

Wingstop Inc.  
Form 10-Q  
November 06, 2015  
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  
x OF 1934

For the quarterly period ended September 26, 2015

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

(State or other jurisdiction of incorporation or  
organization)

47-3494862

(IRS Employer Identification No.)

5501 LBJ Freeway, 5th Floor,

Dallas, Texas

(Address of principal executive offices)

75240

(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 x 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). x 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

x Smaller reporting company

..

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(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 November 2, 2015 there were 28,581,182 shares of common stock outstanding.

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TABLE OF CONTENTS

|          | Page      |
|----------|-----------|
| PART I   | <u>3</u>  |
| Item 1.  | <u>3</u>  |
|          | <u>3</u>  |
|          | <u>4</u>  |
|          | <u>5</u>  |
|          | <u>6</u>  |
|          | <u>7</u>  |
| Item 2.  | <u>17</u> |
| Item 3.  | <u>30</u> |
| Item 4.  | <u>31</u> |
| PART II  | <u>31</u> |
| Item 1.  | <u>31</u> |
| Item 1A. | <u>31</u> |
| Item 2.  | <u>31</u> |
| Item 3.  | <u>31</u> |
| Item 4.  | <u>31</u> |
| Item 5.  | <u>31</u> |
| Item 6.  | <u>32</u> |
|          | <u>33</u> |

## PART I. FINANCIAL INFORMATION.

## Item 1. Financial Statements.

## WINGSTOP INC. AND SUBSIDIARIES

## Consolidated Balance Sheets

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

|                                                                                                                                                                                     | September 26,<br>2015<br>(Unaudited) | December 27,<br>2014 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|----------------------|
| Assets                                                                                                                                                                              |                                      |                      |
| Current assets                                                                                                                                                                      |                                      |                      |
| Cash and cash equivalents                                                                                                                                                           | \$5,717                              | \$9,723              |
| Accounts receivable, net                                                                                                                                                            | 2,404                                | 2,380                |
| Prepaid expenses and other current assets                                                                                                                                           | 3,819                                | 2,848                |
| Advertising fund assets, restricted                                                                                                                                                 | 3,410                                | 3,170                |
| Total current assets                                                                                                                                                                | 15,350                               | 18,121               |
| Property and equipment, net                                                                                                                                                         | 4,510                                | 3,622                |
| Goodwill                                                                                                                                                                            | 45,128                               | 45,128               |
| Trademarks                                                                                                                                                                          | 32,700                               | 32,700               |
| Customer relationships, net                                                                                                                                                         | 18,639                               | 19,668               |
| Other non-current assets                                                                                                                                                            | 859                                  | 997                  |
| Total assets                                                                                                                                                                        | \$117,186                            | \$120,236            |
| Liabilities and stockholders' deficit                                                                                                                                               |                                      |                      |
| Current liabilities                                                                                                                                                                 |                                      |                      |
| Accounts payable                                                                                                                                                                    | \$1,331                              | \$1,502              |
| Other current liabilities                                                                                                                                                           | 7,057                                | 6,895                |
| Current portion of debt                                                                                                                                                             | —                                    | 4,869                |
| Advertising fund liabilities, restricted                                                                                                                                            | 3,410                                | 3,170                |
| Total current liabilities                                                                                                                                                           | 11,798                               | 16,436               |
| Long-term debt, net of current                                                                                                                                                      | 95,500                               | 88,852               |
| Deferred revenues, net of current                                                                                                                                                   | 7,435                                | 7,159                |
| Deferred income tax liabilities, net                                                                                                                                                | 14,657                               | 15,250               |
| Other non-current liabilities                                                                                                                                                       | 2,100                                | 1,533                |
| Total liabilities                                                                                                                                                                   | 131,490                              | 129,230              |
| Commitments and contingencies (see note 8)                                                                                                                                          |                                      |                      |
| Stockholders' deficit                                                                                                                                                               |                                      |                      |
| Common stock, \$0.01 par value; 100,000,000 shares authorized; 28,581,182 and 26,101,755 shares issued and outstanding as of September 26, 2015 and December 27, 2014, respectively | 286                                  | 261                  |
| Additional paid-in-capital                                                                                                                                                          | 36,034                               | 2,313                |
| Accumulated deficit                                                                                                                                                                 | (50,624)                             | (11,568)             |
| Total stockholders' deficit                                                                                                                                                         | (14,304)                             | (8,994)              |
| Total liabilities and stockholders' deficit                                                                                                                                         | \$117,186                            | \$120,236            |

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<br>September 26, September 27,<br>2015 2014 |          | Thirty-Nine Weeks Ended<br>September 26, September 27,<br>2015 2014 |           |
|-------------------------------------|------------------------------------------------------------------|----------|---------------------------------------------------------------------|-----------|
| Revenue:                            |                                                                  |          |                                                                     |           |
| Royalty revenue and franchise fees  | \$ 11,587                                                        | \$ 9,477 | \$ 34,144                                                           | \$ 27,287 |
| Company-owned restaurant sales      | 7,547                                                            | 6,940    | 23,248                                                              | 22,105    |
| Total revenue                       | 19,134                                                           | 16,417   | 57,392                                                              | 49,392    |
| Costs and expenses:                 |                                                                  |          |                                                                     |           |
| Cost of sales (*)                   | 5,328                                                            | 4,882    | 16,580                                                              | 15,161    |
| Selling, general and administrative | 7,317                                                            | 6,833    | 25,658                                                              | 17,156    |
| Depreciation and amortization       | 636                                                              | 690      | 1,944                                                               | 2,232     |
| Total costs and expenses            | 13,281                                                           | 12,405   | 44,182                                                              | 34,549    |
| Operating income                    | 5,853                                                            | 4,012    | 13,210                                                              | 14,843    |
| Interest expense, net               | 800                                                              | 876      | 2,764                                                               | 2,871     |
| Other (income) expense, net         | 96                                                               | (35)     | 382                                                                 | 61        |
| Income before income tax expense    | 4,957                                                            | 3,171    | 10,064                                                              | 11,911    |
| Income tax expense                  | 1,784                                                            | 1,178    | 3,753                                                               | 4,426     |
| Net income                          | \$ 3,173                                                         | \$ 1,993 | \$ 6,311                                                            | \$ 7,485  |
| Earnings per share                  |                                                                  |          |                                                                     |           |
| Basic                               | \$ 0.11                                                          | \$ 0.08  | \$ 0.23                                                             | \$ 0.29   |
| Diluted                             | \$ 0.11                                                          | \$ 0.08  | \$ 0.23                                                             | \$ 0.29   |
| Weighted average shares outstanding |                                                                  |          |                                                                     |           |
| Basic                               | 28,581                                                           | 25,934   | 27,135                                                              | 25,788    |
| Diluted                             | 28,891                                                           | 26,215   | 27,438                                                              | 26,128    |
| Dividends per share                 | \$ —                                                             | \$ —     | \$ 1.83                                                             | \$ —      |

(\*) exclusive of depreciation and amortization, shown separately

See accompanying notes to consolidated financial statements.

## WINGSTOP INC. AND SUBSIDIARIES

## Consolidated Statements of Stockholders' Deficit

(amounts in thousands, except share data)

(Unaudited)

|                                                                                     | Common Stock |        | Additional<br>Paid-In Capital | Accumulated<br>Deficit | Total<br>Stockholders'<br>Deficit |
|-------------------------------------------------------------------------------------|--------------|--------|-------------------------------|------------------------|-----------------------------------|
|                                                                                     | Shares       | Amount |                               |                        |                                   |
| Balance at December 27, 2014                                                        | 26,101,755   | \$261  | \$ 2,313                      | \$(11,568 )            | \$(8,994 )                        |
| Net income                                                                          | —            | —      | —                             | 6,311                  | 6,311                             |
| Issuance of common stock in connection with the<br>IPO, net of transaction expenses | 2,150,000    | 21     | 34,630                        | —                      | 34,651                            |
| Exercise of stock options                                                           | 329,427      | 4      | 474                           | —                      | 478                               |
| Stock-based compensation expense                                                    | —            | —      | 492                           | —                      | 492                               |
| Excess tax benefit of stock-based compensation                                      | —            | —      | 757                           | —                      | 757                               |
| Dividends paid                                                                      | —            | —      | (2,632 )                      | (45,367 )              | (47,999 )                         |
| Balance at September 26, 2015                                                       | 28,581,182   | \$286  | \$ 36,034                     | \$(50,624 )            | \$(14,304 )                       |

See accompanying notes to consolidated financial statements.

## WINGSTOP INC. AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

(amounts in thousands)

(Unaudited)

|                                                                                    | Thirty-Nine Weeks Ended |                       |
|------------------------------------------------------------------------------------|-------------------------|-----------------------|
|                                                                                    | September 26,<br>2015   | September 27,<br>2014 |
| Operating activities                                                               |                         |                       |
| Net income                                                                         | \$6,311                 | \$7,485               |
| Adjustments to reconcile net income to cash provided by operating activities:      |                         |                       |
| Depreciation and amortization                                                      | 1,944                   | 2,232                 |
| Excess tax benefit of stock-based compensation                                     | (757)                   | (445)                 |
| Deferred income taxes                                                              | (660)                   | (1,275)               |
| Stock-based compensation expense                                                   | 492                     | 322                   |
| (Gain)/Loss on disposal of property and equipment                                  | 6                       | (95)                  |
| Amortization of debt issuance costs                                                | 299                     | 142                   |
| Changes in operating assets and liabilities:                                       |                         |                       |
| Accounts receivable                                                                | (4)                     | (210)                 |
| Prepaid expenses and other assets                                                  | (997)                   | (607)                 |
| Accounts payable and other current liabilities                                     | 834                     | 718                   |
| Deferred revenue                                                                   | 203                     | 1,976                 |
| Other non-current liabilities (attributable to deferred rent and lease incentives) | 210                     | 255                   |
| Cash provided by operating activities                                              | 7,881                   | 10,498                |
| Investing activities                                                               |                         |                       |
| Purchases of property and equipment                                                | (1,329)                 | (969)                 |
| Proceeds from sales of assets                                                      | —                       | 1,147                 |
| Cash (used in) provided by investing activities                                    | (1,329)                 | 178                   |
| Financing activities                                                               |                         |                       |
| Proceeds from issuance of common stock, net of expenses                            | 34,651                  | —                     |
| Proceeds from exercise of stock options                                            | 478                     | 416                   |
| Borrowings of long-term debt                                                       | 40,000                  | —                     |
| Principal payments on long-term debt                                               | (38,218)                | (7,562)               |
| Payment of deferred financing costs                                                | (227)                   | —                     |
| Excess tax benefit of stock-based compensation                                     | 757                     | 445                   |
| Dividends paid                                                                     | (47,999)                | —                     |
| Cash used in financing activities                                                  | (10,558)                | (6,701)               |
| Net change in cash and cash equivalents                                            | (4,006)                 | 3,975                 |
| Cash and cash equivalents at beginning of period                                   | 9,723                   | 3,173                 |
| Cash and cash equivalents at end of period                                         | \$5,717                 | \$7,148               |

See accompanying notes to consolidated financial statements.



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

(1) Basis of Presentation and Summary of Significant Accounting Policies  
Overview

Wingstop Inc. was incorporated in Delaware on March 18, 2015 (“Wingstop” or the “Company”). Wing Stop Holding Corporation was merged with and into Wingstop Inc. pursuant to the reorganization that occurred on May 28, 2015 as described below. Wing Stop Holding Corporation was originally formed on March 16, 2010 to purchase 100% of the equity interests of Wingstop Holdings, Inc. (“WHI”). WHI owns 100% of the common stock of Wingstop Restaurants Inc. (“WRI”). Wingstop, through its primary operating subsidiary, WRI, collectively referred to as the “Company”, is in the business of franchising and operating Wingstop restaurants. As of September 26, 2015, 737 franchised restaurants were in operation domestically. As of September 26, 2015, 51 international franchised restaurants were in operation across six countries. As of September 26, 2015, WRI owned and operated 19 restaurants.

On May 28, 2015, Wing Stop Holding Corporation merged with and into Wingstop Inc., with Wingstop Inc. as the surviving corporation in the merger. Pursuant to the merger, each holder of Wing Stop Holding Corporation common stock received 0.545 shares of common stock of Wingstop Inc. for each one share of Wing Stop Holding Corporation. Additionally, each option to purchase common stock of Wing Stop Holding Corporation was assumed by Wingstop Inc. and converted into an option to purchase 0.545 shares of common stock of Wingstop Inc. for each one share of Wing Stop Holding Corporation with the remaining terms of each such option remaining unchanged, except as was necessary to reflect the reorganization. All references to shares in the financial statements and the notes to the financial statements, including but not limited to the number of shares and per share amounts, unless otherwise noted, have been adjusted to reflect the reorganization retrospectively.

Initial Public Offering

On June 11, 2015, the Company priced the initial public offering of 6,670,000 shares of our common stock, par value \$0.01 per share, pursuant to a registration statement, file number 333-203891, that was declared effective by the SEC on June 11, 2015 (our “Registration Statement”). Under the Registration Statement, (i) we registered, issued and sold an aggregate of 2,150,000 shares of our common stock at a price to the public of \$19.00 per share for aggregate gross offering proceeds of \$40.8 million and (ii) we registered and the selling stockholders sold 4,520,000 shares of our common stock at a price to the public of \$19.00 per share for aggregate gross offering proceeds of \$85.9 million. After underwriter discounts and commissions and offering expenses of \$3.2 million, we received net proceeds from the offering of approximately \$34.7 million. We did not receive any proceeds from the sale of shares of common stock by the selling stockholders. A portion of these proceeds were used to prepay \$32.0 million of the outstanding balance under our second amended and restated credit facility (as defined herein, see Note 7). The remainder of the proceeds were used to pay a one-time fee in consideration for the termination of our management agreement with Roark Capital Management (see Note 10) and other transaction related expenses.

Basis of Presentation

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 September 26, 2015 and December 27, 2014 and operating results are for the thirteen and thirty-nine weeks ended September 26, 2015 and September 27, 2014. 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 for the fiscal year ended December 27, 2014 included in the Company's Registration Statement.

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

Summary of Significant Accounting Policies

(a) Principles of Consolidation

The accompanying interim unaudited consolidated financial statements include the accounts of Wingstop Inc. and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

(b) Fiscal Year End

The Company uses a 52/53-week fiscal year that ends on the last Saturday of the calendar year. Fiscal years 2015 and 2014 each consist of 52 weeks. The fiscal quarters ended September 26, 2015 and September 27, 2014 each consisted of 13 weeks.

(c) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions, primarily related to long-lived asset valuation, indefinite and finite lived intangible asset valuation, income taxes, leases, stock-based compensation, contingencies and common stock equity valuations. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the period.

Although management bases its estimates on historical experience and assumptions that are believed to be reasonable under the circumstances, actual results could differ from those estimates.

(d) Comprehensive Income (Loss)

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

(e) Advertising Expenses

WRI administers the Wingstop Restaurants Advertising Fund (Ad Fund), for which WRI collects a percentage, generally 2%, of gross sales from Wingstop restaurant franchisees and WRI-owned restaurants, to be used for various forms of advertising for the Wingstop brand. In some international markets, franchisees manage their own advertising expenditures, which are not included in the advertising fund.

WRI administers and directs the development of all advertising and promotion programs in the advertising fund for which it collects advertising contributions, in accordance with the provisions of its franchise agreements. WRI has a contractual obligation with regard to these advertising contributions. The Company consolidates and reports all assets and liabilities of the advertising fund as restricted assets of the advertising fund and restricted liabilities of the advertising fund within current assets and current liabilities, respectively, in the Consolidated Balance Sheets. The assets and liabilities of the advertising fund consist primarily of cash, receivables, accrued expenses, other liabilities, and any cumulative surplus related specifically to the advertising fund. The revenues, expenses and cash flows of the advertising fund are not included in the Consolidated Statements of Operations or the Consolidated Statements of Cash Flows because the Company does not have complete discretion over the usage of the funds. Rather, under the franchise agreements, contributions to the advertising fund are restricted to advertising, public relations, merchandising, similar activities, and administrative expenses to increase sales and further enhance the public reputation of the Wingstop brand. The aforementioned administrative expenses may also include personnel expenses and allocated costs incurred by the Company which are directly associated with administering the advertising fund, as outlined in the provisions of the franchise agreements.

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

Effective in June 2015, WRI changed its calculation of the marketing administrative costs incurred by WRI on behalf of the Ad Fund, which has lowered the marketing administrative costs to replace its discretionary contributions to the Ad Fund. The net result of these changes in the cash flows between WRI and the Ad Fund will have minimal impact on the Company's operating costs and no impact to the funds available to the Ad Fund. This change will also not impact historical trends of the Company's net marketing costs. WRI made discretionary contributions to the advertising fund for the purpose of supplementing national and regional advertising in certain markets of \$0 and \$285,000 for the thirteen weeks ended September 26, 2015 and September 27, 2014, respectively, and \$928,000 and \$1,017,000 for the thirty-nine weeks ended September 26, 2015 and September 27, 2014, respectively, which are included in Selling, general and administrative expenses, or SG&A, in the Consolidated Statements of Operations. Additionally, WRI made net contributions to the advertising fund based on its sales as owner and operator of WRI-owned restaurants of approximately \$151,000 and \$139,000 during the thirteen weeks ended September 26, 2015 and September 27, 2014, respectively, and \$465,000 and \$442,000 during the thirty-nine weeks ended September 26, 2015 and September 27, 2014, respectively, which are included in Cost of sales in the Consolidated Statements of Operations.

In addition to the contributions to the Ad Fund, advertising costs, which are expensed as incurred, were \$204,000 and \$241,000 during the thirteen weeks ended September 26, 2015 and September 27, 2014, and \$702,000 and \$768,000 during the thirty-nine weeks ended September 26, 2015 and September 27, 2014, respectively.

(f) Net Income 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 September 26, 2015 all stock options had a dilutive effect; therefore none were excluded from the calculation of diluted earnings per share. For the thirteen weeks ended September 27, 2014, we had approximately 117,000 stock options outstanding which were excluded from the dilutive earnings per share calculation because the effect would have been anti-dilutive. For the thirty-nine weeks ended September 26, 2015 and September 27, 2014, respectively, we had approximately 8,000 and 120,000 stock options outstanding which were not included in 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  |                       | Thirty-Nine Weeks Ended |                       |
|---------------------------------------------|-----------------------|-----------------------|-------------------------|-----------------------|
|                                             | September 26,<br>2015 | September 27,<br>2014 | September 26,<br>2015   | September 27,<br>2014 |
| Basic weighted average shares outstanding   | 28,581                | 25,934                | 27,135                  | 25,788                |
| Dilutive stock options                      | 310                   | 281                   | 303                     | 340                   |
| Diluted weighted average shares outstanding | 28,891                | 26,215                | 27,438                  | 26,128                |

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

(g) Business Segments

The Company identifies its reporting segments based on the organizational units used by management to monitor performance and make operating decisions. These reporting segments are as follows: franchise operations and company restaurant operations.

Franchise segment

The Franchise segment consists of our domestic and international franchise restaurants, which represent the majority of our system-wide restaurants. As of September 26, 2015, the franchise operations segment consisted of 788 restaurants operated by Wingstop franchisees in the United States and six countries outside of the United States as compared to 659 franchised restaurants in operation domestically and across five countries outside of the United States as of September 27, 2014. Franchise operations revenue consists primarily of franchise royalty revenue, sales of franchise and development fees and international territory fees. Additionally, vendor rebates received for system-wide volume purchases in excess of the total expense of the vendor's products are recognized as revenue of franchise operations.

Company segment

As of September 26, 2015 and September 27, 2014, the Company segment consisted of 19 company-owned restaurants, located only in the United States. 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.

Certain corporate related items are not allocated to the reportable segments and consist primarily of expenses associated with the Company's initial public offering and management fees. The Company allocates SG&A expenses based on the relative support provided to each reportable segment.

(h) 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 pronouncement is effective for fiscal years and interim periods within those fiscal years, beginning after December 31, 2015. The adoption of this pronouncement is not expected to have a material impact on the Company's 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. Early application is not permitted. 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 have not yet selected a transition method.

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

In August 2014, the FASB issued ASU No 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The amendments in ASU 2014-15 are intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. Under GAAP, financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. The going concern basis of accounting is critical to financial reporting because it establishes the fundamental basis for measuring and classifying assets and liabilities. Currently, GAAP lacks guidance about management's responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern or to provide related footnote disclosures. This ASU provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. The pronouncement is effective for fiscal years and interim periods within those fiscal years, after December 31, 2016. The adoption of this pronouncement is not expected to have a material impact on the Company's financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. This update intends to simplify the presentation of debt issuance costs in the balance sheet. The ASU specifies that debt issuance costs related to a note shall be reported in the balance sheet as a direct deduction from the face amount of that note, and that amortization of debt issuance costs also shall be reported as interest expense. The ASU does not affect the current guidance on the recognition and measurement of debt issuance costs. The update is effective for the Company in fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is allowed for all entities for financial statements that have not been previously issued. Entities would apply the new guidance retrospectively to all prior periods presented. The Company has evaluated the ASU and determined that it has no material impact on the consolidated financial statements and has elected not to early adopt.

(2) 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.

The following table shows the Company's financial assets that are required to be measured at fair value on a recurring basis in our Consolidated Balance Sheets (in thousands):

|                           | Fair Value<br>Hierarchy | September 26,<br>2015 | December 27,<br>2014 |
|---------------------------|-------------------------|-----------------------|----------------------|
| Other non-current assets: |                         |                       |                      |
| 2014 interest rate cap    | Level 2                 | \$ 1                  | \$ 38                |
| 2015 interest rate cap    | Level 2                 | \$ 53                 | \$ —                 |

The fair value of the interest rate caps are estimated using industry standard valuation models and market-based observable inputs, including interest rate curves. In addition, the fair value of the interest rate caps includes consideration of the counterparty's non-performance risk.

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 | September 26, 2015<br>Carrying Value | Fair Value | December 27, 2014<br>Carrying Value | Fair Value |
|--------------------------------------------------|----------------------|--------------------------------------|------------|-------------------------------------|------------|
| Total debt obligations:                          |                      |                                      |            |                                     |            |
| Senior Secured Term Loan Facility <sup>(1)</sup> | Level 3              | \$95,500                             | \$95,500   | \$93,721                            | \$94,443   |

<sup>(1)</sup> 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 estimated the fair value of debt using prevailing market rates for debt of similar remaining maturities and credit risk for our revolving and term loan facilities.

In connection with purchase accounting, the Company made estimates of the fair value of its long-lived and intangible assets based upon assumptions related to the future cash flows, discount rates and asset lives utilizing currently available information, and in some cases, valuation results from independent valuation specialists (Level 3 determination of fair value). 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.

(3) Divestitures

In February 2014, WRI sold five restaurants to an existing franchisee, which had a carrying value of \$1.0 million, comprised of \$610,000 in net assets and \$442,000 in allocated goodwill, for proceeds of \$1.1 million, resulting in a gain on disposal of approximately \$100,000. Upon disposal of the assets, any gain or loss is recorded on the Consolidated Statements of Operations in SG&A.

(4) Prepaid Expenses and Other Current Assets and Other Current Liabilities

Prepaid expenses and other current assets consisted of the following (in thousands):

|                               | September 26, 2015 | December 27, 2014 |
|-------------------------------|--------------------|-------------------|
| Prepaid expenses              | \$1,138            | \$1,170           |
| Federal income tax receivable | 1,178              | 90                |
| Deferred income tax asset     | 1,308              | 1,408             |
| Inventories                   | 195                | 176               |
| Other                         | —                  | 4                 |
| Total                         | \$3,819            | \$2,848           |

Other current liabilities consisted of the following (in thousands):

|                                           | September 26, 2015 | December 27, 2014 |
|-------------------------------------------|--------------------|-------------------|
| Accrued payroll and bonuses               | \$2,701            | \$1,814           |
| Current portion of deferred revenues      | 1,686              | 1,759             |
| Accrued legal and other professional fees | 1,116              | 1,655             |
| Accrued interest                          | 751                | 749               |
| Other accrued liabilities                 | 803                | 918               |
| Total                                     | \$7,057            | \$6,895           |

(5) Derivative Financial Instruments

At September 26, 2015, the Company had outstanding floating rate debt obligations of \$95.5 million. In March 2014, the Company entered into an interest rate cap agreement for a notional amount of \$24.4 million to minimize the variability of its cash flows



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

related to a portion of its floating rate indebtedness. The interest rate cap agreement caps LIBOR at 2.50% from March 2014 through December 2016 with respect to the \$24.4 million notional amount of such agreement. On December 31, 2014, the notional amount increased by \$24.3 million to \$48.7 million. In June 2015, the Company entered into an additional interest rate cap agreement for a notional amount of \$18.2 million which results in a combined amount of \$66.9 million. The June 2015 interest rate cap agreement caps LIBOR at 2.50% from June 2015 through March 2018 with respect to the \$18.2 million notional amount of such agreements.

Gains and losses realized due to the expiration of applicable portions of the interest rate caps are reclassified to Other (income) expense at the time quarterly interest payments are made.

(6) Income Taxes

Income tax expense and the effective rate were \$1.8 million and 36.0%, respectively, for the thirteen weeks ended September 26, 2015, and \$1.2 million and 37.1%, respectively, for the thirteen weeks ended September 27, 2014. Income tax expense and the effective rate were \$3.8 million and 37.3%, respectively, for the thirty-nine weeks ended September 26, 2015, and \$4.4 million and 37.2%, respectively, for the thirty-nine weeks ended September 27, 2014.

(7) Debt Obligations

In March 2015, the Company amended and restated the senior secured credit facility previously entered into in December 2013. In connection with the second amended and restated facility, the facility size was increased from \$107.5 million to \$137.5 million and is comprised of a \$132.5 million term loan and a \$5.0 million revolving credit facility. The previous facility included a term loan of \$102.5 million and a revolver of \$5.0 million. The Company used a portion of the proceeds from the second amended and restated facility and cash on hand to pay a dividend of \$48.0 million to its shareholders. Borrowings under the facility bear interest, payable quarterly, at the Company's option at the base rate plus a margin (1.50% to 2.25%, dependent on the Company's reported leverage ratio) or LIBOR plus a margin (2.50% to 3.25%, dependent on our reported leverage ratio), at the Company's option. The second amended and restated 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 second senior secured credit facility by up to an additional \$30.0 million.

In June of 2015, in connection with the IPO, the Company used a portion of the IPO proceeds to make a \$32.0 million prepayment of the outstanding principle balance of the second amended and restated credit facility. As a result of the prepayment in June 2015, the Company expensed \$172,000 of previously capitalized financing costs, which are included in Other (income) expense in the Consolidated Statements of Operations. As of September 26, 2015, the amended and restated credit facility had an outstanding balance of \$95.5 million that bears interest at 2.78%. In connection with the prepayments of \$37.0 million in 2015 under the second amended and restated credit facility, there are no scheduled principal payments due until September of 2019. At such time, principal installments ranging from \$2.8 million to \$3.3 million are due quarterly with all unpaid amounts due at maturity in March 2020.

The second amended and restated senior secured credit facility includes a \$5.0 million revolver. The revolver bears interest, payable quarterly at the base rate plus a margin, as defined in the credit agreement documentation or LIBOR plus a margin, as defined in the credit agreement, with all unpaid amounts due at maturity in December 2018. At September 26, 2015 and December 27, 2014, there were no amounts outstanding on the line of credit.

In conjunction with the second amended and restated senior secured facility, the Company evaluated the refinancing of the amended facility and determined substantially all of the \$132.5 million was accounted for as a debt modification. The Company incurred \$888,000 in financing costs of which \$661,000 was expensed and \$227,000 was capitalized and is being amortized using the effective interest rate method.

The second amended and restated senior secured credit facility includes a \$3.0 million line of credit which the Company may utilize to issue letters of credit. The letter of credit facility matures in March 2020. At September 26, 2015 and December 27, 2014, there were no letters of credit outstanding.

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 September 26, 2015, the Company was in compliance with all financial covenants.



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

As of September 26, 2015, the scheduled principle payments on debt were as follows (in thousands):

|                               |          |
|-------------------------------|----------|
| Remainder of fiscal year 2015 | \$—      |
| Fiscal year 2016              | —        |
| Fiscal year 2017              | —        |
| Fiscal year 2018              | —        |
| Fiscal year 2019              | 2,750    |
| Fiscal year 2020              | 92,750   |
| Total                         | \$95,500 |

(8) Commitments and Contingencies

WRI leases certain office and retail space and equipment under non-cancelable operating leases with terms expiring at various dates through October 2025.

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 September 26, 2015, is as follows (in thousands):

|                               |          |
|-------------------------------|----------|
| Remainder of fiscal year 2015 | \$341    |
| Fiscal year 2016              | 1,521    |
| Fiscal year 2017              | 1,534    |
| Fiscal year 2018              | 1,318    |
| Fiscal year 2019              | 1,105    |
| Fiscal year 2020              | 977      |
| Thereafter                    | 4,166    |
| Total                         | \$10,962 |

Rent expense under cancelable and non-cancelable leases was \$531,000 and \$468,000 for the thirteen weeks ended September 26, 2015 and September 27, 2014, respectively, and \$1.5 million for the thirty-nine weeks ended September 26, 2015 and September 27, 2014.

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.

(9) Stock-Based Compensation

In connection with the IPO, the Wingstop Inc. 2015 Omnibus Equity Incentive Plan, or the 2015 Plan, was adopted and became effective upon completion of the offering. The 2015 Plan provides for the grant or award of stock options, stock appreciation rights, restricted stock awards, restricted stock units, performance unit awards, performance share awards, cash-based awards and other stock-based awards to employees, directors, and other eligible persons. Under the 2015 Plan, Wingstop had 2,143,589 shares authorized for issuance, 52,632 shares of common stock issuable upon exercise of currently outstanding options as of September 26, 2015 and 2,090,957 shares available for future grants.



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

The options granted under the 2015 Plan are subject to either service-based or performance-based vesting. Service-based options contain a service-based, or time-based, vesting provision. Performance-based options contain performance-based vesting provisions based on the Company meeting certain Adjusted EBITDA profitability targets for each fiscal year during the vesting period. In the event of a change in control of the Company (as defined in the 2015 Plan), each outstanding award will be treated as the compensation committee determines, either by the terms of the award agreement or by resolution adopted by the compensation committee, including without limitation, that the awards may be vested, assumed replaced with substitute awards, cashed-out or terminated.

Additionally, Wingstop had previously adopted the 2010 Stock Option Plan, or the 2010 Plan, which permits the granting of awards to employees, directors and other eligible persons of the Company in the form of stock options. The 2010 Plan is administered by Wingstop's Board of Directors. The options granted under the 2010 Plan are generally exercisable within a 10-year period from the date of grant.

Under the 2010 Plan, options are subject to either service-based or performance-based vesting. Service-based options contain a service-based, or time-based, vesting provision. Performance-based options contain performance-based vesting provisions based on the Company meeting certain Adjusted EBITDA profitability targets for each fiscal year during the vesting period. Any options that have not vested prior to a change of control or do not vest in connection with a change of control or do vest but are not exercised will be forfeited by the grantee upon a change of control for no consideration. The IPO in June 2015 was not considered a change in control event as defined in the 2010 Plan.

Options issued and outstanding expire on various dates up to fiscal year 2025.

Under the 2010 Plan, Wingstop had 3,304,115 shares authorized for issuance. There are 1,127,560 shares of common stock issuable upon exercise of currently outstanding options at September 26, 2015 and 168,648 shares available for future grants.

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

|                                  | Stock<br>Options | Weighted<br>Average<br>Exercise Price | Aggregate<br>Intrinsic Value | Weighted<br>Average<br>Remaining<br>Term |
|----------------------------------|------------------|---------------------------------------|------------------------------|------------------------------------------|
| Outstanding - December 27, 2014  | 1,466            | \$3.74                                | \$7,551                      | 8.0                                      |
| Granted                          | 96               | \$16.30                               |                              |                                          |
| Exercised                        | (329)            | ) \$1.45                              |                              |                                          |
| Canceled                         | (53)             | ) \$0.86                              |                              |                                          |
| Outstanding - September 26, 2015 | 1,180            | \$4.50                                | \$24,746                     | 8.0                                      |

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 approximately \$492,000 and \$322,000 in stock compensation expense for thirty-nine weeks ended September 26, 2015 and September 27, 2014, respectively, with a corresponding increase to additional paid-in-capital. As of September 26, 2015, there was \$3.8 million of total unrecognized stock compensation expense related to non-vested stock options, which will be recognized over a weighted average period of approximately 3.0 years. Stock compensation expense is included in SG&A in the Consolidated Statement of Operations. There were approximately 96,000 options granted during the thirty-nine weeks ended September 26, 2015.

During the first fiscal quarter of 2015, the Board of Directors authorized a dividend in the amount of \$1.83 per share or \$48.0 million. In connection with the declaration and payment of the dividend, the exercise price of some of the outstanding options on March 27, 2015 was reduced by an amount of \$1.83 per share. Management evaluated the option modification for incremental compensation expense and calculated \$537,000, of which \$57,000 was recorded at the time of the declaration.

#### (10) Related Party Transactions

The Company was party to a management agreement with Roark Capital Management, LLC, or Roark Capital Management, an affiliate of Wingstop's majority shareholder. Pursuant to this management agreement, Roark agreed

to provide the Company with advice concerning finance, strategic planning and other services. In June of 2015, the Company paid a one-time fee to Roark Capital Management in consideration for the termination of our management agreement of \$3.3 million. The Company paid Roark fees and expense reimbursement totaling \$111,000 for the thirteen weeks ended September 27, 2014, and \$3.5 million and \$338,000 for the thirty-nine weeks ended September 26, 2015 and September 27, 2014, respectively, inclusive of the termination fee.

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

(11) Business Segments

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

|                                    | Thirteen Weeks Ended |                    | Thirty-Nine Weeks Ended |                    |
|------------------------------------|----------------------|--------------------|-------------------------|--------------------|
|                                    | September 26, 2015   | September 27, 2014 | September 26, 2015      | September 27, 2014 |
| Revenue:                           |                      |                    |                         |                    |
| Franchise segment                  | \$11,587             | \$9,477            | \$34,144                | \$27,287           |
| Company segment                    | 7,547                | 6,940              | 23,248                  | 22,105             |
| Total segment revenue              | \$19,134             | \$16,417           | \$57,392                | \$49,392           |
| Segment Profit:                    |                      |                    |                         |                    |
| Franchise segment                  | \$4,446              | \$3,685            | \$14,522                | \$11,833           |
| Company segment                    | 1,407                | 1,214              | 4,236                   | 4,324              |
| Total segment profit               | 5,853                | 4,899              | 18,758                  | 16,157             |
| Corporate and other <sup>(1)</sup> | —                    | 887                | 5,548                   | 1,314              |
| Interest expense, net              | 800                  | 876                | 2,764                   | 2,871              |
| Other (income) expense, net        | 96                   | (35)               | 382                     | 61                 |
| Income (loss) before taxes         | \$4,957              | \$3,171            | \$10,064                | \$11,911           |

<sup>(1)</sup> Corporate and other includes corporate related items not allocated to reportable segments and consists primarily of expenses associated with the Company's initial public offering and management fees discussed in Note 10.

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 Registration Statement. 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 18 of our Registration Statement. 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 2015 and 2014 each contain 52 weeks.

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 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 September 26, 2015, we had a total 807 restaurants across 39 states and seven countries in our system. Our restaurant base is 98% franchised, with 788 franchised locations (including 51 international locations) and 19 company-owned restaurants.

# 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  |                       | Thirty-Nine Weeks Ended |                       |
|------------------------------------|-----------------------|-----------------------|-------------------------|-----------------------|
|                                    | September 26,<br>2015 | September 27,<br>2014 | September 26,<br>2015   | September 27,<br>2014 |
| Domestic Franchised Activity:      |                       |                       |                         |                       |
| Beginning of period                | 714                   | 612                   | 652                     | 569                   |
| Openings                           | 24                    | 18                    | 87                      | 58                    |
| Closures and relocations           | (1                    | ) (2                  | ) (2                    | ) (4                  |
| Refranchised (*)                   | —                     | —                     | —                       | 5                     |
| Restaurants end of period          | 737                   | 628                   | 737                     | 628                   |
| Domestic Company-Owned Activity:   |                       |                       |                         |                       |
| Beginning of period                | 19                    | 19                    | 19                      | 24                    |
| Openings                           | —                     | —                     | —                       | —                     |
| Closures and relocations           | —                     | —                     | —                       | —                     |
| Refranchised (*)                   | —                     | —                     | —                       | (5                    |
| Restaurants end of period          | 19                    | 19                    | 19                      | 19                    |
| Total Domestic Restaurants         | 756                   | 647                   | 756                     | 647                   |
| International Franchised Activity: |                       |                       |                         |                       |
| Beginning of period                | 52                    | 26                    | 41                      | 21                    |
| Openings                           | 3                     | 6                     | 15                      | 11                    |
| Closures and relocations           | (4                    | ) (1                  | ) (5                    | ) (1                  |
| Refranchised (*)                   | —                     | —                     | —                       | —                     |
| Restaurants end of period          | 51                    | 31                    | 51                      | 31                    |
| Total System-wide Restaurants      | 807                   | 678                   | 807                     | 678                   |

\* Restaurant(s) sold by us to a franchisee. See footnote 3 within the financial statements.

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. We provide AUV for domestic restaurants and company-owned restaurants. 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 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 thirty-nine weeks ended September 26, 2015 and September 27, 2014 (dollars in thousands):

|                                                         | Thirteen Weeks Ended |                    | Thirty-Nine Weeks Ended |                    |
|---------------------------------------------------------|----------------------|--------------------|-------------------------|--------------------|
|                                                         | September 26, 2015   | September 27, 2014 | September 26, 2015      | September 27, 2014 |
| Number of system-wide restaurants open at end of period | 807                  | 678                | 807                     | 678                |
| System-wide sales (1)                                   | \$201,656            | \$168,454          | \$603,666               | \$496,781          |
| Domestic restaurant AUV                                 | \$1,122              | \$1,053            | \$1,122                 | \$1,053            |
| System-wide domestic same store sales growth            | 6.3                  | % 12.4             | % 8.7                   | % 12.5             |
| Company-owned domestic same store sales growth          | 8.7                  | % 14.0             | % 9.3                   | % 16.4             |
| Total revenue                                           | \$19,134             | \$16,417           | \$57,392                | \$49,392           |
| Net income                                              | \$3,173              | \$1,993            | \$6,311                 | \$7,485            |
| Adjusted EBITDA (2)                                     | \$6,543              | \$5,736            | \$20,984                | \$18,564           |

(1) The percentage of system-wide sales attributable to company-owned restaurants was 3.7% and 4.1% for the thirteen weeks ended September 26, 2015 and September 27, 2014, respectively, and was 3.9% and 4.4% for the thirty-nine weeks ended September 26, 2015 and September 27, 2014, 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, transaction costs, gains and losses on the disposal of assets, stock-based compensation expense and earn-out obligation. There were no gains and losses on disposal of assets or earn-out obligations during the fiscal quarters ended September 26, 2015 and September 27, 2014. 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 following this offering, 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 thirty-nine weeks ended September 26, 2015 and September 27, 2014 (in thousands):

|                                                       | Thirteen Weeks Ended |                    | Thirty-Nine Weeks Ended |                    |
|-------------------------------------------------------|----------------------|--------------------|-------------------------|--------------------|
|                                                       | September 26, 2015   | September 27, 2014 | September 26, 2015      | September 27, 2014 |
| Net income                                            | \$3,173              | \$1,993            | \$6,311                 | \$7,485            |
| Interest expense, net                                 | 800                  | 876                | 2,764                   | 2,871              |
| Income tax expense                                    | 1,784                | 1,178              | 3,753                   | 4,426              |
| Depreciation and amortization                         | 636                  | 690                | 1,944                   | 2,232              |
| EBITDA                                                | \$6,393              | \$4,737            | \$14,772                | \$17,014           |
| Additional adjustments:                               |                      |                    |                         |                    |
| Management agreement termination fee <sup>(a)</sup>   | —                    | —                  | 3,297                   | —                  |
| Management fees <sup>(b)</sup>                        | —                    | 111                | 237                     | 338                |
| Transaction costs <sup>(c)</sup>                      | —                    | 776                | 2,186                   | 976                |
| Gains and losses on disposal of assets <sup>(d)</sup> | —                    | —                  | —                       | (86)               |
| Stock-based compensation expense <sup>(e)</sup>       | 150                  | 112                | 492                     | 322                |
| Adjusted EBITDA                                       | \$6,543              | \$5,736            | \$20,984                | \$18,564           |

(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 during the thirteen weeks ended June 27, 2015.

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

(c) Represents costs and expenses related to refinancings of our credit agreement and our initial public offering; all transaction costs are included in SG&A with the exception of \$172,000 that is included in Other (income) expense, net.

(d) Represents non-cash gains and losses resulting from the sale of company-owned restaurants to a franchisee and associated goodwill impairment.

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

## Results of Operations

The following table sets forth our results of operations in dollars and as a percent of total revenues for the thirteen and thirty-nine weeks ended ended September 26, 2015 and September 27, 2014 (in thousands):

|                                     | Thirteen Weeks Ended  |                       | Increase / |       |   | Thirty-Nine Weeks     |                       | Increase / |        |   |
|-------------------------------------|-----------------------|-----------------------|------------|-------|---|-----------------------|-----------------------|------------|--------|---|
|                                     | September 26,<br>2015 | September 27,<br>2014 | \$         | %     |   | September 26,<br>2015 | September 27,<br>2014 | \$         | %      |   |
| Revenue:                            |                       |                       |            |       |   |                       |                       |            |        |   |
| Royalty revenue and franchise fees  | \$11,587              | \$9,477               | \$2,110    | 22.3  | % | \$34,144              | \$27,287              | \$6,857    | 25.1   | % |
| Company-owned restaurant sales      | 7,547                 | 6,940                 | 607        | 8.7   | % | 23,248                | 22,105                | 1,143      | 5.2    | % |
| Total revenue                       | 19,134                | 16,417                | 2,717      | 16.5  | % | 57,392                | 49,392                | 8,000      | 16.2   | % |
| Costs and expenses:                 |                       |                       |            |       |   |                       |                       |            |        |   |
| Cost of sales (*)                   | 5,328                 | 4,882                 | 446        | 9.1   | % | 16,580                | 15,161                | 1,419      | 9.4    | % |
| Selling, general and administrative | 7,317                 | 6,833                 | 484        | 7.1   | % | 25,658                | 17,156                | 8,502      | 49.6   | % |
| Depreciation and amortization       | 636                   | 690                   | (54)       | (7.8) | % | 1,944                 | 2,232                 | (288)      | (12.9) | % |
| Total costs and expenses            | 13,281                | 12,405                | 876        | 7.1   | % | 44,182                | 34,549                | 9,633      | 27.9   | % |
| Operating income                    | 5,853                 | 4,012                 | 1,841      | 45.9  | % | 13,210                | 14,843                | (1,633)    | (11.0) | % |
| Interest expense, net               | 800                   | 876                   | (76)       | (8.7) | % | 2,764                 | 2,871                 | (107)      | (3.7)  | % |
| Other (income) expense, net         | 96                    | (35)                  | 131        | **NM  |   | 382                   | 61                    | 321        | **NM   |   |
| Income before income tax expense    | 4,957                 | 3,171                 | 1,786      | 56.3  | % | 10,064                | 11,911                | (1,847)    | (15.5) | % |
| Income tax expense                  | 1,784                 | 1,178                 | 606        | 51.4  | % | 3,753                 | 4,426                 | (673)      | (15.2) | % |
| Net income                          | \$3,173               | \$1,993               | \$1,180    | 59.2  | % | \$6,311               | \$7,485               | \$(1,174)  | (15.7) | % |

(\*) Exclusive of depreciation and amortization, shown separately.

(\*\*) Not meaningful.

**Total revenue.** During the thirteen weeks ended September 26, 2015, total revenue was \$19.1 million, an increase of \$2.7 million, or 16.5%, compared to \$16.4 million in the comparable period in 2014. Total revenue was \$57.4 million during the year to date period ended September 26, 2015, an increase of \$8.0 million, or 16.2%, compared to \$49.4 million in the prior year.

**Royalty revenue and franchise fees.** During the thirteen weeks ended September 26, 2015, royalty revenue and franchise fees were \$11.6 million, an increase of \$2.1 million, or 22.3%, compared to \$9.5 million in the comparable period in 2014. Royalty revenue increased \$1.7 million primarily due to an increase in the number of franchised stores from 659 at September 27, 2014 to 788 at September 26, 2015 and domestic same store sales growth of 6.3%.

Franchise fees increased \$0.1 million driven by 27 franchise restaurant openings in the thirteen weeks ended September 26, 2015 compared to 24 during the thirteen weeks ended September 27, 2014.

For the year to date period ended September 26, 2015, royalty revenue and franchise fees were \$34.1 million, an increase of \$6.9 million, or 25.1%, compared to \$27.3 million in the prior year. Royalty revenue increased by \$5.3 million primarily due to an increase in the number of franchised stores and domestic same store sales growth of 8.7%.

Franchise fees increased by \$0.9 million driven by 102 franchise restaurant openings in the thirty-nine weeks ended September 26, 2015 compared to 69 restaurant openings in the thirty-nine weeks ended September 27, 2014.

Company-owned restaurant sales. During the thirteen weeks ended September 26, 2015, company-owned restaurant sales were \$7.5 million, an increase of \$0.6 million, compared to \$6.9 million in the comparable period in 2014. The increase is the result of company-owned domestic same store sales growth of 8.7%.

Company-owned restaurant sales were \$23.2 million in the year to date period ended September 26, 2015, an increase of \$1.1 million, or 5.2%, compared to \$22.1 million in the prior year. The increase is the result of same store sales growth of 9.3%, which was partially offset by the refranchising of five company-owned restaurants during the first quarter of 2014.

Cost of sales. During the thirteen weeks ended September 26, 2015, cost of sales was \$5.3 million, an increase of \$0.4 million, or 9.1%, compared to \$4.9 million in the comparable period in 2014. Cost of sales as a percentage of company-owned restaurant sales was 70.7% in the quarter ended September 26, 2015 compared to 70.3% in the prior year. Cost of sales was \$16.6 million in the thirty-nine weeks ended September 26, 2015, an increase of \$1.4 million, or 9.4%, compared to \$15.2 million in the comparable period in 2014. Cost of sales as a percentage of company-owned restaurant sales was 71.3% in the year to date period ended September 26, 2015 compared to 68.5% in 2014.

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

| The table below presents the major components of cost of sales (dollars in thousands): |                                          |        |   |                                          |        |   |                                          |        |   |                                          |        |   |
|----------------------------------------------------------------------------------------|------------------------------------------|--------|---|------------------------------------------|--------|---|------------------------------------------|--------|---|------------------------------------------|--------|---|
|                                                                                        | Thirteen Weeks Ended                     |        |   |                                          |        |   | Thirty-Nine Weeks Ended                  |        |   |                                          |        |   |
|                                                                                        | September 26, 2015                       |        |   | September 27, 2014                       |        |   | September 26, 2015                       |        |   | September 27, 2014                       |        |   |
|                                                                                        | As a % of company-owned restaurant sales |        |   | As a % of company-owned restaurant sales |        |   | As a % of company-owned restaurant sales |        |   | As a % of company-owned restaurant sales |        |   |
| Cost of sales:                                                                         |                                          |        |   |                                          |        |   |                                          |        |   |                                          |        |   |
| Food, beverage and packaging costs                                                     | \$2,701                                  | 35.8   | % | \$ 2,424                                 | 34.9   | % | \$8,622                                  | 37.1   | % | \$ 7,522                                 | 34.0   | % |
| Labor costs                                                                            | 1,559                                    | 20.7   | % | 1,580                                    | 22.8   | % | 4,803                                    | 20.7   | % | 4,996                                    | 22.6   | % |
| Other restaurant operating expenses                                                    | 1,244                                    | 16.5   | % | 1,125                                    | 16.2   | % | 3,683                                    | 15.8   | % | 3,564                                    | 16.1   | % |
| Vendor rebates                                                                         | (176 )                                   | (2.3 ) | % | (247 )                                   | (3.6 ) | % | (528 )                                   | (2.3 ) | % | (921 )                                   | (4.2 ) | % |
| Total cost of sales                                                                    | \$5,328                                  | 70.7   | % | \$ 4,882                                 | 70.3   | % | \$16,580                                 | 71.3   | % | \$ 15,161                                | 68.5   | % |

Food, beverage and packaging costs as a percentage of company-owned restaurant sales were 35.8% and 37.1% in the thirteen and thirty-nine weeks ended September 26, 2015 compared to 34.9% and 34.0% in the comparable periods in 2014, respectively. The increase for the thirteen week and year-to-date periods is primarily due to a 17% increase and a 28% increase, respectively, in commodities rates for bone-in chicken wings compared to prior year comparable period, which was partially offset by menu pricing and favorable pricing for other commodities.

Labor costs as a percentage of company-owned restaurant sales were 20.7% for both the thirteen and thirty-nine weeks ended September 26, 2015 compared to 22.8% and 22.6% in the comparable periods in 2014, respectively. The improvement is primarily due to the leveraging of fixed costs due to the company-owned domestic same store sales increase of 8.7% and 9.3% for the thirteen and thirty-nine weeks ended, respectively. The improvement in the year-to-date period is also due to the refranchising of five restaurants with lower AUVs than the remaining company-owned restaurants.

Other restaurant operating expenses as a percentage of company-owned restaurant sales were 16.5% and 15.8% for the thirteen and thirty-nine weeks ended September 26, 2015 compared to 16.2% and 16.1% in the comparable periods in 2014, respectively. The increase as a percentage of company-owned restaurant sales for the thirteen week period in other operating expenses is primarily due to increased rent and repairs and maintenance over the prior year. The improvement in the year-to-date period is primarily due to the leveraging of fixed costs due to the company-owned domestic same store sales increase of 9.3%, and the refranchising of five restaurants with lower AUVs than the remaining company-owned restaurants.

For the thirty-nine weeks ended September 26, 2015, vendor rebates decreased \$0.4 million primarily due to a one-time reimbursement received during 2014 related to transition costs from the Company's change to a new distributor that offset expenses incurred due to the transition.

Selling, general and administrative. During the thirteen weeks ended September 26, 2015, SG&A expense was \$7.3 million, an increase of \$0.5 million compared to \$6.8 million in the comparable period in 2014. The increase in SG&A is primarily due to headcount additions and other recurring costs to support our future growth, which was offset by \$0.8 million of non-recurring costs and expenses incurred in the prior year fiscal third quarter associated with our preparation to be a public company.

For the thirty-nine weeks ended September 26, 2015, SG&A expense was \$25.7 million, an increase of \$8.5 million compared to \$17.2 million in 2014. The increase in SG&A compared to prior year is primarily due to a one-time fee paid of \$3.3 million in

consideration for the termination of our management agreement with Roark Capital Management as well as headcount additions, consulting/professional fees, and one-time expenses of \$2.0 million associated with our preparation to be a public company.

Depreciation and amortization. During the thirteen weeks ended September 26, 2015, depreciation expense was \$0.6 million, a decrease of \$0.1 million, or 7.8%, compared to \$0.7 million in the comparable period in 2014.

Depreciation and amortization was \$1.9 million in the thirty-nine weeks ended September 26, 2015, a decrease of \$0.3 million, or 12.9%, compared to \$2.2 million in the comparable period in 2014. The refranchising of five restaurants caused a reduction in depreciation, which was slightly offset by an increase in depreciation due to capital expenditures.

Interest expense, net. During the thirteen weeks ended September 26, 2015, interest expense was \$0.8 million, a decrease of \$0.1 million, or 8.7%, compared to \$0.9 million in the comparable period in 2014. The decrease was attributable to a decrease in the applicable interest rate associated with the credit facility as a result of our improved leverage ratio.

Interest expense was \$2.8 million in the thirty-nine weeks ended September 26, 2015, comparable to prior year.

Other (income) expense, net. During the thirteen weeks ended September 26, 2015, other (income) expense, net was \$0.1 million, an increase of \$0.1 million over the comparable period in 2014. The increase is primarily attributable to the change in fair value of the interest rate caps.

During the thirty-nine weeks ended September 26, 2015, other (income) expense, net was \$0.4 million, an increase of \$0.3 million as compared to \$0.1 million in the comparable periods in 2014. The increase was primarily attributable to expensing \$172,000 of previously capitalized financing costs as a result of the \$32.0 million prepayment in June 2015, and the change in fair value of the interest rate caps.

Income tax expense. Income tax expense was \$1.8 million and \$3.8 million in the thirteen and thirty-nine weeks ended September 26, 2015, yielding an annual effective tax rate of 37.3%, respectively, comparable to an annual effective tax rate of 37.2% in the prior year.

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) |      |   | Thirty-Nine Weeks Ended |                    | Increase / (Decrease) |       |    |
|------------------------|----------------------|--------------------|-----------------------|------|---|-------------------------|--------------------|-----------------------|-------|----|
|                        | September 26, 2015   | September 27, 2014 | \$                    | %    |   | September 26, 2015      | September 27, 2014 | \$                    | %     |    |
| <b>Revenue:</b>        |                      |                    |                       |      |   |                         |                    |                       |       |    |
| Franchise segment      | \$11,587             | \$ 9,477           | \$2,110               | 22.3 | % | \$34,144                | \$ 27,287          | \$6,857               | 25.1  | %  |
| Company segment        | 7,547                | 6,940              | 607                   | 8.7  | % | 23,248                  | 22,105             | 1,143                 | 5.2   | %  |
| Total segment revenue  | \$19,134             | \$ 16,417          | \$2,717               | 16.5 | % | \$57,392                | \$ 49,392          | \$8,000               | 16.2  | %  |
| <b>Segment Profit:</b> |                      |                    |                       |      |   |                         |                    |                       |       |    |
| Franchise segment      | \$4,446              | \$ 3,685           | \$761                 | 20.7 | % | \$14,522                | \$ 11,833          | \$2,689               | 22.7  | %  |
| Company segment        | 1,407                | 1,214              | 193                   | 15.9 | % | 4,236                   | 4,324              | (88)                  | (2.0) | )% |
| Total segment profit   | \$5,853              | \$ 4,899           | \$954                 | 19.5 | % | \$18,758                | \$ 16,157          | \$2,601               | 16.1  | %  |

Franchise segment. During the thirteen weeks ended September 26, 2015, franchise segment revenue was \$11.6 million, an increase of \$2.1 million, or 22.3%, compared to \$9.5 million in the comparable period in 2014. The increase was due to 129 franchise restaurant openings since September 27, 2014, and domestic same store sales growth of 6.3%.

Franchise segment revenue was \$34.1 million in the year to date period ended September 26, 2015, an increase of \$6.9 million, or 25.1%, from \$27.3 million in the prior year. The increase was due to 129 franchise restaurant openings since September 27, 2014, and domestic same store sales growth of 8.7%.

During the thirteen weeks ended September 26, 2015, franchise segment profit was \$4.4 million, an increase of \$0.8 million, or 20.7%, compared to \$3.7 million in the comparable period in 2014 due to the growth in revenue offset by increases in SG&A.

For the year to date period ended September 26, 2015, franchise segment profit was \$14.5 million, an increase of \$2.7 million, or 22.7%, from \$11.8 million in the prior year, due to the growth in revenue offset by increases in SG&A.

Company segment. During the thirteen weeks ended September 26, 2015, company-owned restaurant sales were \$7.5 million, an increase of \$0.6 million, compared to \$6.9 million in the comparable period in 2014. The increase is primarily due to company-owned domestic same store sales growth of 8.7%.

Company-owned restaurant sales were \$23.2 million in the year to date period ended September 26, 2015, an increase of \$1.1 million, or 5.2%, compared to \$22.1 million in the comparable period in 2014. The increase is the result of company-owned domestic same store sales growth of 9.3%, which was partially offset by the refranchising of five company-owned restaurants during the first fiscal quarter of 2014.

During the thirteen weeks ended September 26, 2015, company segment profit was \$1.4 million, an increase of \$0.2 million, or 15.9%, compared to \$1.2 million in the comparable period in 2014. The increase was primarily due to the leveraging of fixed costs due to the company-owned same store sales increase of 8.7% which was partially offset by a 17% increase in commodities rates for bone-in-chicken wings.

Company segment profit was \$4.2 million in the thirty-nine weeks ended September 26, 2015, a decrease of \$0.1 million, or 2.0%, compared to \$4.3 million in the prior year. The decrease is primarily due to the refranchising of five company-owned restaurants during the first fiscal quarter of 2014 and a 28% increase in commodities rates for bone-in-chicken wings partially offset by the leveraging of fixed costs due to the company-owned domestic same store sales increase of 9.3%.

#### 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. Our operations have not required significant working capital and, similar to many restaurant companies, we have been able to operate, and expect to continue to operate with negative working capital. We believe that our sources of liquidity and capital will be sufficient to finance our continued operations, growth strategy and additional expenses we expect to incur as a public company for at least the next twelve months.

The following table shows summary cash flows information for the thirty-nine weeks ended September 26, 2015 and September 27, 2014 (in thousands):

|                                         | Thirty-Nine Weeks Ended |                       |
|-----------------------------------------|-------------------------|-----------------------|
|                                         | September 26,<br>2015   | September 27,<br>2014 |
| Net cash provided by (used in):         |                         |                       |
| Operating activities                    | \$7,881                 | \$10,498              |
| Investing activities                    | (1,329)                 | ) 178                 |
| Financing activities                    | (10,558)                | ) (6,701)             |
| Net change in cash and cash equivalents | \$(4,006)               | ) \$3,975             |

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 \$7.9 million in the thirty-nine weeks ended September 26, 2015, a decrease of \$2.6 million, from \$10.5 million in 2014 due to a decrease in net income from the prior period and the timing in working capital changes.

Investing activities. Our net cash used in investing activities was \$1.3 million in the thirty-nine weeks ended September 26, 2015, a decrease of \$1.5 million, from \$0.2 million provided by investing activities in 2014. The decrease was due to the proceeds of \$1.1 million from the refranchising of five corporate restaurants during the first fiscal quarter of 2014, and an increase in capital expenditures over the comparable period.

Financing activities. Our net cash used in financing activities was \$10.6 million in the thirty-nine weeks ended September 26, 2015, a decrease of \$3.9 million, from cash used in financing activities of \$6.7 million in 2014. The decrease was due to a dividend payout of \$48.0 million to stockholders which was partially offset by \$34.7 million in net proceeds from the sale of common stock in our IPO. No dividends were paid during the comparable period in 2014. Additionally, cash proceeds from net borrowings was \$1.8 million in the thirty-nine weeks ended September 26, 2015, compared to net principal payments of \$7.6 million in the comparable period in 2014.

Senior secured credit facility. In March 2015, we amended and restated the senior secured credit facility. In connection with the amended and restated 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 facility included a term loan of \$102.5 million and a revolver of \$5.0 million. We used a portion of the proceeds from the amended and restated facility and cash on hand to pay a dividend of \$48.0 million to our stockholders. Borrowings under the facility bear interest, payable quarterly, at our option 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 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 second senior secured credit facility by up to an additional \$30.0 million.

On June 11, 2015, we completed an IPO. After underwriter discounts and commissions and offering expenses, we received net proceeds from the offering of approximately \$34.7 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 an additional prepayment of \$5.0 million in the third quarter. As a result of these payments, we have no scheduled principal payments due under our senior secured credit facility until September of 2019. At such time, principal installments ranging from \$2.8 million to \$3.3 million are due quarterly with all unpaid amounts due at 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 September 26, 2015. 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 \$37.0 million of long-term debt under our second amended and restated facility during 2015, we have no scheduled principal payments due until September of 2019.

#### Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements or obligations as of September 26, 2015.

#### 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. Our significant accounting policies are described in Note 1 to our consolidated financial statements. 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 estimates are identified and described in our annual consolidated financial statements and the related notes included in our Registration Statement and there have been no material changes since the filing of our Registration Statement.

#### 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 statements are based on our beliefs, assumptions and expectations of our future financial and operating performance and growth plans, taking into account the information currently available to us. Such statements include, in particular, statements about our plans, strategies and prospects. Words such as "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate," "could," "would," "will" and variations of such words and similar expressions are intended to identify such forward-looking statements. Examples of forward-looking statements in this Quarterly Report on Form 10-Q include, but are not limited to, our expectations with respect to our future liquidity, expenses and consumer appeal. These statements are based on beliefs and assumptions of Wingstop's management, which in turn are based on currently available information. These statements are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed, implied or forecasted in such forward-looking statements.

Factors that could cause actual results or outcomes to differ from the results expressed or implied by forward-looking statements include, among other things:

- overall macroeconomic conditions may impact our ability to successfully execute our growth strategy and franchise and open new restaurants that are profitable and to increase our revenue and operating profits;
- the impact of the operating results of our and our franchisees' existing restaurants on our financial performance;
- the impact of new restaurant openings on our financial performance;
- our ability to recruit and contract with qualified franchisees and to open new franchise restaurants;
- our ability to develop and maintain the Wingstop brand, including through effective advertising and marketing and the support of our franchisees' and the negative impact of actions of a franchisee, acting as an independent third party, could have on our financial performance or brand;
- our and our franchisees' reliance on vendors, suppliers and distributors or changes in food and supply costs, including any increase in the prices of the ingredients most critical to our menu, particularly bone-in chicken wings;
- our and our franchisees' ability to compete with many other restaurants and to increase domestic same store sales and average weekly sales;
- our ability to successfully meet or exceed the expectations of securities analysts or investors concerning our annual or quarterly operating results, domestic same store sales or average weekly sales;
- our expansion into new markets may present increased risks due to our unfamiliarity with those areas;
- the reliability of our, our franchisees' and our licensees' information technology systems and network security, including costs resulting from breaches of security of confidential guest, franchisee or employee information;
- legal complaints, litigation or regulatory compliance, including changes in laws impacting the franchise business model;
- our and our franchisees' ability to attract and retain qualified employees while also controlling labor costs;

publicity regarding other franchisors controlled by our majority stockholder;

potential fluctuations in our annual or quarterly operating results and the impact of significant adverse weather conditions and other disasters;

disruptions in our and our franchisees' ability to utilize computer systems to process transactions and manage our business;

health concerns arising from outbreaks of viruses, including the impact of a pandemic spread of avian flu on our and our franchisees' supply of chicken and concerns regarding food safety and food-borne illness;

our and our franchisees' ability to obtain and maintain required licenses and permits or to comply with alcoholic beverage or food control regulations;

our ability to maintain insurance that provides adequate levels of coverage against claims;

fluctuations in exchange rates on our revenue;

our and our franchisees' ability to successfully operate in unfamiliar markets and markets where there may be limited or no market recognition of our brand, including the impact that our expansion into international markets has on our exposure to risk factors over which neither we nor our franchisees have control;

the potential impact opening new restaurants in existing markets could have on sales at existing restaurants;

the effectiveness of our advertising and marketing campaigns, which may not be successful;

food safety issues, which may adversely impact our or our franchisees' business;

changes in consumer preferences, including changes caused by diet and health concerns or government regulation;

the continued service of our executive officers;

our ability to successfully open new franchised Wingstop restaurants for which we have signed commitments;

our stated sales to investment ratio and average unlevered cash-on-cash return may not be indicative of future results of any new franchised restaurant;

our ability to protect our intellectual property;

our ability to generate or raise capital on acceptable terms in the future, including our ability to incur additional debt and other restrictions under the terms of our existing senior secured credit facility;

the JOBS Act allowing us to postpone the date by which we must comply with certain laws and regulations intended to protect investors and to reduce the amount of information we provide in our reports filed with the SEC;

the costs and time requirements as a result of operating as a public company, including our ability to effectively remediate identified material weaknesses and improve internal control over financial reporting in order to comply with applicable reporting obligations;

future impairment charges;

the concentration of ownership by our majority stockholder and "controlled company" exemptions under Nasdaq listing standards; and

the impact of anti-takeover provisions in our charter documents and under Delaware law, which could make an acquisition of us more difficult, limit attempts by our stockholders to replace or remove our current management and limit the market price of our common stock.

The above list of factors is not exhaustive. Some of these and other factors are discussed in more detail under “Risk Factors” in our Registration Statement. We assume no obligation to update or revise any forward-looking statements for any reason, or to update the reasons actual results could differ materially from those anticipated in any forward-looking statements, even if new information becomes available in the future.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

**Impact of Inflation.** The primary inflationary factors affecting our and our franchisees' operations are food and beverage costs, labor costs, energy costs and the costs and materials used in the construction of new restaurants. Our restaurant operations are subject to federal and state minimum wage laws governing such matters as working conditions, overtime and tip credits. Significant numbers of our and our franchisees' restaurant personnel are paid at rates related to the federal and/or state minimum wage and, accordingly, increases in the minimum wage increase our and our franchisees' labor costs. To the extent permitted by competition and the economy, we have mitigated increased costs by increasing menu prices and may continue to do so if deemed necessary in future years. Substantial increases in costs and expenses could impact our operating results to the extent such increases cannot be passed through to our customers. Historically, inflation has not had a material effect on our results of operations. Severe increases in inflation, however, could affect the global and U.S. economies and could have an adverse impact on our business, financial condition and results of operations.

**Commodity Price Risk.** We are exposed to market risks from changes in commodity prices. Many of the food products purchased by us are affected by weather, production, availability and other factors outside our control. Although we attempt to minimize the effect of price volatility by negotiating fixed price contracts for the supply of key ingredients, there are no established fixed price markets for bone-in chicken wings, so we are subject to prevailing market conditions. Bone-in chicken wings accounted for approximately 29.2% and 23.6% of our company-owned restaurant cost of sales during the thirty-nine weeks ended September 26, 2015 and September 27, 2014, respectively, with an average price per pound of \$1.83 and \$1.43, respectively. A hypothetical 10% increase in the bone-in chicken wing costs would have increased costs of sales by approximately \$0.5 million during the thirty-nine weeks ended September 26, 2015. We do not engage in speculative financial transactions nor do we hold or issue financial instruments for trading purposes. In instances when we use fixed pricing agreements with our suppliers, these agreements cover our physical commodity needs, are not net-settled, and are accounted for as normal purchases.

**Interest Rate Risk.** We are subject to interest rate risk in connection with borrowings under our senior secured credit facility, which bears interest at variable rates. As of September 26, 2015, we had \$95.5 million outstanding under our credit facility. Derivative financial instruments, such as interest rate swap agreements and interest rate cap agreements, may be used for the purpose of managing fluctuating interest rate exposures that exist from our variable rate debt obligations that are expected to remain outstanding. Interest rate changes do not affect the market value of such debt, but could impact the amount of our interest payments, and accordingly, our future earnings and cash flows, assuming other factors are held constant. A hypothetical 1.0% percentage point increase or decrease in the interest rate associated with our credit facilities would have resulted in a \$1.0 million impact on interest expense on an annualized basis. In March 2014, the Company entered into an interest rate cap agreement for a notional amount of \$24.4 million to minimize the variability of its cash flows related to a portion of its floating rate indebtedness. The interest rate cap agreement caps LIBOR at 2.50% from March 2014 through December 2016 with respect to the \$24.4 million notional amount of such agreement. On December 31, 2014, the notional amount increased by \$24.3 million to \$48.7 million. In June 2015, the Company entered into an additional interest rate cap agreement for a notional amount by \$18.2 million to a combined \$66.9 million. The June 2015 interest rate cap agreement caps LIBOR at 2.50% from June 2015 through March 2018 with respect to the \$18.2 million notional amount of such agreements.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 26, 2015, pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC 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.

Changes in Internal Control over Financial Reporting

There have been no other significant changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION.

Item 1. Legal Proceedings.

From time to time we may be involved in claims and legal actions that arise in the ordinary course of business. We do not believe that the ultimate resolution of any of these actions, individually or in the aggregate, will have a material adverse effect on our financial position, results of operations, liquidity or capital resources.

Item 1A. Risk Factors.

A description of the risk factors associated with our business is contained in the “Risk Factors” section of our Registration Statement. There have been no material changes to our Risk Factors as previously reported.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Index to exhibits

| Exhibit No. | Description                                                                                                                                                                                                                           |
|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1         | Amended and Restated Certificate of Incorporation of Wingstop Inc. filed as exhibit 3.1 to the Registration Statement of the Company on Form S-1/A (Registration No. 333-203891) on June 2, 2015 and incorporated herein by reference |
| 3.2         | Amended and Restated Bylaws of Wingstop Inc. filed as exhibit 3.2 to the Registration Statement of the Company on Form S-1/A (Registration No. 333-203891) on June 2, 2015 and incorporated herein by reference                       |
| 31.1        | Certification of Principal Executive Officer under Section 302 of the Sarbanes–Oxley Act of 2002                                                                                                                                      |
| 31.2        | Certification of Principal Financial Officer under Section 302 of the Sarbanes–Oxley Act of 2002                                                                                                                                      |
| 32.1        | Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes–Oxley Act of 2002                                                                                    |
| 32.2        | Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes–Oxley Act of 2002                                                                                    |
| 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                                                                                                                                                                                |

Signatures

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

Wingstop Inc.  
(Registrant)

Date: November 6, 2015

By: /s/ Charles R. Morrison  
President and Chief Executive Officer

Date: November 6, 2015

By: /s/ Michael F. Mravle  
Chief Financial Officer

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