earned and projected for the year.

We continue to monitor and evaluate the rationale for recording a full valuation allowance for the net amount of the deferred tax assets which are in excess of the indefinite-lived deferred tax assets and liabilities. We intend to continue maintaining a full valuation allowance on these net deferred tax assets until there is sufficient evidence to support the reversal of all or some portion of these allowances. Release of the valuation allowance would result in the recognition of certain deferred tax assets and a decrease to income tax expense for the period the release is recorded. However, the exact timing and amount of the valuation allowance release are subject to change on the basis of the level of profitability that we are able to actually achieve.

9. Commitments and Contingencies

Franchise Agreement

Our Kentucky franchise agreement, which requires the franchisee to remit continuing royalty fees at a specified percentage of the franchisee's gross sales revenue, provides that we as franchisor, or its authorized representative, will: (a) provide franchisee with written schedules of all foods, food products, beverages, and other items for sale, and the furniture, fixtures, supplies and equipment necessary and required for the operation of the restaurant; (b) provide franchisee with a list of approved suppliers for the products and services necessary and required for the restaurant; (c) upon the reasonable written request of franchisee, render reasonable advisory services by telephone or in writing pertaining to the operation of the restaurant; (d) provide franchisee with a sample of the standard Zoës Kitchen menu, and any modifications to the menu; (e) loan franchisee a copy of the system's operating manual and any supplements to the manual that may be published by us; and, (f) provide franchisee the opportunity to participate in group purchasing programs that we may use, develop, sponsor or provide on terms and conditions determined solely by us. In addition, as a condition to the commencement of business by any of our franchises, the franchisee must attend and successfully complete our training program. The costs related to our franchise agreement are not significant.

Litigation

11

Table of Contents

We are currently involved in various claims and legal actions that arise in the ordinary course of our business, including claims resulting from employment related matters. None of these claims, most of which are covered by insurance, has had a material effect on us, and as of the date of this report, we are not party to any material pending legal proceedings and are not aware of any claims that could have a material adverse effect on our business, financial condition, results of operations or cash flows. However, a significant increase in the number of these claims or an increase in amounts owing under successful claims could materially and adversely affect our business, financial condition, results of operations or cash flows.

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion summarizes the significant factors affecting our consolidated operating results, financial condition, liquidity and cash flows as of and for the periods presented below. The following discussion and analysis should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and related notes in Item 1 and with the audited consolidated financial statements and the related notes included in our 2017 Form 10-K.

In addition to historical information, this discussion and analysis contains forward-looking statements based on current expectations that involve risks, uncertainties and assumptions, such as our plans, objectives, expectations, and intentions set forth under the sections entitled "Risk Factors" and "Forward-Looking Statements" as filed in our 2017 Form 10-K.

Overview

Zoës Kitchen is a growing, fast-casual restaurant concept serving a distinct menu of fresh, wholesome, Mediterranean-inspired dishes delivered with warm hospitality. Founded in 1995 in Birmingham, Alabama, Zoës Kitchen has never wavered from our commitment to make our food fresh daily and to serve our customers in a warm and welcoming environment.

Growth Strategies and Outlook

We plan to execute the following strategies to continue to enhance our brand awareness and grow our revenue and achieve profitability:

- increase our comparable restaurant sales;
- enhance our operations and leverage infrastructure; and
- grow our restaurant base

We have expanded our restaurant base from 21 restaurants in seven states in 2008 to 254 restaurants in 20 states as of April 16, 2018, including three franchise restaurants. We opened 11 Company-owned restaurants during the sixteen weeks ended April 16, 2018. We plan to open approximately 25 restaurants in fiscal year 2018, including the restaurants opened in the sixteen weeks ended April 16, 2018.

During 2017 and continuing into 2018, the restaurant industry has faced numerous challenges that negatively impacted the financial performance of many fast casual restaurant chains. These challenges were based upon a number of factors such as increased competition, heavy discounting, increased labor costs, and the influence of technology and delivery on customer spending, among others. In response to these challenges, we have undertaken a number of significant initiatives which we expect to help us drive sales and customer traffic and to improve the guest experience in our restaurants. We are continuing to innovate our menu, make investments in technology, improve operational efficiencies, and invest further in our capabilities to meet the off-premise dining demand through delivery and catering. Our ability to execute these initiatives will continue to serve as key areas of our focus in addressing these challenging fast casual restaurant sector conditions. There can be no assurance that our strategies and initiatives will be successful solutions to the current challenges.

In addition, we are taking a number of strategic actions to seek to improve operations and financial performance. We will slow our growth by adjusting our new restaurant plan for 2018 through 2019 to approximately 35 total restaurants. We are evaluating under-performing restaurants. As part of our evaluation we will likely incur asset impairment, severance and lease termination charges and such charges could be material. The net book value of assets being evaluated is \$18.0 million. We will reduce general and administrative expenses by reallocating resources towards sales driving tactics and reducing infrastructure in other areas. We also expect to increase our marketing investment, which we believe will increase brand awareness and add to transactions. While we will continue to examine our growth strategies for the purpose of maximizing shareholder value for the long term, there can be no assurance that any of these actions will improve our financial performance.

Table of Contents

Key Measures We Use to Evaluate Our Performance

In assessing the performance of our business, we consider a variety of performance and financial measures. The key measures used by our management for determining how our business is performing are restaurant sales, comparable restaurant sales growth, number of new restaurant openings, restaurant contribution, EBITDA and Adjusted EBITDA.

Restaurant Sales

Restaurant sales represents sales of food and beverages in Company-owned restaurants. Several factors affect our restaurant sales in any given period, including the number of restaurants in operation and per restaurant sales.

Comparable Restaurant Sales Growth

Comparable restaurant sales refers to year-over-year sales comparisons for the comparable Company-owned restaurant base. We define the comparable restaurant base to include those restaurants open for 18 fiscal periods or longer. Each fiscal period consists of 28 days. As of April 16, 2018 and April 17, 2017, there were 199 and 161 restaurants, respectively, in our comparable Company-owned restaurant base. This measure highlights performance of existing restaurants, as the impact of new Company-owned restaurant openings is excluded.

Comparable restaurant sales growth is generated by an increase in transactions or changes in per customer spend. Per customer spend can be influenced by changes in menu prices and/or the mix and number of items sold per check.

Measuring our comparable restaurant sales allows us to evaluate the performance of our existing restaurant base.

Various factors impact comparable restaurant sales, including:

- consumer recognition of our brand and our ability to respond to changing consumer preferences;
- overall economic trends, particularly those related to consumer spending;
- our ability to operate restaurants effectively and efficiently to meet consumer expectations;
- pricing;
- customer traffic;
- per-customer spend and average check amount;
- marketing and promotional efforts;
- local competition;
- trade area dynamics;
- introduction of new menu items; and
- opening of new restaurants in the vicinity of existing locations.

Consistent with common industry practice, we present comparable restaurant sales on a fiscal year basis that aligns current year sales weeks with comparable periods in the prior year, regardless of whether they belong to the same calendar period or not. Since opening new Company-owned restaurants will be a significant component of our revenue growth, comparable restaurant sales is only one measure of how we evaluate our performance.

Table of Contents

Number of New Restaurant Openings

The number of Company-owned restaurant openings reflects the number of restaurants opened during a particular reporting period. Before we open new Company-owned restaurants, we incur pre-opening costs. Some of our restaurants open with an initial start-up period of higher than normal sales volumes, which subsequently decrease to stabilized levels. Typically, our new restaurants have stabilized sales after approximately 12 to 24 weeks of operation, at which time the restaurant's sales typically begin to grow on a consistent basis. In new markets, the length of time before average sales for new restaurants stabilize is less predictable and can be longer as a result of our limited knowledge of these markets and consumers' limited awareness of our brand. New restaurants may not be profitable, and their sales performance may not follow historical patterns. The number and timing of restaurant openings has had, and is expected to continue to have, an impact on our results of operations.

The following table shows the growth in our Company-owned and franchise restaurant base:

	Sixteen Weeks Ended April 16, 17, 2018	2017
Company-owned Restaurant Base		
Beginning of period	240	201
Openings	11	10
Restaurants at end of period	251	211
Franchise Restaurant Base		
Beginning of period	3	3
Restaurants at end of period	3	3
Total restaurants	254	214

Key Financial Definitions

Restaurant sales. Restaurant sales represent sales of food and beverages in Company-owned restaurants, net of promotional allowances and employee meals. Restaurant sales in a given period are directly impacted by the number of operating weeks in the period, the number of restaurants we operate and comparable restaurant sales growth.

Royalty fees. Royalty fees represent royalty income from the three franchised restaurants.

Cost of sales. Cost of sales consists primarily of food, beverage and packaging costs. The components of cost of sales are variable in nature, change with sales volume and are influenced by menu mix and subject to increases or decreases based on fluctuations in commodity costs.

Labor. Labor includes all restaurant-level management and hourly labor costs, including salaries, wages, benefits and bonuses, payroll taxes and other indirect labor costs.

Store operating expenses. Store operating expenses include all other restaurant-level operating expenses, such as supplies, utilities, repairs and maintenance, travel costs, credit card fees, recruiting, delivery service, restaurant-level marketing costs, security and occupancy expenses.

General and administrative expenses. General and administrative expenses include expenses associated with corporate and regional functions that support the development and operations of restaurants, including compensation and benefits, travel expenses, stock compensation costs, legal and professional fees, information systems, corporate office rent and other related corporate costs.

Depreciation. Depreciation consists of depreciation of fixed assets, including equipment and capitalized leasehold improvements.

Table of Contents

Amortization. Amortization consists of amortization of certain intangible assets including trademarks, reacquired rights and favorable leases.

Pre-opening costs. Pre-opening costs consist of expenses incurred prior to opening a new restaurant and are made up primarily of manager salaries, relocation costs, supplies, recruiting expenses, employee payroll and training costs. Pre-opening costs also include occupancy costs recorded during the period between date of possession and the restaurant's opening date.

Loss from disposal of equipment. Loss from disposal of equipment is composed of the loss on disposal of assets related to retirements and replacements of leasehold improvements or equipment. These losses are related to normal disposals in the ordinary course of business, along with disposals related to selected restaurant remodeling activities.

Interest expense, net. Interest expense includes cash and imputed non-cash charges related to our deemed landlord financing, non-cash charges related to our residual value obligations, amortization of debt issue costs as well as cash payments and accrued charges related to our 2017 Credit Facility.

Provision for income taxes. Provision for income taxes represents federal, state and local current and deferred income tax expense.

Table of Contents

Consolidated Results of Operations

The following table summarizes key components of our results of operations for the periods indicated as a percentage of our total revenue, except for the components of restaurant operating costs, which are expressed as a percentage of restaurant sales.

	Sixteen Weeks Ended April 16, April 17, 2018 2017			
Revenue:				
Restaurant sales	100.0	%	99.9	%
Royalty fees	0.0	%	0.1	%
Total revenue	100.0	%	100.0	%
Operating expenses:				
Restaurant operating costs (excluding depreciation and amortization) (1):				
Cost of sales	29.1	%	29.3	%
Labor	31.9	%	29.8	%
Store operating expenses	22.8	%	21.0	%
General and administrative expenses	10.8	%	11.0	%
Depreciation	6.2	%	5.6	%
Amortization	0.4	%	0.5	%
Pre-opening costs	0.5	%	0.6	%
Loss from disposal of equipment	0.2	%	0.3	%
Total operating expenses	101.8	%	98.1	%
Income (loss) from operations	(1.8)	%	1.9	%
Other income and expenses:				
Interest expense, net	1.6	%	1.5	%
Other income	(0.0))%	(0.0))%
Total other income and expenses	1.6	%	1.5	%
Income (loss) before provision for income taxes	(3.3)	%	0.4	%
Provision for income taxes	0.2	%	0.4	%
Net income (loss)	(3.5)	%	0.0	%

(1) As a percentage of restaurant sales.

Table of Contents

Sixteen Weeks Ended April 16, 2018 compared to Sixteen Weeks Ended April 17, 2017

The following table presents selected consolidated comparative results of operations from our unaudited condensed consolidated financial statements for the sixteen weeks ended April 16, 2018 compared to the sixteen weeks ended April 17, 2017:

	Sixteen Weeks Ended			
	April 16, 2018	April 17, 2017	Increase / (Decrease)	
			Dollars	Percentage
(Dollars in thousands)				
Consolidated Statement of Operations Data:				
Revenue:				
Restaurant sales	\$102,029	\$90,504	\$11,525	12.7 %
Royalty fees	45	57	(12)	(21.1)%
Total revenue	102,074	90,561	11,513	12.7 %
Operating expenses:				
Restaurant operating costs (excluding depreciation and amortization):				
Cost of sales	29,736	26,496	3,240	12.2 %
Labor	32,512	26,952	5,560	20.6 %
Store operating expenses	23,257	19,049	4,208	22.1 %
General and administrative expenses	10,992	9,985	1,007	10.1 %
Depreciation	6,340	5,052	1,288	25.5 %
Amortization	358	489	(131)	(26.8)%
Pre-opening costs	523	567	(44)	(7.8)%
Loss from disposal of equipment	158	259	(101)	(39.0)%
Total operating expenses	103,876	88,849	15,027	16.9 %
Income (loss) from operations	(1,802)	1,712	(3,514)	(205.3)%
Other income and expenses:				
Interest expense, net	1,623	1,368	255	18.6 %
Other income	(27)	(29)	2	(6.9)%
Total other income and expenses	1,596	1,339	257	19.2 %
Income (loss) before provision for income taxes	(3,398)	373	(3,771)	*
Provision for income taxes	221	354	(133)	(37.6)%
Net income (loss)	\$(3,619)	\$19	\$(3,638)	*

* Not meaningful

Restaurant sales. The following table summarizes the growth in restaurant sales from the sixteen weeks ended April 17, 2017 to the sixteen weeks ended April 16, 2018 (dollars in thousands):

	Net Sales
Restaurant sales for the sixteen weeks ended April 17, 2017	\$90,504
Incremental restaurant sales increase due to:	
Comparable restaurant sales	(2,002)
Restaurants not in comparable restaurant base	13,527
Restaurant sales for the sixteen weeks ended April 16, 2018	\$102,029

Table of Contents

Restaurant sales increased by \$11.5 million, or 12.7%, in the sixteen weeks ended April 16, 2018 compared to the sixteen weeks ended April 17, 2017. Restaurants not in the comparable restaurant base and other sales accounted for \$13.5 million of this increase. Comparable restaurant sales decreased \$2.0 million, or 2.3%, in the sixteen weeks ended April 16, 2018, comprised primarily of a 4.4% decrease in transactions and product mix offset by a 2.1% increase in price.

Royalty fees. Royalty fees remained flat in the sixteen weeks ended April 16, 2018 compared to the sixteen weeks ended April 17, 2017.

Cost of sales. Cost of sales increased \$3.2 million in the sixteen weeks ended April 16, 2018 compared to the sixteen weeks ended April 17, 2017, due primarily to the increase in restaurant sales. As a percentage of restaurant sales, cost of sales decreased from 29.3% in the sixteen weeks ended April 17, 2017 to 29.1% in the sixteen weeks ended April 16, 2018. This decrease was primarily driven by lower costs in bread and dry goods partially offset by higher costs in seafood, refrigerated goods and frozen goods.

Labor. Labor increased by \$5.6 million in the sixteen weeks ended April 16, 2018 compared to the sixteen weeks ended April 17, 2017, due primarily to opening 40 new Company-owned restaurants. As a percentage of restaurant sales, labor increased from 29.8% in the sixteen weeks ended April 17, 2017 to 31.9% in the sixteen weeks ended April 16, 2018. The increase was primarily driven by the dilutive effect on margins from our newest restaurants which, on average, initially operate at less than system-wide average sales volumes as well as an increase in wage rates.

Store operating expenses. Store operating expenses increased by \$4.2 million in the sixteen weeks ended April 16, 2018 compared to the sixteen weeks ended April 17, 2017, due primarily to opening 40 new Company-owned restaurants. As a percentage of restaurant sales, store operating expense increased from 21.0% in the sixteen weeks ended April 17, 2017 to 22.8% in the sixteen weeks ended April 16, 2018. This increase was primarily attributable to the dilutive effect on margins from our newest restaurants, which, on average, initially operate at less than system-wide average sales volumes as well as increased costs related to marketing.

General and administrative expenses. General and administrative expenses increased by \$1.0 million in the sixteen weeks ended April 16, 2018 compared to the sixteen weeks ended April 17, 2017. As a percentage of revenue, general and administrative expenses decreased from 11.0% in the sixteen weeks ended April 17, 2017 to 10.8% in the sixteen weeks ended April 16, 2018. The decrease was primarily driven by lower variable incentive compensation.

Depreciation. Depreciation increased by \$1.3 million in the sixteen weeks ended April 16, 2018 compared to the sixteen weeks ended April 17, 2017, due primarily to opening 40 new Company-owned restaurants. As a percentage of revenue, depreciation increased from 5.6% in the sixteen weeks ended April 17, 2017 to 6.2% in the sixteen weeks ended April 16, 2018 primarily due to corporate and in-store technology investments which typically have shorter useful lives.

Amortization. Amortization decreased by \$0.1 million in the sixteen weeks ended April 16, 2018 compared to the sixteen weeks ended April 17, 2017. The decrease was due to certain intangible assets becoming fully amortized in the prior year.

Pre-opening costs. Pre-opening costs remained flat in the sixteen weeks ended April 16, 2018 compared to the sixteen weeks ended April 17, 2017. As a percent of revenue, pre-opening costs decreased from 0.6% in the sixteen weeks ended April 17, 2017 to 0.5% in the sixteen weeks ended April 16, 2018.

Interest expense. Interest expense increased by \$0.3 million in the sixteen weeks ended April 16, 2018 compared to the sixteen weeks ended April 17, 2017, due primarily to increased interest from deemed landlord financing and increased borrowings on our 2017 Credit Facility.

Table of Contents

Provision for income taxes. Provision for income taxes was \$0.2 million for the sixteen weeks ended April 16, 2018 compared to \$0.4 million for the sixteen weeks ended April 17, 2017. Our tax expense for the year typically remains relatively constant as it primarily reflects the accrual of income tax expense related to a valuation allowance in connection with the tax amortization of the Company's goodwill that was not available to offset existing deferred tax assets. Due to the uncertain timing of the reversal of this temporary difference, it cannot be considered as a source of future taxable income for purposes of determining a valuation allowance; therefore the deferred tax liability cannot offset deferred tax assets. The comparison of our effective tax rate between periods is significantly impacted by the level of pre-tax income earned and projected for the year.

Non-GAAP Financial Measures

To supplement its unaudited condensed consolidated financial statements, which are prepared and presented in accordance with GAAP, the Company uses the following non-GAAP financial measures: restaurant contribution, EBITDA and adjusted EBITDA (collectively, the "non-GAAP financial measures"). The presentation of this financial information is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. The Company uses these non-GAAP financial measures for financial and operational decision making and as a means to evaluate period-to-period comparisons. The Company believes that they provide useful information about operating results, enhance the overall understanding of past financial performance and future prospects, and allow for greater transparency with respect to key metrics used by management in its financial and operational decision making. The non-GAAP measures used by the Company may be different from the methods used by other companies.

Restaurant Contribution

Restaurant contribution is defined as restaurant sales less restaurant operating costs, which are cost of sales, labor and store operating expenses. Restaurant contribution margin is restaurant contribution as a percentage of restaurant sales. When used in conjunction with GAAP financial measures, restaurant contribution and restaurant contribution margin are supplemental measures that we believe are useful in evaluating operating performance and profitability of our restaurants. Additionally, restaurant contribution and restaurant contribution margin are key metrics used internally by our management to develop budgets and forecast, as well as assess the performance of our restaurants relative to budget and against prior periods. We believe the supplemental presentation of restaurant and restaurant contribution margin provides investors with a meaningful view of our operating performance as these measures depict the operating results that are directly impacted by our restaurants and exclude items that may not be indicative of, or are unrelated to, the ongoing operations of our restaurants. It may also assist investors to evaluate our performance relative to peers of various sizes and maturities and provide greater transparency to how our management evaluates our business as well as our financial and operational decision making.

Our management does not consider restaurant contribution or restaurant contribution margin in isolation or as an alternative to financial measures determined in accordance with GAAP. The principal limitation of restaurant contribution and restaurant contribution margin is that they exclude significant expenses and income that are required by GAAP to be recorded in the Company's financial statements. Restaurant contribution excludes general and administrative expenses and pre-opening costs, which are considered normal, recurring cash operating expenses and are essential to support the operation and development of our restaurants. Therefore, this measure may not provide a complete understanding of the operating results of our Company as a whole.

We compensate for this limitation by relying primarily on our GAAP results and using restaurant contribution and restaurant contribution margin only supplementally. You should review the reconciliation of income from operations to restaurant contribution and restaurant contribution margin below and not rely on any single financial measure to evaluate our business.

Table of Contents

The following table reconciles income (loss) from operations, which is a GAAP financial measure, to restaurant contribution and restaurant contribution margin:

	Sixteen Weeks Ended	
	April 16, 2018	April 17, 2017
	(Dollars in thousands)	
Restaurant Contribution:		
Income (loss) from operations	\$(1,802)	\$1,712
Less:		
Royalty fees	45	57
Add:		
General and administrative expenses	10,992	9,985
Depreciation and amortization	6,698	5,541
Pre-opening costs ⁽¹⁾	523	567
Loss from disposal of equipment	158	259
Restaurant Contribution	\$16,524	\$18,007
Total revenue	\$102,074	\$90,561
Less: Royalty fees	45	57
Restaurant sales	\$102,029	\$90,504
Restaurant contribution margin	16.2	% 19.9 %

(1) Represent expenses directly associated with the opening of new restaurants that are incurred prior to opening, including pre-opening rent.

EBITDA and Adjusted EBITDA

EBITDA is defined as net income (loss) before interest, income taxes and depreciation and amortization.

We define Adjusted EBITDA as EBITDA plus loss from disposal of equipment and pre-opening costs. EBITDA and Adjusted EBITDA are intended as a supplemental measures of our performance that are not required by, or presented in accordance with, GAAP. We believe that EBITDA and Adjusted EBITDA provide useful information to management and investors regarding certain financial and business trends relating to our financial condition and operating results. Our management uses EBITDA and Adjusted EBITDA (i) as a factor in evaluating management's performance when determining incentive compensation and (ii) to evaluate the effectiveness of our business strategies.

We believe that the use of EBITDA and Adjusted EBITDA provides an additional tool for investors to use in evaluating ongoing operating results and trends and in comparing the Company's financial measures with other fast casual restaurants, which may present similar non-GAAP financial measures to investors. In addition, you should be aware when evaluating EBITDA and Adjusted EBITDA that in the future we may incur expenses similar to those excluded when calculating these measures. Our presentation of these measures should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Our computation of Adjusted EBITDA may not be comparable to other similarly titled measures computed by other companies, because all companies do not calculate Adjusted EBITDA in the same fashion.

Table of Contents

Our management does not consider EBITDA or Adjusted EBITDA in isolation or as an alternative to financial measures determined in accordance with GAAP. The principal limitation of EBITDA and Adjusted EBITDA is that they exclude significant expenses and income that are required by GAAP to be recorded in the Company's financial statements. Some of these limitations are:

- Adjusted EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;

- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

- Adjusted EBITDA does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debts;

although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;

- Adjusted EBITDA does not reflect the impact of certain cash charges resulting from matters we consider not to be indicative of our ongoing operations; and

- other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, EBITDA and Adjusted EBITDA should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP. We compensate for these limitations by relying primarily on our GAAP results and using EBITDA and Adjusted EBITDA only supplementally. You should review the reconciliation of net income (loss) to EBITDA and Adjusted EBITDA below and not rely on any single financial measure to evaluate our business.

The following table reconciles net income (loss) to EBITDA and Adjusted EBITDA:

	Sixteen Weeks Ended April 16, April 17, 2018 2017	
--	--	--

(Dollars in
thousands)

Adjusted EBITDA:		
Net income (loss), as reported	\$(3,619)	\$ 19
Depreciation and amortization	6,698	5,541
Interest expense, net	1,623	1,368
Provision for income taxes	221	354
EBITDA	4,923	7,282
Pre-opening costs ⁽¹⁾	523	567
Loss from disposal of equipment	158	259
Adjusted EBITDA	\$5,604	\$ 8,108

(1) Represents expenses directly associated with the opening of new restaurants that are incurred prior to opening, including pre-opening rent.

Table of Contents

Liquidity and Capital Resources

Summary of Cash Flows

Our primary sources of liquidity and cash flows are operating cash flows and available borrowings under our 2017 Credit Facility. We are using these sources to fund capital expenditures for new Company-owned restaurant openings, reinvest in our existing restaurants, invest in infrastructure and information technology and maintain working capital. Our working capital position benefits from the fact that we generally collect cash from sales to customers the same day, or in the case of credit or debit card transactions, within several days of the related sale, and we typically have at least 20 days to pay our vendors.

We had negative working capital of \$10.9 million as of April 16, 2018 compared to negative working capital of \$11.3 million as of December 25, 2017. The decrease in negative working capital resulted primarily from draws on our 2017 Credit Facility as well as timing of annual invoices reflected in prepaid expenses. We believe that cash and cash equivalents, expected cash flow from operations and available borrowings on our 2017 Credit Facility are adequate to fund our operating lease obligations, capital expenditures and working capital obligations for the next 12 months. However, our ability to continue to meet these requirements and obligations will depend on, among other things, our ability to achieve anticipated levels of revenue and cash flow from operations and our ability to manage costs and working capital successfully.

The following table summarizes consolidated cash flow data for the periods indicated:

Sixteen Weeks
Ended
April 16, April 17,
2018 2017

(Dollars in
thousands)

Consolidated Statement of Cash Flows Data:

Net cash provided by operating activities	\$7,987	\$10,633
Net cash used in investing activities	(10,580)	(13,217)
Net cash provided by financing activities	4,020	121

Cash Flows Provided by Operating Activities

Net cash provided by operating activities decreased to \$8.0 million for the sixteen weeks ended April 16, 2018 from \$10.6 million for the sixteen weeks ended April 17, 2017. Net cash provided by operating activities consists primarily of net income, adjusted for non-cash expenses such as depreciation and amortization, and the net change in operating assets and liabilities.

Net cash provided by operating activities for the sixteen weeks ended April 16, 2018 consisted primarily of net income adjusted for non-cash expenses and increases in deferred rent offset by an increase in prepaid expenses and other. The increase in deferred rent is related to new store openings. The increase in prepaid expenses and other is primarily related to the timing of several annual corporate invoices and prepaid rent.

Cash Flows Used in Investing Activities

Net cash used in investing activities decreased to \$10.6 million for the sixteen weeks ended April 16, 2018 from \$13.2 million for the sixteen weeks ended April 17, 2017. The decrease was primarily due to higher spending in 2017 related to technology investments.

Cash Flows Provided by Financing Activities

Cash flows provided by financing activities increased to \$4.0 million for the sixteen weeks ended April 16, 2018 from \$0.1 million for the sixteen weeks ended April 17, 2017, primarily due to borrowings on our 2017 Credit Facility.

Table of Contents

Credit Facility

On November 7, 2017, we entered into the 2017 Credit Facility with JPMorganChase Bank, National Association as administrative agent. The 2017 Credit Facility consists of a revolving loan commitment in the aggregate amount of \$50.0 million, together with an incremental revolving credit commitment up to an aggregate amount of \$25.0 million. The 2017 Credit Facility has a five year term and matures on November 7, 2022. As of April 16, 2018, we had \$16.5 million of indebtedness under the 2017 Credit Facility.

Off-Balance Sheet Arrangements

As of April 16, 2018, we did not have any off-balance sheet arrangements.

Critical Accounting Policies and Estimates

Our discussion and analysis of operating results and financial condition are based upon our financial statements. The preparation of our financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures of contingent assets and liabilities. We base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis. Our critical accounting policies are those that materially affect our financial statements and involve difficult, subjective or complex judgments by management. Although these estimates are based on management's best knowledge of current events and actions that may impact us in the future, actual results may be materially different from the estimates.

We believe our critical accounting policies are affected by significant judgments and estimates used in the preparation of our consolidated financial statements and that the judgments and estimates are reasonable. Our critical accounting policies and estimates are described in our annual consolidated financial statements and the related notes in our 2017 Form 10-K. Including consideration of adopting the new revenue recognition and cash flow standards, there have been no material changes affecting our critical accounting policies and estimates for the sixteen weeks ended April 16, 2018.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

We are exposed to interest rate risk through fluctuations of interest rates on our investments and debt, as applicable. Changes in interest rates affect the interest income we earn, and therefore impact our cash flows and results of operations.

Commodity Price Risk

We are exposed to commodity price risks. Many of the ingredients we use to prepare our food, as well as our packaging materials, are commodities or ingredients that are affected by the price of other commodities, exchange rates, foreign demand, weather, seasonality, production, availability and other factors outside our control. We work closely with our suppliers and use a mix of forward pricing protocols under which we agree with our supplier on fixed prices for deliveries at some time in the future, fixed pricing protocols under which we agree on a fixed price with our supplier for the duration of that protocol, and formula pricing protocols under which the prices we pay are based on a specified formula related to the prices of the goods, such as spot prices. However, a majority of the dollar value of goods purchased by us is effectively at spot prices. Generally our pricing protocols with suppliers can remain in effect for periods ranging from one to 18 months, depending on the outlook for prices of the particular ingredient. We have tried to increase, where necessary, the number of suppliers for our ingredients, which we believe can help mitigate pricing volatility, and we follow industry news, trade issues, exchange rates, weather, crises and other world events that may affect our ingredient prices. Increases in ingredient prices could adversely affect our results if we choose for competitive or other reasons not to increase menu prices at the same rate at which ingredient costs increase, or if menu price increases result in customer resistance.

Inflation

The primary inflationary factors affecting our operations are food, labor costs, energy costs and materials used in the construction of new restaurants. Increases in the minimum wage directly affect our labor costs. Many of our leases require us to pay taxes, maintenance, repairs, insurance and utilities, all of which are generally subject to inflationary increases. Finally, the cost of constructing our restaurants is subject to inflationary increases in the costs of labor and material. Over the past five years, inflation has not significantly affected our operating results.

Table of Contents

Item 4. Controls and Procedures

As of April 16, 2018, the Company's management carried out an evaluation with the participation of Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, pursuant to Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this report, our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, were effective to provide reasonable assurance that the information we are required to file under the Exchange Act is recorded and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There have been no changes in internal control over financial reporting during the quarter ended April 16, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

Part II - Other Information

Item 1. Legal Proceedings

Refer to Note 9, Commitments and Contingencies, of the Notes to the Unaudited Condensed Consolidated Financial Statements.

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 25, 2017.

Item 2. Unregistered Sales of Equity and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

On April 20, 2018, we adopted the 2018 Omnibus Incentive Plan. Pursuant to our Board's recommendation, we have submitted this Plan to our stockholders for approval at our Annual Meeting of Stockholders on June 14, 2018. For a summary of the this Plan and a complete copy of it, please refer to our Proxy Statement on Schedule 14A filed with the SEC on April 24, 2018.

On May 24, 2018, we entered into the following agreements:

Amended and Restated Employment Agreement with our CEO, Kevin Miles, which restates and supersedes in its entirety the prior Amended and Restated Employment Agreement dated May 24, 2017, between us and Mr. Miles. Pursuant to this new Amended and Restated Employment Agreement, certain modifications were made to the definition of "good reason," among other immaterial administrative and conforming changes.

Amended and Restated Severance Agreement with our CFO, Sunil Doshi, which restates and supersedes in its entirety the Amended Severance Agreement dated February 25, 2016, between us and Mr. Doshi. Pursuant to the Amended and Restated Severance Agreement, the terms of his severance were modified to provide for acceleration of any unvested equity upon any termination "without cause" or for "good reason" (as such terms are defined in the Agreement), among other immaterial administrative and conforming changes.

Amended and Restated Management Severance Plan, which makes solely conforming changes to the definition of "good reason" (as it applies to our CEO) based on changes referenced above. This Amended and Restated Management Severance Plan restates and supersedes our 2016 Management Severance Program, as amended on May 24, 2017.

The foregoing summaries of the Amended and Restated Employment Agreement, the Amended and Restated Severance Agreement and the Amended and Restated Management Severance Plan do not purport to be complete and are qualified in their entireties by the full text of such agreements, copies of which are filed herewith as Exhibits 10.1, 10.2 and 10.3, respectively.

Table of Contents

Item 6. Exhibits

Exhibit Index

Exhibit Number	Description of Exhibit
10.1	<u>Amended and Restated Employment Agreement between Kevin Miles and Zoe's Kitchen, Inc. dated May 24, 2018.</u>
10.2	<u>Amended and Restated Severance Agreement between Sunil Doshi and Zoe's Kitchen, Inc. dated May 24, 2018.</u>
10.3	<u>Amended and Restated Management Severance Plan dated May 24, 2018.</u>
31.1	<u>Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1*	<u>Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* This certification is deemed not filed for purposes of section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 24, 2018

ZOE'S KITCHEN, INC.

By: /s/ Kevin Miles

Name: Kevin Miles

Title: President and Chief Executive Officer

By: /s/ Sunil Doshi

Name: Sunil Doshi

Title: Chief Financial Officer