

Edgar Filing: Wingstop Inc. - Form 10-Q

Wingstop Inc.
Form 10-Q
August 05, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 25, 2016

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. 001-37425

WINGSTOP INC.

(Exact name of registrant as specified in its charter)

Delaware 47-3494862
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

5501 LBJ Freeway, 5th Floor, 75240
Dallas, Texas
(Address of principal executive offices) (Zip Code)

(972) 686-6500
(Registrant's telephone number, including area code)

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 (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

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 (§232.405 of this chapter) 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.

Larger accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

On August 5, 2016 there were 28,728,305 shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

WINGSTOP INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(amounts in thousands, except share and per share amounts)

	June 25, 2016	December 26, 2015
	(Unaudited)	
Assets		
Current assets		
Cash and cash equivalents	\$ 10,014	\$ 10,690
Accounts receivable, net	2,581	3,404
Prepaid expenses and other current assets	2,063	1,752
Advertising fund assets, restricted	1,611	3,774
Total current assets	16,269	19,620
Property and equipment, net	4,805	4,593
Goodwill	45,128	45,128
Trademarks	32,700	32,700
Customer relationships, net	17,618	18,296
Other non-current assets	238	313
Total assets	\$ 116,758	\$ 120,650
Liabilities and stockholders' deficit		
Current liabilities		
Accounts payable	\$ 1,616	\$ 1,360
Other current liabilities	6,336	7,436
Advertising fund liabilities, restricted	1,611	3,774
Total current liabilities	9,563	12,570
Long-term debt, net	85,069	95,008
Deferred revenues, net of current	7,069	7,623
Deferred income tax liabilities, net	12,887	13,018
Other non-current liabilities	2,269	2,104
Total liabilities	116,857	130,323
Commitments and contingencies (see note 6)		
Stockholders' deficit		
Common stock, \$0.01 par value; 100,000,000 shares authorized; 28,680,544 and 28,581,182 shares issued and outstanding as of June 25, 2016 and December 26, 2015, respectively	287	286
Additional paid-in-capital	38,074	36,870
Accumulated deficit	(38,460)	(46,829)
Total stockholders' deficit	(99)	(9,673)
Total liabilities and stockholders' deficit	\$ 116,758	\$ 120,650

See accompanying notes to consolidated financial statements

WINGSTOP INC. AND SUBSIDIARIES

Consolidated Statements of Operations

(amounts in thousands, except per share data)

(Unaudited)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 25, 2016	June 27, 2015	June 25, 2016	June 27, 2015
Revenue:				
Royalty revenue and franchise fees	\$14,305	\$11,400	\$27,803	\$22,557
Company-owned restaurant sales	8,418	7,832	16,994	15,701
Total revenue	22,723	19,232	44,797	38,258
Costs and expenses:				
Cost of sales ⁽¹⁾	6,184	5,516	12,261	11,252
Selling, general and administrative	8,572	10,665	16,227	18,341
Depreciation and amortization	727	645	1,441	1,308
Total costs and expenses	15,483	16,826	29,929	30,901
Operating income	7,240	2,406	14,868	7,357
Interest expense, net	707	1,177	1,468	1,964
Other expense, net	10	257	38	286
Income before income tax expense	6,523	972	13,362	5,107
Income tax expense	2,444	388	4,993	1,969
Net income	\$4,079	\$584	\$8,369	\$3,138
Earnings per share				
Basic	\$0.14	\$0.02	\$0.29	\$0.12
Diluted	\$0.14	\$0.02	\$0.29	\$0.12
Weighted average shares outstanding				
Basic	28,646	26,689	28,616	26,412
Diluted	28,989	26,970	28,979	26,711
Dividends per share	\$—	\$—	\$—	\$1.83

⁽¹⁾ exclusive of depreciation and amortization,
shown separately

See accompanying notes to consolidated financial statements.

WINGSTOP INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(amounts in thousands)

(Unaudited)

	Twenty-Six Weeks Ended	
	June 25, 2016	June 27, 2015
Operating activities		
Net income	\$8,369	\$3,138
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	1,441	1,308
Excess tax benefit of stock-based compensation	(667)	(822)
Deferred income taxes	(131)	(438)
Stock-based compensation expense	253	342
Loss on disposal of property and equipment	—	4
Amortization of debt issuance costs	69	267
Changes in operating assets and liabilities:		
Accounts receivable	823	(197)
Prepaid expenses and other assets	(220)	(2,191)
Accounts payable and other current liabilities	(315)	(1,039)
Deferred revenue	(440)	54
Other non-current liabilities (attributable to deferred rent and lease incentives)	165	437
Cash provided by operating activities	9,347	863
Investing activities		
Purchases of property and equipment	(975)	(333)
Cash used in investing activities	(975)	(333)
Financing activities		
Proceeds from issuance of common stock, net of expenses	—	34,766
Proceeds from exercise of stock options	285	478
Borrowings of long-term debt	—	40,000
Principal payments on long-term debt	(10,000)	(33,218)
Payment of deferred financing costs	—	(227)
Excess tax benefit of stock-based compensation	667	822
Dividends paid	—	(47,999)
Cash used in financing activities	(9,048)	(5,378)
Net change in cash and cash equivalents	(676)	(4,848)
Cash and cash equivalents at beginning of period	10,690	9,723
Cash and cash equivalents at end of period	\$10,014	\$4,875
See accompanying notes to consolidated financial statements.		

WINGSTOP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

(1) Basis of Presentation

Basis of Presentation

Wingstop Inc. (“Wingstop” or the “Company”) is in the business of franchising and operating Wingstop restaurants. As of June 25, 2016, 831 franchised restaurants were in operation domestically and 63 international franchised restaurants were in operation across five countries. As of June 25, 2016, the Company owned and operated 20 restaurants.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial information. Consequently, financial information and disclosures normally included in financial statements prepared annually in accordance with accounting principles generally accepted in the United States (“GAAP”) have been condensed or omitted. Balance sheet amounts are as of June 25, 2016 and December 26, 2015 and operating results are for the thirteen and twenty-six weeks ended June 25, 2016 and June 27, 2015.

In the Company’s opinion, all necessary adjustments have been made for the fair presentation of the results of the interim periods presented. The results of operations for such interim periods are not necessarily indicative of the results to be expected for the full year. The accompanying interim unaudited consolidated financial statements should be read in conjunction with the audited financial statements and the related notes thereto included in the Company’s annual report on Form 10-K for the fiscal year ended December 26, 2015.

The Company uses a 52/53-week fiscal year that ends on the last Saturday of the calendar year. Fiscal years 2016 and 2015 have 53 weeks and 52 weeks, respectively.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The amendments in ASU 2014-08 change the criteria for reporting discontinued operations while enhancing disclosures in this area. It also addresses sources of confusion and inconsistent application related to financial reporting of discontinued operations guidance in GAAP. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization’s operations and financial results. Examples include a disposal of a major geographic area, a major line of business, or a major equity method investment. In addition, the new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. The Company adopted the amendment as of the first day of fiscal year 2016, and the adoption did not have any impact on the Company’s consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This update provides a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. This update is effective for annual and interim periods beginning after December 15, 2017, which will require us to adopt these provisions in the first quarter of fiscal 2018. This update permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect this guidance will have on our consolidated financial statements and related disclosures and has not yet selected a transition method.

In April 2015, the FASB issued ASU No 2015-03, Simplifying the Presentation of Debt Issuance Costs. This update changes the presentation of debt issuance costs in the balance sheet. ASU 2015-03 requires debt issuance costs related to a recognized debt obligation to be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability rather than being presented as an asset. Amortization of debt issuance costs will continue to be reported as interest expense. In August 2015, the FASB issued ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. This ASU clarified guidance in ASC 2015-03 stating that the SEC staff would not object to a company presenting debt issuance costs related to a

line-of-credit arrangement on the balance sheet as a deferred asset, regardless of whether there were any outstanding borrowings at period-end. This update is effective for annual and interim periods beginning after December 15, 2015. The Company adopted this pronouncement during the first quarter of 2016 and applied the update on a retrospective basis, wherein the balance sheet of each period presented was adjusted to reflect the effects of applying the new

WINGSTOP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

guidance. The Company reclassified deferred financing costs of \$431,000 and \$492,000 for the periods ended June 25, 2016 and December 26, 2015, respectively, from Other non-current assets to Long-term debt on the Consolidated Balance Sheets.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU 2016-02 will be effective beginning in the first quarter of 2019. Early adoption of ASU 2016-02 as of its issuance is permitted. The new leases standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Company is currently evaluating the impact of adopting the new leases standard on the consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718). This update requires all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) to be recognized as income tax expense or benefit in the income statement, including recognition of excess tax benefits regardless of whether the benefit reduces taxes payable in the current period. Currently, GAAP requires excess tax benefits to be recognized in additional paid-in capital; tax deficiencies are recognized either as an offset to accumulated excess tax benefits, if any, or in the income statement, and excess tax benefits are not recognized until the deduction reduces taxes payable. ASU 2016-09 further requires that excess tax benefits be classified along with other income tax cash flows as an operating activity on the Statement of Cash Flows. Currently, they are classified as financing activities. The update also allows entities to make an accounting policy election to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur. This update is effective for annual and interim periods beginning after December 15, 2016, which will require us to adopt these provisions in the first quarter of fiscal 2017. Early application is permitted. The Company is evaluating the effect this guidance will have on our consolidated financial statements and related disclosures and has not yet selected a transition method.

(2) Earnings per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the reporting period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. For the calculation of diluted net income per share, the basic weighted average number of shares is increased by the dilutive effect of stock options and restricted share awards, determined using the treasury stock method. For the thirteen weeks ended June 25, 2016 we had approximately 7,000 stock options outstanding which were excluded from the dilutive earnings per share calculation because the effect would have been anti-dilutive. For the thirteen weeks ended June 27, 2015 all stock options had a dilutive effect; therefore none were excluded from the calculation of diluted earnings per share. For the twenty-six weeks ended June 25, 2016 and June 27, 2015, respectively, we had approximately 5,000 and 13,000 stock options outstanding which were excluded from the dilutive earnings per share calculation because the effect would have been anti-dilutive.

Basic weighted average shares outstanding is reconciled to diluted weighted average shares outstanding as follows (in thousands):

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 25, 2016	June 27, 2015	June 25, 2016	June 27, 2015
Basic weighted average shares outstanding	28,646	26,689	28,616	26,412
Dilutive stock options	343	281	363	299
Diluted weighted average shares outstanding	28,989	26,970	28,979	26,711

(3) Fair Value Measurements

Fair value is the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. Assets and liabilities are classified using a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value as follows:

Level 1 — Unadjusted quoted prices for identical instruments traded in active markets.

Level 2 — Observable market-based inputs or unobservable inputs corroborated by market data.

Level 3 — Unobservable inputs reflecting management's estimates and assumptions.

WINGSTOP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

The carrying values of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to their short-term nature. Fair value of debt is determined on a non-recurring basis, which results are summarized as follows (in thousands):

Fair Value Hierarchy	June 25, 2016		December 26, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value

Total debt obligations:

Senior Secured Term Loan Facility ⁽¹⁾ Level 3	\$85,500	\$87,005	\$95,500	\$95,500
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⁽¹⁾ The fair value of long-term debt was estimated using a discounted cash flow method based on a discount rate, reflecting the applicable credit spread.

The Company also measures certain non-financial assets at fair value on a non-recurring basis, primarily long-lived assets, intangible assets and goodwill, in connection with our periodic evaluations of such assets for potential impairment.

(4) Income Taxes

Income tax expense and the effective tax rate were \$2.4 million and 37.5%, respectively, for the thirteen weeks ended June 25, 2016, and \$0.4 million and 39.9%, respectively, for the thirteen weeks ended June 27, 2015. Income tax expense and the effective tax rate were \$5.0 million and 37.4%, respectively, for the twenty-six weeks ended June 25, 2016, and \$2.0 million and 38.6%, respectively, for the twenty-six weeks ended June 27, 2015.

(5) Debt Obligations

In February 2016, the Company made a \$10.0 million prepayment of the outstanding principal balance of its second amended and restated credit facility. As of June 25, 2016, the second amended and restated credit facility had an outstanding balance of \$85.5 million that bore interest at 3.13%. In connection with the prepayments of \$10.0 million and \$37.0 million in 2016 and 2015, respectively, under the second amended and restated credit facility, there are no scheduled principal payments due until maturity in March 2020.

The second amended and restated senior secured credit facility is secured by substantially all assets of the Company and requires compliance with certain financial and non-financial covenants. As of June 25, 2016, the Company was in compliance with all financial covenants.

On June 30, 2016, the Company completed a refinancing of its outstanding debt obligations. Refer to footnote 9 for a discussion of the subsequent event.

(6) Commitments and Contingencies

Wingstop Restaurants, Inc. ("WRI") leases certain office and retail space and equipment under non-cancelable operating leases with terms expiring at various dates through June 2031.

A schedule of future minimum rental payments required under our operating leases, excluding contingent rent, that have initial or remaining non-cancelable lease terms in excess of one year, as of June 25, 2016, is as follows (in thousands):

Remainder of fiscal year 2016	\$840
Fiscal year 2017	1,697
Fiscal year 2018	1,510
Fiscal year 2019	1,276
Fiscal year 2020	1,150
Fiscal year 2021	994
Thereafter	4,357
Total	\$11,824

Rent expense under cancelable and non-cancelable leases was \$456,000 and \$487,000 for the thirteen weeks ended June 25, 2016 and June 27, 2015, respectively, and \$921,000 and \$959,000 for the twenty-six weeks ended June 25, 2016 and June 27, 2015, respectively.

WINGSTOP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

The Company is subject to legal proceedings, claims and liabilities, such as employment-related claims and slip and fall cases, which arise in the ordinary course of business and are generally covered by insurance. In the opinion of management, the amount of ultimate liability with respect to those actions should not have a material adverse impact on financial position, results of operations or cash flows.

Many of the food products the Company purchases are subject to changes in the price and availability of food commodities, including chicken. The Company works with its suppliers and uses a mix of forward pricing protocols for certain items 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.

The Company's use of any forward pricing arrangements varies substantially from time to time and these arrangements tend to cover relatively short periods (i.e., typically twelve months or less). Such contracts are used in the normal purchases of our food products and not for speculative purposes, and as such are not required to be evaluated as derivative instruments. The Company does not enter into futures contracts or other derivative instruments.

(7) Stock-Based Compensation

The following table summarizes stock option activity (in thousands, except per share data):

	Stock Options	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Term
Outstanding - December 26, 2015	1,177	\$ 4.66	\$ 21,059	7.7
Granted	25	\$ 26.16		
Exercised	(99)	\$ 2.87		
Canceled	(94)	\$ 5.99		
Outstanding - June 25, 2016	1,009	\$ 5.24	\$ 22,178	7.3

The total grant-date fair value of stock options vested during the twenty-six weeks ended June 25, 2016 was \$566,000. The total intrinsic value of stock options exercised during the twenty-six weeks ended June 25, 2016 was \$2.2 million. The Company granted 11,724 shares of restricted stock awards during the twenty-six weeks ended June 25, 2016 with a weighted average grant date fair value of \$25.59. The fair value of the non-vested restricted stock awards is based on the closing price on the date of grant. All of the outstanding restricted stock awards are non-vested and will be recognized over a weighted average period of approximately 3.4 years.

Stock-based compensation is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the requisite employee service period (generally the vesting period of the grant). The Company recognized \$253,000 in stock compensation expense for the twenty-six weeks ended June 25, 2016, with a corresponding increase to additional paid-in-capital. As of June 25, 2016, there was \$3.0 million of total unrecognized stock compensation expense related to non-vested stock options and restricted stock awards, which will be recognized over a weighted average period of approximately 2.5 years. Stock compensation expense is included in SG&A in the Consolidated Statement of Operations.

(8) Business Segments

The Franchise segment consists of domestic and international franchise restaurants, which represent the majority of our system-wide restaurants. As of June 25, 2016, the franchise operations segment consisted of 894 restaurants operated by Wingstop franchisees in the United States and five countries outside of the United States as compared to 766 franchised restaurants in operation domestically and across six countries outside of the United States as of June 27, 2015. Franchise operations revenue consists primarily of franchise royalty revenue, sales of franchise and development fees and international territory fees.

As of June 25, 2016, the Company segment consisted of 20 company-owned restaurants, located only in the United States, as compared to 19 company-owned restaurants as of June 27, 2015. Company restaurant sales are for food and

beverage sales at company-owned restaurants. Company restaurant expenses are operating expenses at company-owned restaurants and include food, beverage, labor, benefits, utilities, rent and other operating costs.

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WINGSTOP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

Information on segments and a reconciliation to income before taxes are as follows (in thousands):

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 25, 2016	June 27, 2015	June 25, 2016	June 27, 2015
Revenue:				
Franchise segment	\$ 14,305	\$ 11,400	\$ 27,803	\$ 22,557
Company segment	8,418	7,832	16,994	15,701
Total segment revenue	\$ 22,723	\$ 19,232	\$ 44,797	\$ 38,258

Segment Profit:				
Franchise segment	\$ 6,223	\$ 5,022	\$ 12,595	\$ 10,076
Company segment	1,269	1,512	2,975	2,829
Total segment profit	7,492	6,534	15,570	12,905
Corporate and other ⁽¹⁾	252	4,128	702	5,548
Interest expense, net	707	1,177	1,468	1,964
Other (income) expense, net	10	257	38	286
Income before taxes	\$ 6,523	\$ 972	\$ 13,362	\$ 5,107

⁽¹⁾ Corporate and other includes corporate related items not allocated to reportable segments and consists primarily of management fees and expenses associated with the refinancings of our credit agreement and our public offerings.

(9) Subsequent Events

On June 30, 2016, the Company entered into a new senior secured credit facility (the "Credit Facility"), which replaced the Company's second amended and restated credit facility dated March 18, 2015. The Credit Facility includes a term loan facility in an aggregate amount of \$70.0 million and a revolving credit facility up to an aggregate amount of \$110.0 million. The Company used the proceeds from the Credit Facility and cash on hand to refinance \$85.5 million of indebtedness under the Company's March 2015 debt facility and to pay a dividend of \$83.2 million to its shareholders. Borrowings under the facility bear interest, payable quarterly, at our option, at the base rate plus a margin (1.00% to 2.00%, dependent on the Company's reported leverage ratio) or LIBOR plus a margin (2.00% to 3.00%, dependent on the Company's reported leverage ratio). The Credit Facility matures in June 2021. On June 30, 2016, the Board of Directors of the Company declared a special cash dividend of \$2.90 per share payable on July 15, 2016 to its holders of common stock of record as of July 12, 2016.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying unaudited consolidated financial statements and related notes in Item 1 and with the audited consolidated financial statements and the related notes included in our annual report on Form 10-K. The statements in this discussion regarding industry outlook, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements in this discussion are forward-looking statements. These forward-looking statements are subject to risks and uncertainties, including, but not limited to, the risks and uncertainties described in "Special Note Regarding Forward-Looking Statements" below and "Risk Factors" on page 15 of our annual report on Form 10-K. Our actual results may differ materially from those contained in or implied by any forward-looking statements.

We operate on a 52 or 53 week fiscal year ending on the last Saturday of each calendar year. Our fiscal quarters are comprised of 13 weeks, with the exception of the fourth quarter of a 53 week year, which contains 14 weeks. Fiscal years 2016 and 2015 contain 53 weeks and 52 weeks, respectively.

Overview

Wingstop is a high-growth franchisor and operator of restaurants that offer cooked-to-order, hand-sauced and tossed chicken wings.

We believe we pioneered the concept of wings as a "center-of-the-plate" item for all of our meal occasions. While other concepts include wings as add-on menu items or focus on wings in a bar or sports-centric setting, we are singularly focused on wings, fries and sides, which generate approximately 90% of our system-wide sales.

We offer 11 bold, distinctive and craveable flavors on our bone-in and boneless chicken wings paired with hand-cut, seasoned fries and sides made fresh daily. Our menu is highly-customizable for different dining occasions, and we believe it delivers a compelling value proposition for groups, families, and individuals. We have broad and growing consumer appeal anchored by a sought after core demographic of 18-34 year old Millennials, which we believe is a loyal consumer group that dines at fast casual restaurants more frequently.

Founded in 1994 in Garland, Texas, we have sold approximately 4 billion wings since our inception. Today, Wingstop is the largest fast casual chicken wings-focused restaurant chain in the world and has demonstrated strong, consistent growth. As of June 25, 2016, we had a total 914 restaurants across 39 states and six countries in our system. Our restaurant base is 98% franchised, with 894 franchised locations (including 63 international locations) and 20 company-owned restaurants.

Key Events

Initial Public Offering. On June 17, 2015, we completed our initial public offering of 6,670,000 shares of our common stock at a public offering price of \$19.00 per share. In the offering, we sold 2,150,000 shares and certain selling shareholders sold 4,520,000 shares. We received \$35.0 million in net proceeds, net of underwriting discounts and commissions, which we used to repay an aggregate amount of \$31.4 million of outstanding indebtedness under our senior secured credit facility and to pay an aggregate amount of \$3.3 million in connection with the termination of our management agreement with Roark Capital Management. We did not receive any of the proceeds from the sale of shares by the selling stockholders.

Follow-on Offering. On March 9, 2016, we completed our follow-on offering of 6,612,500 shares of our common stock at a public offering price of \$24.00 per share, which included 862,500 shares sold to the underwriters pursuant to their over-allotment option. All of these shares were offered by certain selling stockholders. We did not receive any proceeds from the offering.

Key Performance Indicators

Key measures that we use in evaluating our restaurants and assessing our business include the following:

Number of restaurants. Management reviews the number of new restaurants, the number of closed restaurants, and the number of acquisitions and divestitures of restaurants to assess net new restaurant growth, system-wide sales, royalty and franchise fee revenue and company-owned restaurant sales.

	Thirteen Weeks Ended June 27, 2016		Twenty-Six Weeks Ended June 27, 2015	
Domestic Franchised Activity:				
Beginning of period	796	681	767	652
Openings	36	34	65	63
Closures	(1)	(1)	(1)	(1)
Restaurants end of period	831	714	831	714
Domestic Company-Owned Activity:				
Beginning of period	19	19	19	19
Openings	1	—	1	—
Closures	—	—	—	—
Restaurants end of period	20	19	20	19
Total Domestic Restaurants	851	733	851	733
International Franchised Activity:				
Beginning of period	58	45	59	41
Openings	5	7	7	12
Closures	—	—	(3)	(1)
Restaurants end of period	63	52	63	52
Total System-wide Restaurants	914	785	914	785

System-wide sales. System-wide sales represents net sales for all of our company-owned and franchised restaurants, as reported by franchisees. While we do not record franchised restaurant sales as revenue, our royalty revenue is calculated based on a percentage of franchised restaurant sales, which generally range from 5.0% to 6.0% of gross sales net of discounts. This measure allows management to better assess changes in our royalty revenue, our overall store performance, the health of our brand and the strength of our market position relative to competitors. Our system-wide sales growth is driven by new restaurant openings as well as increases in same store sales.

Average unit volume (AUV). AUV consists of the average annual sales of all restaurants that have been open for a trailing 52-week period or longer. This measure is calculated by dividing sales during the applicable period for all restaurants being measured by the number of restaurants being measured. Domestic AUV includes revenue from both company-owned and franchised restaurants. AUV allows management to assess our company-owned and franchised restaurant economics. Changes in AUV are primarily driven by increases in same store sales and are also influenced by opening new restaurants.

Same store sales. Same store sales reflects the change in year-over-year sales for the same store base. We define the same store base to include those restaurants open for at least 52 full weeks. This measure highlights the performance of existing restaurants, while excluding the impact of new restaurant openings and closures. We review same store sales for company-owned restaurants as well as system-wide restaurants. Same store sales are driven by changes in transactions and average transaction size. Transaction size changes are driven by price changes or mix shifts from either a change in the number of items purchased or shifts into higher/lower priced categories of items.

Adjusted EBITDA. We define Adjusted EBITDA as net income before interest expense, net, income tax expense, and depreciation and amortization, with further adjustments for management fees and expense reimbursement, transaction costs, gains and losses

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on the disposal of assets, stock-based compensation expense and management agreement termination fees. Adjusted EBITDA may not be comparable to other similarly titled captions of other companies due to differences in methods of calculation. For a reconciliation of net income to EBITDA and Adjusted EBITDA see the table below. For further discussion of EBITDA and Adjusted EBITDA as non-GAAP measures and how we utilize them see footnote 2 below. The following table sets forth our key performance indicators as well as our total revenue and net income for the thirteen and twenty-six weeks ended June 25, 2016 and June 27, 2015 (dollars in thousands):

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 25, 2016	June 27, 2015	June 25, 2016	June 27, 2015
Number of system-wide restaurants open at end of period	914	785	914	785
System-wide sales (1)	\$235,285	\$202,793	\$471,090	\$402,010
Domestic restaurant AUV	\$1,123	\$1,110	\$1,123	\$1,110
System-wide domestic same store sales growth	3.1	% 9.0	% 3.8	% 9.9
Company-owned domestic same store sales growth	6.8	% 9.5	% 7.9	% 9.5
Total revenue	\$22,723	\$19,232	\$44,797	\$38,258
Net income	\$4,079	\$584	\$8,369	\$3,138
Adjusted EBITDA (2)	\$8,309	\$7,247	\$17,226	\$14,441

(1) The percentage of system-wide sales attributable to company-owned restaurants was 3.6% and 3.9% for the thirteen and twenty-six weeks ended June 25, 2016 and June 27, 2015, respectively. The remainder was generated by franchised restaurants, as reported by our franchisees.

(2) EBITDA and Adjusted EBITDA are supplemental measures of our performance that are not required by, or presented in accordance with, GAAP. EBITDA and Adjusted EBITDA are not measurements of our financial performance under GAAP and should not be considered as an alternative to net income or any other performance measure derived in accordance with GAAP, or as an alternative to cash flows from operating activities as a measure of our liquidity.

We define "EBITDA" as net income before interest expense, net, income tax expense, and depreciation and amortization. We define "Adjusted EBITDA" as EBITDA further adjusted for management fees and expense reimbursement, management agreement termination fees, transaction costs, gains and losses on the disposal of assets, and stock-based compensation expense. There were no gains and losses on disposal of assets during the fiscal quarters ended June 25, 2016 and June 27, 2015. We caution investors that amounts presented in accordance with our definitions of EBITDA and Adjusted EBITDA may not be comparable to similar measures disclosed by our competitors, because not all companies and analysts calculate EBITDA and Adjusted EBITDA in the same manner. We present EBITDA and Adjusted EBITDA because we consider them to be important supplemental measures of our performance and believe they are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. Management believes that investors' understanding of our performance is enhanced by including these non-GAAP financial measures as a reasonable basis for comparing our ongoing results of operations. Many investors are interested in understanding the performance of our business by comparing our results from ongoing operations period over period and would ordinarily add back non-cash expenses such as depreciation and amortization, as well as items that are not part of normal day-to-day operations of our business.

Management uses EBITDA and Adjusted EBITDA:

- as a measurement of operating performance because they assist us in comparing the operating performance of our restaurants on a consistent basis, as they remove the impact of items not directly resulting from our core operations;
- for planning purposes, including the preparation of our internal annual operating budget and financial projections;
- to evaluate the performance and effectiveness of our operational strategies;
- to evaluate our capacity to fund capital expenditures and expand our business; and
- to calculate incentive compensation payments for our employees, including assessing performance under our annual incentive compensation plan and determining the vesting of performance shares.

By providing these non-GAAP financial measures, together with a reconciliation to the most comparable GAAP measure, we believe we are enhancing investors' understanding of our business and our results of operations, as well as assisting investors in evaluating how well we are executing our strategic initiatives. Items excluded from these non-GAAP measures are significant

components in understanding and assessing financial performance. In addition, the instruments governing our indebtedness use EBITDA (with additional adjustments) to measure our compliance with covenants such as fixed charge coverage, lease adjusted leverage and debt incurrence. EBITDA and Adjusted EBITDA have limitations as analytical tools, and should not be considered in isolation, or as an alternative to, or a substitute for net income or other financial statement data presented in our consolidated financial statements as indicators of financial performance. Some of the limitations are:

- such measures do not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments;
- such measures do not reflect changes in, or cash requirements for, our working capital needs;
- such measures do not reflect the interest expense, or the cash requirements necessary to service interest or principal payments on our debt;
- such measures do not reflect our tax expense or the cash requirements to pay our taxes;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future and such measures do not reflect any cash requirements for such replacements; and
- other companies in our industry may calculate such measures differently than we do, limiting their usefulness as comparative measures.

Due to these limitations, EBITDA and Adjusted EBITDA should not be considered as measures of discretionary cash available to us to invest in the growth of our business. We compensate for these limitations by relying primarily on our GAAP results and using these non-GAAP measures only supplementally. As noted in the table below, Adjusted EBITDA includes adjustments for transaction costs, gains and losses on disposal of assets and stock-based compensation, among other items. It is reasonable to expect that these items will occur in future periods. However, we believe these adjustments are appropriate because the amounts recognized can vary significantly from period to period, do not directly relate to the ongoing operations of our restaurants and complicate comparisons of our internal operating results and operating results of other restaurant companies over time. In addition, Adjusted EBITDA includes adjustments for other items that we do not expect to regularly record, such as management fees and expense reimbursement. Each of the normal recurring adjustments and other adjustments described in this paragraph and in the reconciliation table below help management with a measure of our core operating performance over time by removing items that are not related to day-to-day operations.

The following table reconciles net income to EBITDA and Adjusted EBITDA for the thirteen and twenty-six weeks ended June 25, 2016 and June 27, 2015 (in thousands):

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 25, 2016	June 27, 2015	June 25, 2016	June 27, 2015
Net income	\$4,079	\$ 584	\$8,369	\$3,138
Interest expense, net	707	1,177	1,468	1,964
Income tax expense	2,444	388	4,993	1,969
Depreciation and amortization	727	645	1,441	1,308
EBITDA	\$7,957	\$ 2,794	\$16,271	\$8,379
Additional adjustments:				
Management agreement termination fee ^(a)	—	3,297	—	3,297
Management fees ^(b)	—	120	—	237
Transaction costs ^(c)	252	883	702	2,186
Stock-based compensation expense ^(d)	100	153	253	342
Adjusted EBITDA	\$8,309	\$ 7,247	\$17,226	\$14,441

(a) Represents a one-time fee of \$3.3 million that was paid in consideration for the termination of our management agreement with Roark Capital Management, LLC during the thirteen and twenty-six weeks ended June 27, 2015.

(b) Includes management fees and other out-of-pocket expenses paid to Roark Capital Management, LLC.

(c) Represents costs and expenses related to refinancings of our credit agreement and our public offerings; all transaction costs are included in SG&A with the exception of \$172,000 that is included in Other expense, net during the thirteen and twenty-six weeks ended June 27, 2015.

(d) Includes non-cash, stock-based compensation.

Results of Operations

Thirteen Weeks Ended June 25, 2016 compared to Thirteen Weeks Ended June 27, 2015

The following table sets forth our results of operations for the thirteen weeks ended June 25, 2016 and June 27, 2015 (in thousands):

	Thirteen Weeks Ended		Increase / (Decrease)	
	June 25, 2016	June 27, 2015	\$	%
Revenue:				
Royalty revenue and franchise fees	\$14,305	\$11,400	\$2,905	25.5 %
Company-owned restaurant sales	8,418	7,832	586	7.5 %
Total revenue	22,723	19,232	3,491	18.2 %
Costs and expenses:				
Cost of sales ⁽¹⁾	6,184	5,516	668	12.1 %
Selling, general and administrative	8,572	10,665	(2,093)	(19.6)%
Depreciation and amortization	727	645	82	12.7 %
Total costs and expenses	15,483	16,826	(1,343)	(8.0)%
Operating income	7,240	2,406	4,834	200.9 %
Interest expense, net	707	1,177	(470)	(39.9)%
Other expense, net	10	257	(247)	(96.1)%
Income before income tax expense	6,523	972	5,551	571.1 %
Income tax expense	2,444	388	2,056	529.9 %
Net income	\$4,079	\$584	\$3,495	598.5 %

⁽¹⁾ Exclusive of depreciation and amortization, shown separately.

Total revenue. During the thirteen weeks ended June 25, 2016, total revenue was \$22.7 million, an increase of \$3.5 million, or 18.2%, compared to \$19.2 million in the comparable period in 2015.

Royalty revenue and franchise fees. During the thirteen weeks ended June 25, 2016, royalty revenue and franchise fees were \$14.3 million, an increase of \$2.9 million, or 25.5%, compared to \$11.4 million in the comparable period in 2015. Royalty revenue increased \$1.8 million primarily due to an increase in the number of franchised restaurants from 766 at June 27, 2015 to 894 at June 25, 2016 and domestic same store sales growth of 3.1%. Franchise fees were comparable to the prior year period, as 41 franchised restaurants opened during both the thirteen weeks ended June 25, 2016 and June 27, 2015. Other revenue increased \$1.0 million due to contributions received for the franchisee convention. The convention is held every 18 months, and there was no convention in 2015.

Company-owned restaurant sales. During the thirteen weeks ended June 25, 2016, company-owned restaurant sales were \$8.4 million, an increase of \$0.6 million, compared to \$7.8 million in the comparable period in 2015. The increase is the result of company-owned domestic same store sales growth of 6.8% and the opening of one company-owned restaurant during the thirteen weeks ended June 25, 2016.

Cost of sales. During the thirteen weeks ended June 25, 2016, cost of sales was \$6.2 million, an increase of \$0.7 million, or 12.1%, compared to \$5.5 million in the comparable period in 2015. Cost of sales as a percentage of company-owned restaurant sales was 73.5% in the quarter ended June 25, 2016 compared to 70.5% in the prior year.

The table below presents the major components of cost of sales (dollars in thousands):

	Thirteen Weeks Ended					
	June 25, 2016	As a % of company-owned restaurant sales		June 27, 2015	As a % of company-owned restaurant sales	
Cost of sales:						
Food, beverage and packaging costs	\$3,213	38.2	%	\$2,857	36.5	%
Labor costs	1,869	22.2	%	1,620	20.7	%
Other restaurant operating expenses	1,440	17.1	%	1,215	15.5	%
Vendor rebates	(338)	(4.0)%	(176)	(2.2)%
Total cost of sales	\$6,184	73.5	%	\$5,516	70.5	%

Food, beverage and packaging costs as a percentage of company-owned restaurant sales were 38.2% in the thirteen weeks ended June 25, 2016 compared to 36.5% in the comparable period in 2015. The increase is primarily due to a 7.8% increase in commodities rates for bone-in chicken wings as compared to the prior year period.

Labor costs as a percentage of company-owned restaurant sales were 22.2% for the thirteen weeks ended June 25, 2016 compared to 20.7% in the comparable period in 2015. The increase as a percentage of company-owned restaurant sales is primarily due to investments in roster sizes and staffing to support the continued sales growth in our company-owned restaurants.

Other restaurant operating expenses as a percentage of company-owned restaurant sales were 17.1% for the thirteen weeks ended June 25, 2016 compared to 15.5% in the comparable period in 2015. The increase as a percentage of company-owned restaurant sales is primarily due to pre-opening expenses associated with the opening of a new company-owned restaurant during the thirteen weeks ended June 25, 2016, as well as increased rent expense associated with the expansion of one restaurant.

Vendor rebates increased \$0.2 million primarily due to contributions received from vendors during the thirteen weeks ended June 25, 2016 related to the franchisee convention.

Selling, general and administrative. During the thirteen weeks ended June 25, 2016, SG&A expense was \$8.6 million, a decrease of \$2.1 million compared to \$10.7 million in the comparable period in 2015. SG&A expense included nonrecurring costs of \$0.3 million related to the refinancing of our credit agreement that was completed subsequent to close of the current fiscal quarter, compared to nonrecurring expenses in the prior year period, which included a one-time fee of \$3.3 million, paid in consideration for the termination of our management agreement with Roark Capital Management, \$0.7 million of transaction expenses associated with our initial public offering, and \$0.1 million of management fees paid to Roark Capital Management. The decrease in non-recurring costs was partially offset by \$1.1 million of expenses incurred associated with our franchisee convention and increases related to headcount additions and other recurring costs associated with being a public company during the thirteen weeks ended June 25, 2016.

Depreciation and amortization. During the thirteen weeks ended June 25, 2016, depreciation expense was \$0.7 million, an increase of \$0.1 million, or 12.7%, compared to \$0.6 million in the comparable period in 2015.

Interest expense, net. During the thirteen weeks ended June 25, 2016, interest expense was \$0.7 million, a decrease of \$0.5 million, or 39.9%, compared to \$1.2 million in the comparable period in 2015. The decrease is primarily due to a decrease in the principal amount of indebtedness and a decrease in the applicable interest rate associated with the credit facility as compared to the prior year period.

Other expense, net. During the thirteen weeks ended June 25, 2016, other expense, net decreased \$0.2 million, primarily attributable to \$172,000 of previously capitalized financing costs which were expensed in the prior year period as a result of the \$32.0 million prepayment of long-term debt under our second amended and restated credit facility in June 2015.

Income tax expense. Income tax expense was \$2.4 million in the thirteen weeks ended June 25, 2016, yielding an annual effective tax rate of 37.5%, compared to an annual effective tax rate of 39.9% in the prior year. The reduction in the rate is largely driven by a decrease in the effective state rate, driven by a shift in state apportionment rates and total revenue mix.

Segment results. The following table sets forth our revenue and operating profit for each of our segments for the period presented (dollars in thousands):

	Thirteen Weeks Ended		Increase / (Decrease)	
	June 25, 2016	June 27, 2015	\$	%
Revenue:				
Franchise segment	\$14,305	\$11,400	\$2,905	25.5 %
Company segment	8,418	7,832	586	7.5 %
Total segment revenue	\$22,723	\$19,232	\$3,491	18.2 %
Segment Profit:				
Franchise segment	\$6,223	\$5,022	\$1,201	23.9 %
Company segment	1,269	1,512	(243)	(16.1)%
Total segment profit	\$7,492	\$6,534	\$958	14.7 %

Franchise segment. During the thirteen weeks ended June 25, 2016, franchise segment revenue was \$14.3 million, an increase of \$2.9 million, or 25.5%, compared to \$11.4 million in the comparable period in 2015. The increase was due to 128 net franchise restaurant openings since June 27, 2015, domestic same store sales growth of 3.1%, and vendor contributions of \$0.9 million received for the franchisee convention.

During the thirteen weeks ended June 25, 2016, franchise segment profit was \$6.2 million, an increase of \$1.2 million, or 23.9%, compared to \$5.0 million in the comparable period in 2015 primarily due to the growth in revenue.

Company segment. During the thirteen weeks ended June 25, 2016, company-owned restaurant sales were \$8.4 million, an increase of \$0.6 million, compared to \$7.8 million in the comparable period in 2015. The increase is primarily due to company-owned domestic same store sales growth of 6.8% and the opening of one company-owned restaurant during the thirteen weeks ended June 25, 2016.

During the thirteen weeks ended June 25, 2016, company segment profit was \$1.3 million, a decrease of \$0.2 million, or 16.1%, compared to \$1.5 million in the comparable period in 2015. The decrease was primarily due to a 7.8% increase in commodities rates for bone-in-chicken wings, investments in roster sizes and staffing to support the continued sales growth in our company-owned restaurants, and increases in rent and pre-opening expenses as compared to the prior year period.

Twenty-Six Weeks Ended June 25, 2016 compared to Twenty-Six Weeks Ended June 27, 2015

The following table sets forth our results of operations for the twenty-six weeks ended June 25, 2016 and June 27, 2015 (in thousands):

	Twenty-Six Weeks Ended		Increase / (Decrease)		
	June 25, 2016	June 27, 2015	\$	%	
Revenue:					
Royalty revenue and franchise fees	\$27,803	\$22,557	\$5,246	23.3	%
Company-owned restaurant sales	16,994	15,701	1,293	8.2	%
Total revenue	44,797	38,258	6,539	17.1	%
Costs and expenses:					
Cost of sales ⁽¹⁾	12,261	11,252	1,009	9.0	%
Selling, general and administrative	16,227	18,341	(2,114)	(11.5)	%
Depreciation and amortization	1,441	1,308	133	10.2	%
Total costs and expenses	29,929	30,901	(972)	(3.1)	%
Operating income	14,868	7,357	7,511	102.1	%
Interest expense, net	1,468	1,964	(496)	(25.3)	%
Other expense, net	38	286	(248)	(86.7)	%
Income before income tax expense	13,362	5,107	8,255	161.6	%
Income tax expense	4,993	1,969	3,024	153.6	%
Net income	\$8,369	\$3,138	\$5,231	166.7	%

⁽¹⁾ Exclusive of depreciation and amortization, shown separately.

Total revenue. During the twenty-six weeks ended June 25, 2016, total revenue was \$44.8 million, an increase of \$6.5 million, or 17.1%, compared to \$38.3 million in the comparable period in 2015.

Royalty revenue and franchise fees. During the twenty-six weeks ended June 25, 2016, royalty revenue and franchise fees were \$27.8 million, an increase of \$5.2 million, or 23.3%, compared to \$22.6 million in the comparable period in 2015. Royalty revenue increased \$3.8 million primarily due to an increase in the number of franchised restaurants from 766 at June 27, 2015 to 894 at June 25, 2016 and domestic same store sales growth of 3.8%. Franchise fees increased \$0.3 million primarily due to fees recognized from the termination of our franchise agreements in connection with our exit from the Russian market. Other revenue increased \$1.1 million due to vendor contributions received for the franchisee convention.

Company-owned restaurant sales. During the twenty-six weeks ended June 25, 2016, company-owned restaurant sales were \$17.0 million, an increase of \$1.3 million, compared to \$15.7 million in the comparable period in 2015. The increase is the result of company-owned domestic same store sales growth of 7.9% and the opening of one company-owned restaurant during the twenty-six weeks ended June 25, 2016.

Cost of sales. During the twenty-six weeks ended June 25, 2016, cost of sales was \$12.3 million, an increase of \$1.0 million, or 9.0%, compared to \$11.3 million in the comparable period in 2015. Cost of sales as a percentage of company-owned restaurant sales was 72.1% in the quarter ended June 25, 2016 compared to 71.7% in the prior year.

The table below presents the major components of cost of sales (dollars in thousands):

	Twenty-Six Weeks Ended					
	June 25, 2016	As a % of company-owned restaurant sales			June 27, 2015	As a % of company-owned restaurant sales
Cost of sales:						
Food, beverage and packaging costs	\$6,425	37.8	%	\$5,922	37.7	%
Labor costs	3,607	21.2	%	3,244	20.7	%
Other restaurant operating expenses	2,755	16.2	%	2,438	15.5	%
Vendor rebates	(526)	(3.1)%	(352)	(2.2)%
Total cost of sales	\$12,261	72.1	%	\$11,252	71.7	%

Food, beverage and packaging costs as a percentage of company-owned restaurant sales were 37.8% in the twenty-six weeks ended June 25, 2016 compared to 37.7% in the comparable period in 2015. The increase is primarily due to a 2.9% increase in commodities rates for bone-in chicken wings.

Labor costs as a percentage of company-owned restaurant sales were 21.2% for the twenty-six weeks ended June 25, 2016 compared to 20.7% in the comparable period in 2015. The increase as a percentage of company-owned restaurant sales is primarily due to investments in roster sizes and staffing to support the continued sales growth in our company-owned restaurants.

Other restaurant operating expenses as a percentage of company-owned restaurant sales were 16.2% for the twenty-six weeks ended June 25, 2016 compared to 15.5% in the comparable period in 2015. The increase as a percentage of company-owned restaurant sales is primarily due to increased rent expense over the prior year, as well as pre-opening expenses associated with the opening of a new company-owned restaurant during the twenty-six weeks ended June 25, 2016.

Vendor rebates increased \$0.2 million primarily due to a vendor rebate received during the twenty-six weeks ended June 25, 2016 related to the franchisee convention.

Selling, general and administrative. During the twenty-six weeks ended June 25, 2016, SG&A expense was \$16.2 million, a decrease of \$2.1 million compared to \$18.3 million in the comparable period in 2015. SG&A expense included nonrecurring costs of \$0.7 million related to the follow-on offering incurred during the current period and the refinancing of our credit agreement, compared to nonrecurring expenses in the prior year period, which included a one-time fee of \$3.3 million, paid in consideration for the termination of our management agreement with Roark Capital Management, \$2.0 million of nonrecurring costs associated with our preparation to become a public company, and \$0.2 million of management fees paid to Roark Capital Management. The decrease in non-recurring costs in the current period was partially offset by \$1.1 million of expenses related to the franchisee convention and increases related to headcount additions and other recurring costs associated with being a public company.

Depreciation and amortization. During the twenty-six weeks ended June 25, 2016, depreciation expense was \$1.4 million, an increase of \$0.1 million, or 10.2%, compared to \$1.3 million in the comparable period in 2015

Interest expense, net. During the twenty-six weeks ended June 25, 2016, interest expense was \$1.5 million, a decrease of \$0.5 million, or 25.3%, compared to \$2.0 million in the comparable period in 2015. The decrease is primarily due to a decrease in the principal amount of indebtedness and a decrease in the applicable interest rate associated with the credit facility as compared to the prior year period.

Other expense, net. During the twenty-six weeks ended June 25, 2016, other expense, net decreased \$0.2 million, primarily attributable to \$172,000 of previously capitalized financing costs which were expensed in the prior year period as a result of the \$32.0 million prepayment of long-term debt under our second amended and restated credit facility in June 2015.

Income tax expense. Income tax expense was \$5.0 million in the twenty-six weeks ended June 25, 2016, yielding an annual effective tax rate of 37.4%, compared to an annual effective tax rate of 38.6% in the prior year. The reduction in the rate is largely driven by a decrease in the effective state rate, driven by a shift in state apportionment rates and total revenue mix.

Segment results. The following table sets forth our revenue and operating profit for each of our segments for the period presented (dollars in thousands):

	Twenty-Six Weeks Ended		Increase / (Decrease)	
	June 25, 2016	June 27, 2015	\$	%
Revenue:				
Franchise segment	\$27,803	\$22,557	\$5,246	23.3%
Company segment	16,994	15,701	1,293	8.2%
Total segment revenue	\$44,797	\$38,258	\$6,539	17.1%

Segment Profit:

Franchise segment	\$12,595	\$10,076	\$2,519	25.0%
Company segment	2,975	2,829	146	5.2%
Total segment profit	\$15,570	\$12,905	\$2,665	20.7%

Franchise segment. During the twenty-six weeks ended June 25, 2016, franchise segment revenue was \$27.8 million, an increase of \$5.2 million, or 23.3%, compared to \$22.6 million in the comparable period in 2015. The increase was due to 128 net franchise restaurant openings since June 27, 2015, domestic same store sales growth of 3.8%, and vendor contributions of \$0.9 million received for the franchisee convention.

During the twenty-six weeks ended June 25, 2016, franchise segment profit was \$12.6 million, an increase of \$2.5 million, or 25.0%, compared to \$10.1 million in the comparable period in 2015 primarily due to the growth in revenue.

Company segment. During the twenty-six weeks ended June 25, 2016, company-owned restaurant sales were \$17.0 million, an increase of \$1.3 million, compared to \$15.7 million in the comparable period in 2015. The increase is primarily due to company-owned domestic same store sales growth of 7.9% and the opening of one company-owned restaurant during the twenty-six weeks ended June 25, 2016.

During the twenty-six weeks ended June 25, 2016, company segment profit was \$3.0 million, an increase of \$0.1 million, or 5.2%, compared to \$2.8 million in the comparable period in 2015. The increase was primarily due to the company-owned same store sales increase of 7.9% and menu price increases, which were partially offset by a 2.9% increase in commodities rates for bone-in chicken wings and investments in roster sizes and staffing to support the continued sales growth in our company-owned restaurants.

Liquidity and Capital Resources

General. Our primary sources of liquidity and capital resources are cash provided from operating activities, cash and cash equivalents on hand, and proceeds from the incurrence of debt. Our primary requirements for liquidity and capital are working capital and general corporate needs. Historically, we have operated with minimal positive working capital or negative working capital. We believe that our sources of liquidity and capital will be sufficient to finance our continued operations and growth strategy.

The following table shows summary cash flows information for the twenty-six weeks ended June 25, 2016 and June 27, 2015 (in thousands):

	Twenty-Six Weeks Ended	
	June 25, 2016	June 27, 2015
Net cash provided by (used in):		
Operating activities	\$9,347	\$863
Investing activities	(975)	(333)
Financing activities	(9,048)	(5,378)
Net change in cash and cash equivalents	\$(676)	\$(4,848)

Operating activities. Our cash flows from operating activities are principally driven by sales at both franchise restaurants and company-owned restaurants, as well as franchise and development fees. We collect franchise royalties from our franchise owners on a weekly basis. Restaurant-level operating costs at our company-owned restaurants, unearned franchise and development fees and corporate overhead costs also impact our cash flows from operating activities.

Net cash provided by operating activities was \$9.3 million in the twenty-six weeks ended June 25, 2016, an increase of \$8.5 million, from \$0.9 million in 2015 primarily due to an increase in net income from the prior period and working capital changes.

Investing activities. Our net cash used in investing activities was \$1.0 million in the twenty-six weeks ended June 25, 2016, an increase of \$0.6 million, from \$0.3 million used in investing activities in 2015. The increase was due to an increase in capital expenditures over the comparable period.

Financing activities. Our net cash used in financing activities was \$9.0 million in the twenty-six weeks ended June 25, 2016, an increase of \$3.7 million, from cash used in financing activities of \$5.4 million in 2015. The Company made principal payments of \$10.0 million in the current period. In the twenty-six weeks ended June 27, 2015, the Company completed a debt refinancing, increasing the debt balance by net borrowings of \$6.8 million. In June 2015, we completed our initial public offering, in which we received proceeds, net of underwriter discounts and commissions and offering expenses, of approximately \$35.0 million. The proceeds, along with available cash on hand, were used for a subsequent dividend payout to shareholders totaling \$48.0 million.

Senior secured credit facility. In March 2015, we amended and restated the senior secured credit facility. In connection with the amended and restated credit facility, the facility size was increased to \$137.5 million and is comprised of a \$132.5 million term loan and a \$5.0 million revolving credit facility. The previous credit facility included a term loan of \$102.5 million and a revolving credit facility of \$5.0 million. We used a portion of the proceeds from the amended and restated credit facility and cash on hand to pay a dividend of \$48.0 million to our stockholders. Borrowings under the credit facility bear interest, payable quarterly, at the base rate plus a margin (1.50% to 2.25%, dependent on our reported leverage ratio) or LIBOR plus a margin (2.50% to 3.25%, dependent on our reported leverage ratio), at the Company's discretion. The second amended and restated credit facility also extended the maturity date of the senior secured credit facility from December 2018 to March 2020. Subject to certain conditions, the Company has the ability to increase the size of the second senior secured credit facility by up to an additional \$30.0 million.

On June 11, 2015, we completed our initial public offering. After underwriter discounts and commissions and offering expenses, we received net proceeds from the offering of approximately \$35.0 million. A portion of these proceeds were used to prepay \$32.0 million of the outstanding balance under our second amended and restated credit facility. We made additional prepayments of \$5.0 million and \$10.0 million in the third quarter of 2015 and the first quarter of 2016, respectively. As a result of these payments, we have no scheduled principal payments due under our senior secured credit facility until maturity in March 2020.

The senior secured credit facility is secured by substantially all of our assets and requires compliance with certain financial and non-financial covenants, including fixed charge coverage and leverage. We were in compliance with these covenants as of June 25, 2016. Failure to comply with these covenants in the future could cause an acceleration of outstanding amounts under the term loan and restrict us from borrowing under the revolving credit facility to fund our liquidity requirements.

Contractual Obligations

In connection with our prepayments of \$10.0 million and \$37.0 million of long-term debt under our second amended and restated credit facility during 2016 and 2015, respectively, we have no scheduled principal payments due until maturity in March 2020.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements or obligations as of June 25, 2016.

Critical Accounting Policies and Estimates

Our consolidated financial statements and accompanying notes are prepared in accordance with GAAP. Preparing consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and assumptions are affected by the application of our

accounting policies. Critical accounting estimates are those that require application of management's most difficult, subjective or complex judgments, often as a result of matters that are inherently uncertain and may change in subsequent periods. While we apply our judgment based on assumptions believed to be reasonable under the circumstances, actual results could vary from these assumptions. It is possible that materially different amounts would be reported using different assumptions. Our critical accounting policies and estimates are identified and

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described in our annual consolidated financial statements and the related notes included in our Form 10-K, and there have been no material changes since the filing of our annual report on Form 10-K.

Recent Accounting Pronouncements

JOBS Act. We qualify as an “emerging growth company” pursuant to the provisions of the JOBS Act. For as long as we are an “emerging growth company,” we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not “emerging growth companies,” including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, reduced disclosure obligations relating to the presentation of financial statements in Management’s Discussion and Analysis of Financial Condition and Results of Operations, exemptions from the requirements of holding advisory “say-on-pay” votes on executive compensation and shareholder advisory votes on golden parachute compensation. We have availed ourselves of the reduced reporting obligations and executive compensation disclosure in the Registration Statement, and expect to continue to avail ourselves of the reduced reporting obligations available to emerging growth companies in future filings.

In addition, an emerging growth company can delay its adoption of certain accounting standards until those standards would otherwise apply to private companies. However, we are choosing to “opt out” of this extended transition period, and as a result, we plan to comply with any new or revised accounting standards on the relevant dates on which non-emerging growth companies must adopt the standards. Section 107 of the JOBS Act provides that our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

Special Note Regarding Forward-Looking Statements

This document contains statements about future events and expectations that constitute forward-looking statements.

Forward-looking state