

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 24, 2023**

OR

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

Commission file number 001-40866

**FIRST WATCH**  
BREAKFAST · BRUNCH · LUNCH

**First Watch Restaurant Group, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**82-4271369**

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

**8725 Pendery Place, Suite 201, Bradenton, FL 34201**

(Address of Principal Executive Offices) (Zip Code)

**(941) 907-9800**

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
<b>Common Stock, \$0.01 par value</b>	<b>FWRG</b>	<b>The Nasdaq Stock Market LLC (Nasdaq Global Select Market)</b>

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer	<input type="checkbox"/> Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> Smaller reporting company	<input type="checkbox"/>
	<input type="checkbox"/> Emerging growth company	<input checked="" type="checkbox"/>

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

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

The registrant had outstanding 59,817,629 shares of common stock as of October 30, 2023.

## TABLE OF CONTENTS

	<b>Page</b>
<a href="#"><u>Cautionary Note Regarding Forward-Looking Statements</u></a>	<a href="#"><u>3</u></a>
<a href="#"><u>Part I. Financial Information</u></a>	
<a href="#"><u>Item 1. Financial Statements (Unaudited)</u></a>	<a href="#"><u>4</u></a>
<a href="#"><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></a>	<a href="#"><u>21</u></a>
<a href="#"><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></a>	<a href="#"><u>35</u></a>
<a href="#"><u>Item 4. Controls and Procedures</u></a>	<a href="#"><u>36</u></a>
<a href="#"><u>Part II. Other Information</u></a>	
<a href="#"><u>Item 1. Legal Proceedings</u></a>	<a href="#"><u>38</u></a>
<a href="#"><u>Item 1A. Risk Factors</u></a>	<a href="#"><u>38</u></a>
<a href="#"><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></a>	<a href="#"><u>38</u></a>
<a href="#"><u>Item 3. Defaults Upon Senior Securities</u></a>	<a href="#"><u>38</u></a>
<a href="#"><u>Item 4. Mine Safety Disclosures</u></a>	<a href="#"><u>38</u></a>
<a href="#"><u>Item 5. Other Information</u></a>	<a href="#"><u>38</u></a>
<a href="#"><u>Item 6. Exhibits</u></a>	<a href="#"><u>39</u></a>
<a href="#"><u>Signatures</u></a>	<a href="#"><u>39</u></a>

## Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q (“Form 10-Q”) contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (“PSLRA”), which are subject to known and unknown risks, uncertainties and other important factors that may cause actual results to be materially different from the statements made herein. All statements other than statements of historical fact are forward-looking statements. Forward-looking statements discuss our current expectations and projections relating to our financial position, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to any historical or current facts. These statements may include words such as “aim,” “anticipate,” “believe,” “estimate,” “expect,” “forecast,” “future,” “intend,” “outlook,” “potential,” “project,” “projection,” “plan,” “seek,” “may,” “could,” “would,” “will,” “should,” “can,” “can have,” “likely,” the negatives thereof and other similar expressions. You should evaluate all forward-looking statements made in this Form 10-Q in the context of the risks and uncertainties disclosed herein, including under Part I. Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Part II. Item 1A. “Risk Factors”, and in our Annual Report on Form 10-K as of and for the year ended December 25, 2022 (“2022 Form 10-K”), including under Part I. Item 1A. “Risk Factors” and Part II. Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Important factors that could cause actual results to differ materially from those in the forward-looking statements include the following: uncertainty regarding the Russia and Ukraine war, renewed conflict in the Middle East and the related impact on macroeconomic conditions, including inflation, as a result of such conflict or other related events; our vulnerability to changes in economic conditions and consumer preferences; our inability to successfully open new restaurants or establish new markets; our inability to effectively manage our growth; adverse effects of the COVID-19 pandemic or other infectious diseases; potential negative impacts on sales at our and our franchisees’ restaurants as a result of our opening new restaurants; a decline in visitors to any of the retail centers, lifestyle centers, or entertainment centers where our restaurants are located; lower than expected same-restaurant sales growth; unsuccessful marketing programs and limited time new offerings; changes in the cost of food; unprofitability or closure of new restaurants or lower than previously experienced performance in existing restaurants; our inability to compete effectively for customers; unsuccessful financial performance of our franchisees; our limited control over our franchisees’ operations; our inability to maintain good relationships with our franchisees; conflicts of interest with our franchisees; the geographic concentration of our system-wide restaurant base in the southeast portion of the United States; damage to our reputation and negative publicity; our inability or failure to recognize, respond to and effectively manage the accelerated impact of social media; our limited number of suppliers and distributors for several of our frequently used ingredients and shortages or disruptions in the supply or delivery of such ingredients; information technology system failures or breaches of our network security; our failure to comply with federal and state laws and regulations relating to privacy, data protection, advertising and consumer protection, or the expansion of current or the enactment of new laws or regulations relating to privacy, data protection, advertising and consumer protection; our potential liability with our gift cards under the property laws of some states; our failure to enforce and maintain our trademarks and protect our other intellectual property; litigation with respect to intellectual property assets; our dependence on our executive officers and certain other key employees; our inability to identify, hire, train and retain qualified individuals for our workforce; our failure to obtain or to properly verify the employment eligibility of our employees; our failure to maintain our corporate culture as we grow; unionization activities among our employees; employment and labor law proceedings; labor shortages or increased labor costs or health care costs; risks associated with leasing property subject to long-term and non-cancelable leases; risks related to our sale of alcoholic beverages; costly and complex compliance with federal, state and local laws; changes in accounting principles applicable to us; our vulnerability to natural disasters, unusual weather conditions, pandemic outbreaks, political events, war and terrorism; our inability to secure additional capital to support business growth; our level of indebtedness; failure to comply with covenants under our credit facility; and the interests of our majority stockholder may differ from those of public stockholders.

The forward-looking statements included in this Form 10-Q are made only as of the date hereof and are expressly qualified in their entirety by these cautionary statements. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law. All information presented herein is based on our fiscal calendar. Unless otherwise stated, references to particular years, quarters, months or periods refer to our fiscal years and the associated quarters, months and periods of those fiscal years.

**Part I - Financial Information****Item 1. Financial Statements (Unaudited)**

**FIRST WATCH RESTAURANT GROUP, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
*(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)*  
*(Unaudited)*

	SEPTEMBER 24, 2023	DECEMBER 25, 2022
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 39,923	\$ 49,672
Restricted cash	326	251
Accounts receivable	4,990	6,164
Inventory	4,791	5,028
Prepaid expenses	4,697	5,800
Derivative assets, current	833	—
Other current assets	3,005	373
Total current assets	58,565	67,288
Goodwill	356,969	345,219
Intangible assets, net	150,280	143,151
Operating lease right-of-use assets	400,764	352,373
Property, fixtures and equipment, net of accumulated depreciation of \$171,582 and \$145,720, respectively	237,527	195,117
Derivative assets, long-term	263	—
Other long-term assets	1,478	1,298
Total assets	<u>\$ 1,205,846</u>	<u>\$ 1,104,446</u>
<b>Liabilities and Equity</b>		
Current liabilities:		
Accounts payable	\$ 5,550	\$ 7,590
Accrued liabilities	33,840	22,729
Accrued compensation	18,258	17,899
Deferred revenues	2,655	5,193
Current portion of operating lease liabilities	42,856	38,936
Current portion of long-term debt	6,891	6,257
Note payable	—	1,376
Total current liabilities	110,050	99,980
Operating lease liabilities	420,496	366,113
Long-term debt, net	90,949	94,668
Deferred income taxes	24,003	17,166
Other long-term liabilities	3,257	3,384
Total liabilities	648,755	581,311
Commitments and contingencies (Note 12)		
Equity:		
Preferred stock; \$0.01 par value; 10,000,000 shares authorized; none issued and outstanding	—	—
Common stock; \$0.01 par value; 300,000,000 shares authorized; 59,794,999 and 59,211,019 shares issued and outstanding at September 24, 2023 and December 25, 2022, respectively	597	592
Additional paid-in capital	631,064	620,675
Accumulated deficit	(75,395)	(98,132)
Accumulated other comprehensive income	825	—
Total equity	557,091	523,135
Total liabilities and equity	<u>\$ 1,205,846</u>	<u>\$ 1,104,446</u>

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

**FIRST WATCH RESTAURANT GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**  
*(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)*  
*(Unaudited)*

	THIRTEEN WEEKS ENDED		THIRTY-NINE WEEKS ENDED	
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022
<b>Revenues:</b>				
Restaurant sales	\$ 215,495	\$ 183,978	\$ 636,050	\$ 536,329
Franchise revenues	3,717	2,874	10,868	8,088
Total revenues	<u>219,212</u>	<u>186,852</u>	<u>646,918</u>	<u>544,417</u>
<b>Operating costs and expenses:</b>				
Restaurant operating expenses (exclusive of depreciation and amortization shown below):				
Food and beverage costs	48,709	44,578	143,028	129,200
Labor and other related expenses	73,137	61,262	212,312	175,091
Other restaurant operating expenses	33,694	29,685	97,572	85,761
Occupancy expenses	17,555	15,091	49,950	44,318
Pre-opening expenses	2,035	1,490	4,323	3,569
General and administrative expenses	25,179	21,689	73,168	63,194
Depreciation and amortization	10,434	8,679	28,992	25,302
Impairments and loss on disposal of assets	185	338	618	572
Transaction expenses, net	546	1,419	2,543	1,976
Total operating costs and expenses	<u>211,474</u>	<u>184,231</u>	<u>612,506</u>	<u>528,983</u>
Income from operations	7,738	2,621	34,412	15,434
Interest expense	(1,848)	(1,362)	(5,792)	(3,494)
Other income, net	771	116	1,950	395
Income before income taxes	6,661	1,375	30,570	12,335
Income tax expense	(1,243)	(1,329)	(7,833)	(4,942)
<b>Net income</b>	<u>\$ 5,418</u>	<u>\$ 46</u>	<u>\$ 22,737</u>	<u>\$ 7,393</u>
<b>Net income</b>	\$ 5,418	\$ 46	\$ 22,737	\$ 7,393
Other comprehensive income:				
Unrealized gain on derivatives	1,257	—	1,097	—
Income tax related to other comprehensive income	(272)	—	(272)	—
Other comprehensive income, net of tax	985	—	825	—
<b>Comprehensive income</b>	<u>\$ 6,403</u>	<u>\$ 46</u>	<u>\$ 23,562</u>	<u>\$ 7,393</u>
Net income per common share - basic	\$ 0.09	\$ —	\$ 0.38	\$ 0.13
Net income per common share - diluted	\$ 0.09	\$ —	\$ 0.37	\$ 0.12
Weighted average number of common shares outstanding - basic	59,646,027	59,089,831	59,424,989	59,065,423
Weighted average number of common shares outstanding - diluted	61,562,524	60,464,062	61,016,105	60,088,622

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

**FIRST WATCH RESTAURANT GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF EQUITY**  
*(IN THOUSANDS, EXCEPT SHARE AMOUNTS)*  
*(Unaudited)*

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total Equity
	Shares	Amount				
<b>Balance at June 25, 2023</b>	59,463,950	\$ 594	\$ 626,216	\$ (80,813)	\$ (160)	\$ 545,837
Net income	—	—	—	5,418	—	5,418
Stock-based compensation	—	—	1,764	—	—	1,764
Common stock issued under stock-based compensation plans, net	331,049	3	3,084	—	—	3,087
Other comprehensive income, net of tax	—	—	—	—	985	985
<b>Balance at September 24, 2023</b>	<u>59,794,999</u>	<u>\$ 597</u>	<u>\$ 631,064</u>	<u>\$ (75,395)</u>	<u>\$ 825</u>	<u>\$ 557,091</u>

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Equity
	Shares	Amount				
<b>Balance at December 25, 2022</b>	59,211,019	\$ 592	\$ 620,675	\$ (98,132)	\$ —	\$ 523,135
Net income	—	—	—	22,737	—	22,737
Stock-based compensation	—	—	5,386	—	—	5,386
Common stock issued under stock-based compensation plans, net	583,980	5	5,003	—	—	5,008
Other comprehensive income, net of tax	—	—	—	—	825	825
<b>Balance at September 24, 2023</b>	<u>59,794,999</u>	<u>\$ 597</u>	<u>\$ 631,064</u>	<u>\$ (75,395)</u>	<u>\$ 825</u>	<u>\$ 557,091</u>

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Equity
	Shares	Amount			
<b>Balance at June 26, 2022</b>	59,075,562	\$ 591	\$ 614,223	\$ (97,692)	\$ 517,122
Net income	—	—	—	46	46
Stock-based compensation	—	—	2,719	—	2,719
Common stock issued under stock-based compensation plans, net	41,161	—	384	—	384
<b>Balance at September 25, 2022</b>	<u>59,116,723</u>	<u>\$ 591</u>	<u>\$ 617,326</u>	<u>\$ (97,646)</u>	<u>\$ 520,271</u>

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Equity
	Shares	Amount			
<b>Balance at December 26, 2021</b>	59,048,446	\$ 590	\$ 608,878	\$ (105,039)	\$ 504,429
Net income	—	—	—	7,393	7,393
Stock-based compensation	—	—	7,821	—	7,821
Common stock issued under stock-based compensation plans, net	68,277	1	627	—	628
<b>Balance at September 25, 2022</b>	<u>59,116,723</u>	<u>\$ 591</u>	<u>\$ 617,326</u>	<u>\$ (97,646)</u>	<u>\$ 520,271</u>

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

**FIRST WATCH RESTAURANT GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(IN THOUSANDS)*  
*(Unaudited)*

	THIRTY-NINE WEEKS ENDED	
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022
<b>Cash flows from operating activities:</b>		
Net income	\$ 22,737	\$ 7,393
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,992	25,302
Stock-based compensation	5,386	7,821
Non-cash operating lease costs	14,132	11,907
Non-cash portion of gain on lease modifications	(123)	(84)
Deferred income taxes	6,566	4,353
Amortization of debt discount and deferred issuance costs	332	334
Impairments and loss on disposal of assets	618	572
Gain on insurance proceeds	(643)	—
Changes in assets and liabilities:		
Accounts receivable	1,174	1,018
Inventory	458	(93)
Prepaid expenses	1,115	1,346
Other assets, current and long-term	(2,758)	(2,176)
Accounts payable	(2,072)	(3,560)
Accrued liabilities and other long-term liabilities	4,997	6,032
Accrued compensation and deferred payroll taxes	359	(5,890)
Deferred revenues, current and long-term	(3,322)	(2,061)
Operating lease liabilities	(4,904)	(5,570)
Net cash provided by operating activities	73,044	46,644
<b>Cash flows from investing activities:</b>		
Capital expenditures	(52,770)	(44,985)
Acquisitions, net of cash acquired	(30,422)	—
Purchase of intangible assets	(84)	(715)
Insurance proceeds	643	—
Net cash used in investing activities	(82,633)	(45,700)
<b>Cash flows from financing activities:</b>		
Repayments of note payable	(1,376)	(2,352)
Repayments of long-term debt, including finance lease liabilities	(3,519)	(1,635)
Proceeds from exercise of stock options, net of employee taxes paid	5,008	628
Contingent consideration payment	(198)	(78)
Net cash used in financing activities	(85)	(3,437)
Net decrease in cash and cash equivalents and restricted cash	(9,674)	(2,493)
<b>Cash and cash equivalents and restricted cash:</b>		
Beginning of period	49,923	52,115
End of period	\$ 40,249	\$ 49,622
<b>Supplemental cash flow information:</b>		
Cash paid for interest	\$ 5,362	\$ 2,800
Cash paid for income taxes, net of refunds	\$ 1,337	\$ 777

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

**FIRST WATCH RESTAURANT GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS - *continued***  
*(IN THOUSANDS)*  
*(Unaudited)*

	THIRTY-NINE WEEKS ENDED	
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022
<b>Supplemental disclosures of non-cash investing and financing activities:</b>		
Leased assets obtained in exchange for new operating lease liabilities	\$ 64,660	\$ 37,961
Leased assets obtained in exchange for new finance lease liabilities	\$ 145	\$ 89
Remeasurements and terminations of operating lease assets and lease liabilities	\$ (1,453)	\$ (1,861)
Remeasurements and terminations of finance lease assets and lease liabilities	\$ (43)	\$ (191)
Increase in liabilities from acquisition of property, fixtures and equipment	\$ 6,202	\$ 2,148

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



**FIRST WATCH RESTAURANT GROUP, INC.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

---

**1. Nature of Business and Organization**

First Watch Restaurant Group, Inc. (collectively with its wholly-owned subsidiaries, “the Company,” or “Management”) is a Delaware holding company. The Company operates and franchises restaurants in 29 states operating under the “First Watch” trade name, which are focused on made-to-order breakfast, brunch and lunch. The Company does not operate outside of the United States and all of its assets are located in the United States. As of September 24, 2023, the Company operated 402 company-owned restaurants and 103 franchise-owned restaurants.

**2. Summary of Significant Accounting Policies**

**Basis of Presentation**

The Company reports financial information on a 52- or 53-week fiscal year ending on the last Sunday of each calendar year. The quarters ended September 24, 2023 and September 25, 2022 were 13-week periods. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K as of and for the year ended December 25, 2022 (“2022 Form 10-K”).

The accompanying unaudited interim consolidated financial statements have been prepared by the Company in accordance with generally accepted accounting principles in the United States of America (“GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all the information and notes required by GAAP for complete financial statements. The unaudited interim consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements included in the 2022 Form 10-K and include all adjustments necessary for the fair statement of the consolidated financial statements for the quarterly periods presented. The results of operations for quarterly periods are not necessarily indicative of the results to be expected for other quarterly periods or the entire fiscal year.

**Use of Estimates**

The preparation of the unaudited interim consolidated financial statements in accordance with GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited interim consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates and such differences could be material.

**Fair Value of Financial Instruments**

Certain assets and liabilities are carried at fair value. Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The carrying amounts of the Company’s financial instruments, including cash equivalents, accounts receivable, accounts payable, accrued expenses, note payable and other current liabilities, approximate their fair values due to their short-term maturities.

**Interest Rate Swaps**

As an element of the Company’s interest rate risk management strategy, Management uses interest rate swaps. The intent of these instruments is to reduce cash flow exposure to variability in expected future interest rates on the Company’s debt. Management has elected to designate and qualify the interest rate swaps as cash flow hedges. As such, the instruments are recorded on the balance sheet at fair value. Thereafter, gains or losses on the instruments are recognized in equity as changes to Other Comprehensive Income and subsequently reclassified into earnings at the time of the Company’s debt- interest payments.

**Summary of Recently Issued Accounting Pronouncements**

Recent accounting guidance not discussed herein is not applicable, did not have, or is not expected to have a material impact to the Company.

**FIRST WATCH RESTAURANT GROUP, INC.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

### 3. Business Acquisitions

During the thirty-nine weeks ended September 24, 2023, the Company acquired substantially all the assets associated with 17 franchise operated First Watch restaurants. The purchase price was allocated to the fair value of assets acquired and liabilities assumed, which are based on preliminary valuations and are subject to adjustment as additional information is available. The details of each acquisition are as follows:

(dollars in thousands)

Date of acquisition	May 1, 2023	June 26, 2023	August 9, 2023
Number of acquired restaurants	6	5	6
Number of acquired restaurants under development	—	—	1
Purchase price (cash)	\$ 8,177	\$ 8,656	\$ 14,127
Transaction costs incurred	\$ 362	\$ 334	\$ 373
Deferred franchise fees recognized as a result of termination of pre-existing franchise agreement	\$ 78	\$ 123	\$ 200
Recognized amounts of identifiable assets acquired and liabilities assumed:			
Cash	\$ 9	\$ 6	\$ 16
Inventory	\$ 57	\$ 62	\$ 102
Prepaid rent and other assets	\$ 67	\$ 33	\$ 89
Property, fixtures and equipment	\$ 1,840	\$ 3,783	\$ 6,364
Reacquired rights	\$ 1,342	\$ 2,304	\$ 4,358
Goodwill (primarily expected synergies and assembled workforce; tax deductible)	\$ 5,272	\$ 2,667	\$ 3,811
Unfavorable leasehold positions, net	\$ (330)	\$ (70)	\$ (530)
Accounts payable	\$ —	\$ —	\$ (32)
Deferred revenues - gift card liabilities assumed	\$ (80)	\$ (129)	\$ (51)

**FIRST WATCH RESTAURANT GROUP, INC.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

#### 4. Revenues

The following tables include a detail of liabilities from contracts with customers:

<i>(in thousands)</i>	SEPTEMBER 24, 2023	DECEMBER 25, 2022
<b>Deferred revenues:</b>		
Deferred gift card revenue	\$ 2,370	\$ 4,897
Deferred franchise fee revenue - current	285	296
Total current deferred revenues	<u>\$ 2,655</u>	<u>\$ 5,193</u>
<b>Other long-term liabilities:</b>		
Deferred franchise fee revenue - non-current	<u>\$ 1,949</u>	<u>\$ 2,472</u>

Changes in deferred gift card contract liabilities were as follows:

<i>(in thousands)</i>	THIRTEEN WEEKS ENDED		THIRTY-NINE WEEKS ENDED	
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022
<b>Deferred gift card revenue:</b>				
Balance, beginning of period	\$ 3,154	\$ 2,805	\$ 4,897	\$ 4,410
Gift card sales	1,185	1,218	5,746	4,796
Gift card redemptions	(1,921)	(1,720)	(7,726)	(6,399)
Gift card breakage	(228)	(192)	(807)	(696)
Gift card liabilities assumed through acquisitions	180	—	260	—
Balance, end of period	<u>\$ 2,370</u>	<u>\$ 2,111</u>	<u>\$ 2,370</u>	<u>\$ 2,111</u>

Changes in deferred franchise fee contract liabilities were as follows:

<i>(in thousands)</i>	THIRTEEN WEEKS ENDED		THIRTY-NINE WEEKS ENDED	
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022
<b>Deferred franchise fee revenue:</b>				
Balance, beginning of period	\$ 2,672	\$ 2,637	\$ 2,768	\$ 2,536
Cash received	36	204	175	434
Franchise revenues recognized	(150)	(67)	(307)	(196)
Business combinations - franchise revenues recognized	(323)	—	(401)	—
Balance, end of period	<u>\$ 2,235</u>	<u>\$ 2,774</u>	<u>\$ 2,235</u>	<u>\$ 2,774</u>

**FIRST WATCH RESTAURANT GROUP, INC.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Revenues recognized disaggregated by type were as follows:

<i>(in thousands)</i>	THIRTEEN WEEKS ENDED		THIRTY-NINE WEEKS ENDED	
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022
<b>Restaurant sales:</b>				
In-restaurant dining sales	\$ 176,696	\$ 147,491	\$ 520,277	\$ 425,222
Third-party delivery sales	22,011	20,105	65,765	60,960
Take-out sales	16,788	16,382	50,008	50,147
<b>Total restaurant sales</b>	<b>\$ 215,495</b>	<b>\$ 183,978</b>	<b>\$ 636,050</b>	<b>\$ 536,329</b>
<b>Franchise revenues:</b>				
Royalty and system fund contributions	\$ 3,244	\$ 2,807	\$ 10,160	\$ 7,892
Initial fees	473	67	708	196
<b>Total franchise revenues</b>	<b>\$ 3,717</b>	<b>\$ 2,874</b>	<b>\$ 10,868</b>	<b>\$ 8,088</b>
<b>Total revenues</b>	<b>\$ 219,212</b>	<b>\$ 186,852</b>	<b>\$ 646,918</b>	<b>\$ 544,417</b>

### 5. Accounts Receivable

Accounts receivable consisted of the following:

<i>(in thousands)</i>	SEPTEMBER 24, 2023	DECEMBER 25, 2022
Receivables from third-party delivery providers	\$ 1,414	\$ 974
Receivables from franchisees	1,184	1,076
Receivables from vendors	1,239	920
Receivables related to gift card sales	323	1,565
Other receivables	587	1,629
<b>Total accounts receivable</b>	<b>\$ 4,990</b>	<b>\$ 6,164</b>

### 6. Accrued Liabilities

Accrued liabilities consisted of the following:

<i>(in thousands)</i>	SEPTEMBER 24, 2023	DECEMBER 25, 2022
Construction liabilities	\$ 13,110	\$ 6,908
Sales tax	4,478	3,791
Self-insurance and general liability reserves	1,446	1,529
Utilities	1,840	1,468
Interest payable	1,847	1,506
Credit card fees	1,220	1,043
Property tax	1,355	951
Contingent rent	1,063	811
Common area maintenance	668	680
Other	6,813	4,042
<b>Total accrued liabilities</b>	<b>\$ 33,840</b>	<b>\$ 22,729</b>

**FIRST WATCH RESTAURANT GROUP, INC.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**7. Debt**

Long-term debt, net consisted of the following:

<i>(dollars in thousands)</i>	SEPTEMBER 24, 2023		DECEMBER 25, 2022	
	Balance	Interest Rate	Balance	Interest Rate
Term Facility	\$ 95,000	7.59%	\$ 98,125	5.89%
Finance lease liabilities	1,141		1,433	
Financing obligation	3,050		3,050	
Less: Unamortized debt discount and deferred issuance costs	(1,351)		(1,683)	
Total Debt, net	97,840		100,925	
Less: Current portion of long-term debt	(6,891)		(6,257)	
Long-term debt, net	\$ 90,949		\$ 94,668	

**Credit Facilities**

FWR Holding Corporation (“FWR”), a subsidiary of the Company, is the borrower under the credit agreement dated as of October 6, 2021 (“Credit Agreement”), which provides for (i) a \$100.0 million term loan A facility (the “Term Facility”) and (ii) a \$75.0 million revolving credit facility (the “Revolving Credit Facility” and, together with the Term Facility, collectively, the “Credit Facilities”). The Revolving Credit Facility was undrawn at September 24, 2023 and December 25, 2022. The Credit Facilities mature on October 6, 2026.

On February 24, 2023, the Company entered into the Amendment No. 1 to the Credit Agreement (the “Amendment”) to replace LIBO Rate (“LIBOR”) with a secured overnight financing rate (“SOFR”). All outstanding borrowings under the Credit Agreement continued to bear interest at LIBOR until March 27, 2023.

Effective March 27, 2023, borrowings under the Credit Facilities bear interest, at the option of FWR at either (i) the alternate base rate plus a margin of between 125 and 200 basis points depending on the total rent adjusted net leverage ratio of FWR and its restricted subsidiaries on a consolidated basis (the “Total Rent Adjusted Net Leverage Ratio”) or (ii) SOFR plus a credit spread adjustment of 10 basis points plus a margin of between 225 and 300 basis points depending on the Total Rent Adjusted Net Leverage Ratio. Refer to Note 8, *Interest Rate Swaps*, for information about the variable-to-fixed interest rate swap agreements entered into in June 2023.

**Fair Value of Debt**

The estimated fair value of the outstanding debt, excluding finance lease obligations and financing obligations, is classified as Level 3 in the fair value hierarchy and was estimated using discounted cash flow models, market yield and yield volatility. The estimated fair value of the outstanding debt under the Credit Facilities was \$94.9 million and \$97.1 million at September 24, 2023 and December 25, 2022, respectively.

## **8. Interest Rate Swaps**

On June 23, 2023, the Company entered into variable-to-fixed interest rate swaps to hedge a portion of the cash flows of the Company's variable rate debt. The interest rate swaps have an aggregate notional amount of \$90.0 million and mature on October 6, 2026. Under the terms of the interest rate swaps, the Company will pay a weighted average fixed rate of 4.16% on the notional amount and will receive payments from the counterparties based on the three-month SOFR rate.

The fair value measurement of the interest rate swaps was based on the contractual terms and used observable market-based inputs. The interest rate swaps were valued using a discounted cash flow analysis on the expected cash flows using observable inputs including interest rate curves and credit spreads. Although the majority of the inputs used to value the instruments fall within Level 2 of the fair value hierarchy, the credit valuation adjustments utilized Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Company and the counterparties. The Company has determined that the impact of the credit valuation adjustments was not significant to the overall valuation. As a result, the derivative was classified as Level 2 of the fair value hierarchy.

Amounts reported in Other comprehensive income related to the interest rate swaps will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. Over the next 12 months, the Company estimates that \$1.0 million will be reclassified as a reduction to interest expense.

**FIRST WATCH RESTAURANT GROUP, INC.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

## 9. Leases

The following table includes a detail of lease assets and liabilities:

<i>(in thousands)</i>	<b>Consolidated Balance Sheets Classification</b>	<b>SEPTEMBER 24, 2023</b>		<b>DECEMBER 25, 2022</b>	
Operating lease right-of-use assets	Operating lease right-of-use assets	\$	400,764	\$	352,373
Finance lease assets	Property, fixtures and equipment, net		1,062		1,332
Total lease assets		\$	401,826	\$	353,705
Operating lease liabilities <sup>(1)</sup> - current	Current portion of operating lease liabilities	\$	42,856	\$	38,936
Operating lease liabilities - non-current	Operating lease liabilities		420,496		366,113
Finance lease liabilities - current	Current portion of long-term debt		641		632
Finance lease liabilities - non-current	Long-term debt, net		500		801
Total lease liabilities		\$	464,493	\$	406,482

(1) Excludes all variable lease expense.

The components of lease expense are as follows:

<i>(in thousands)</i>	<b>Consolidated Statements of Operations and Comprehensive Income Classification</b>	<b>THIRTEEN WEEKS ENDED</b>		<b>THIRTY-NINE WEEKS ENDED</b>	
		<b>SEPTEMBER 24, 2023</b>	<b>SEPTEMBER 25, 2022</b>	<b>SEPTEMBER 24, 2023</b>	<b>SEPTEMBER 25, 2022</b>
Operating lease expense	Other restaurant operating expenses				
	Occupancy expenses				
	Pre-opening expenses				
	General and administrative expenses	\$ 14,492	\$ 12,667	\$ 40,933	\$ 36,843
Variable lease expense	Food and beverage costs				
	Occupancy expenses				
	General and administrative expenses	4,438	3,676	12,444	10,669
Finance lease expense:					
Amortization of leased assets	Depreciation and amortization	126	127	380	394
Interest on lease liabilities	Interest expense	20	25	72	101
Total lease expense <sup>(1)</sup>		\$ 19,076	\$ 16,495	\$ 53,829	\$ 48,007

(1) Includes contingent rent expense of \$0.5 million and \$0.4 million during the thirteen weeks ended September 24, 2023 and September 25, 2022, respectively, and \$1.4 million and \$1.2 million during the thirty-nine weeks ended September 24, 2023 and September 25, 2022, respectively.

Supplemental cash flow information related to leases was as follows:

<i>(in thousands)</i>	<b>THIRTY-NINE WEEKS ENDED</b>	
	<b>SEPTEMBER 24, 2023</b>	<b>SEPTEMBER 25, 2022</b>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows - operating leases	\$ 31,707	\$ 30,506
Operating cash flows - finance leases	72	101
Financing cash flows - finance leases	394	385

**FIRST WATCH RESTAURANT GROUP, INC.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Supplemental information related to leases was as follows:

	THIRTY-NINE WEEKS ENDED	
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022
Weighted-average remaining lease term (in years)		
Operating leases	14.0	14.8
Finance leases	2.7	3.0
Weighted-average discount rate <sup>(1)</sup>		
Operating leases	8.4 %	8.6 %
Finance leases	7.2 %	7.7 %

(1) Based on the Company's incremental borrowing rate.

As of September 24, 2023, future minimum lease payments for operating and finance leases consisted of the following:

<i>(in thousands)</i>	OPERATING LEASES		FINANCE LEASES	
Fiscal year				
2023	\$	11,382	\$	208
2024		47,813		600
2025		57,841		254
2026		57,555		67
2027		56,701		56
Thereafter		589,118		67
Total future minimum lease payments <sup>(1)</sup>		820,410		1,252
Less: imputed interest		(357,058)		(111)
Total present value of lease liabilities	\$	463,352	\$	1,141

(1) Excludes approximately \$76.6 million of executed operating leases that have not commenced as of September 24, 2023.

## 10. Equity and Stock-Based Compensation

### Equity Transactions

During the thirty-nine weeks ended September 24, 2023, funds managed by the Company's majority owner, Advent International Corporation, ("Advent") sold 3,500,000 and 3,000,000 shares of the Company's common stock through underwritten secondary public offerings that were completed on May 18, 2023 and June 13, 2023, respectively. The selling stockholders sold an additional 525,000 and 450,000 shares of common stock on May 18, 2023 and July 3, 2023, respectively, pursuant to the terms of the underwriter's option associated with each secondary public offering. All net proceeds from the sale of the shares of common stock were distributed to the selling stockholders. The Company incurred approximately \$1.0 million of costs in connection with the offerings that were recorded within Transaction expenses, net on the Consolidated Statements of Operations and Comprehensive Income.

During the thirteen weeks ended September 25, 2022, funds managed by Advent, sold 4,500,000 shares of the Company's common stock through a secondary public offering that was completed on September 19, 2022. The selling stockholders sold an additional 675,000 shares of common stock on October 6, 2022 pursuant to the terms of the underwriters option associated with the secondary offering. All net proceeds from the sale of the shares of common stock were distributed to the selling stockholders. The Company incurred approximately \$1.6 million of costs in connection with the offerings that were recorded within Transaction expenses, net on the Consolidated Statements of Operations and Comprehensive Income.



**FIRST WATCH RESTAURANT GROUP, INC.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**Stock option awards**

There were no stock option awards granted under the 2021 Equity Plan during the thirty-nine weeks ended September 24, 2023. A summary of stock option activity during the thirty-nine weeks ended September 24, 2023 is as follows:

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	AGGREGATE INTRINSIC VALUE <i>(in thousands)</i>	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE <i>(in years)</i>
Outstanding, December 25, 2022	5,115,674	\$ 10.12	\$ 20,981	6.1
Exercised	(545,669)	\$ 9.18		
Forfeited	(126,113)	\$ 12.12		
Outstanding, September 24, 2023	<u>4,443,892</u>	\$ 10.18	\$ 34,316	5.4
Exercisable, September 24, 2023	2,706,341	\$ 9.67	\$ 22,277	4.9

The aggregate intrinsic value is based on the difference between the exercise price of the stock option and the closing price of the Company's common stock on Nasdaq on the last trading day.

A summary of the non-vested stock option activity during the thirty-nine weeks ended September 24, 2023 is as follows:

	NUMBER OF OPTIONS	WEIGHTED AVERAGE GRANT DATE FAIR VALUE
Nonvested, December 25, 2022	2,324,316	\$ 7.31
Vested	(460,652)	\$ 5.59
Forfeited	(126,113)	\$ 6.47
Nonvested, September 24, 2023	<u>1,737,551</u>	\$ 7.83

**Restricted stock units**

A summary of activity for restricted stock units during the thirty-nine weeks ended September 24, 2023 is as follows:

	RESTRICTED STOCK UNITS	WEIGHTED AVERAGE GRANT DATE FAIR VALUE	AGGREGATE INTRINSIC VALUE <i>(in thousands)</i>
Outstanding, December 25, 2022	38,311	\$ 14.36	\$ 544
Granted	538,007	\$ 15.67	
Vested	(38,311)	\$ 14.36	
Forfeited	(22,228)	\$ 15.52	
Outstanding, September 24, 2023	<u>515,779</u>	\$ 15.67	\$ 9,232

The aggregate intrinsic value is based on the closing price of the Company's common stock on Nasdaq of \$17.90 and \$14.21 on September 22, 2023 and December 23, 2022, the last trading days for the periods, respectively.

Stock-based compensation expense was \$1.8 million and \$5.4 million during the thirteen and thirty-nine weeks ended September 24, 2023, respectively. Stock-based compensation expense was \$2.7 million and \$7.8 million during the thirteen and thirty-nine weeks ended September 25, 2022, respectively.

The total related income tax benefit for stock-based compensation expense was \$0.8 million and \$1.3 million during the thirteen and thirty-nine weeks ended September 24, 2023, respectively. The total related income tax benefit for stock-based compensation expense was less than \$0.1 million during the thirteen and thirty-nine weeks ended September 25, 2022.

**FIRST WATCH RESTAURANT GROUP, INC.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**Unrecognized stock-based compensation expense**

The following represents unrecognized stock-based compensation expense and the remaining weighted average vesting period as of September 24, 2023:

	UNRECOGNIZED STOCK-BASED COMPENSATION EXPENSE <i>(in thousands)</i>	REMAINING WEIGHTED AVERAGE VESTING PERIOD <i>(in years)</i>
Stock options	\$ 4,574	0.8
Restricted stock units	\$ 6,549	2.4

**11. Income Taxes**

<i>(dollars in thousands)</i>	THIRTEEN WEEKS ENDED		THIRTY-NINE WEEKS ENDED	
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022
Income before income taxes	\$ 6,661	\$ 1,375	\$ 30,570	\$ 12,335
Income tax expense	\$ (1,243)	\$ (1,329)	\$ (7,833)	\$ (4,942)
Effective income tax rate	18.7 %	96.7 %	25.6 %	40.1 %

The change in the effective income tax rates for the thirteen and thirty-nine weeks ended September 24, 2023 as compared to the same periods in the prior year was primarily due to (i) the change in the valuation allowance for federal deferred tax assets, (ii) the decrease in the valuation allowance for state net operating loss carryforwards, (iii) the benefit of tax credits for FICA taxes on certain employees' tips, (iv) impacts of executive stock-based compensation and (v) non-deductible costs associated with sales of the Company's common stock by funds managed by Advent through secondary public offerings.

The effective income tax rates for the thirteen and thirty-nine weeks ended September 24, 2023 and September 25, 2022 were different than the blended federal and state statutory rate primarily due to (i) the change in the valuation allowance for federal deferred tax assets, (ii) the decrease in the valuation allowance for state net operating loss carryforwards, (iii) the benefit of tax credits for FICA taxes on certain employees' tips, (iv) impacts of executive stock-based compensation and (v) non-deductible costs associated with sales of the Company's common stock by funds managed by Advent through secondary public offerings.

*Valuation allowance*

Management evaluates quarterly whether the resulting deferred tax assets are realizable given the Company's earnings history. Based on the available evidence, the Company does not meet the more likely than not standard related to the realization of a portion of the deferred tax assets as of September 24, 2023. Accordingly, the Company has established a valuation allowance on the portion of deferred tax assets deemed not realizable, including state charitable contribution carryovers, various state loss carryforwards and various federal tax credit carryforwards.

Management continues to monitor and evaluate the rationale for recording a valuation allowance for deferred tax assets. As the Company's future taxable earnings increase and deferred tax assets are utilized, it is possible that a portion of the valuation allowance will no longer be needed. Release of any portion of the valuation allowance would result in the recognition of certain deferred tax assets and a decrease to income tax expense in the period of the release. The timing and amount of any release related to future taxable income is currently indeterminable. During the thirty-nine weeks ended September 24, 2023, a release of the valuation allowance related to certain state loss carryforwards decreased income tax expense by approximately \$1.0 million.

**12. Commitments and Contingencies**

*Legal Proceedings*

The Company is subject to legal proceedings, claims and liabilities that arise in the ordinary course of business. The amount of the anticipated liability with respect to these matters was not material as of September 24, 2023. In the event any litigation losses become probable and estimable, the Company will recognize any anticipated losses.

**FIRST WATCH RESTAURANT GROUP, INC.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

*Unclaimed Property*

The Company is subject to unclaimed or abandoned property (escheat) laws which require it to turn over to state governmental authorities the property of others held by the Company that has been unclaimed for specified periods of time. Property subject to escheat laws generally relates to uncashed checks, trade accounts receivable credits and unredeemed gift card balances. During the first quarter of 2022, the Company received a letter from the Delaware Secretary of State inviting the Company to participate in the Delaware Secretary of State's Abandoned or Unclaimed Property Voluntary Disclosure Agreement Program to avoid being sent an audit notice by the Delaware Department of Finance. On August 31, 2022, the Company was accepted into Delaware's Voluntary Disclosure Agreement Program, entitling it to certain benefits and protections offered to participants in the program. The Company intends to work in good faith to complete a review of its books and records related to unclaimed or abandoned property during the periods required under the program. The Company will continue to examine its options regarding the escheat laws of Delaware including completing Delaware's Voluntary Disclosure Agreement Program or proceeding to audit. Any potential loss, or range of loss, that may result from this matter is not currently reasonably estimable.

As of December 26, 2022, Management believes the Company is not currently required to remit any amounts relating to future unredeemed gift cards to states as the Company's subsidiary that is the issuer of our gift cards was re-domiciled in Florida, which exempts gift cards from the abandoned and unclaimed property laws.

**13. Net Income Per Common Share**

The following table sets forth the computations of basic and diluted net income per common share:

<i>(in thousands, except share and per share data)</i>	THIRTEEN WEEKS ENDED		THIRTY-NINE WEEKS ENDED	
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022
<b>Numerator:</b>				
Net income	\$ 5,418	\$ 46	\$ 22,737	\$ 7,393
<b>Denominator:</b>				
Weighted average common shares outstanding - basic	59,646,027	59,089,831	59,424,989	59,065,423
Weighted average common shares outstanding - diluted	61,562,524	60,464,062	61,016,105	60,088,622
Net income per common share - basic	\$ 0.09	\$ —	\$ 0.38	\$ 0.13
Net income per common share - diluted	\$ 0.09	\$ —	\$ 0.37	\$ 0.12
Stock options outstanding not included in diluted net income per common share as their effect is anti-dilutive	12,552	1,255,089	59,101	1,708,602
Restricted stock units outstanding not included in diluted net income per share as their effect is anti-dilutive	—	—	1,302	—

Diluted net income per common share is calculated by adjusting the weighted average shares outstanding for the theoretical effect of potential common shares that would be issued for stock option awards outstanding and unvested as of the respective periods using the treasury method.

#### **14. Subsequent Events**

On October 13, 2023, the Company executed an asset purchase agreement to acquire from a franchisee six operating restaurants together with other associated assets, including, but not limited to, franchise and development rights for cash of approximately \$9.2 million. The close date of the sale is subject to the satisfaction of certain customary closing conditions set forth in the asset purchase agreement.

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

### Cautionary Statement

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto included in Part I, Item 1 of this Form 10-Q and our audited consolidated financial statements and notes included in our 2022 Form 10-K. As discussed in “Cautionary Note Regarding Forward-Looking Statements,” the following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may materially differ from those discussed in such forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those identified in our 2022 Form 10-K, including under “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

### Overview

First Watch is an award-winning Daytime Dining concept serving made-to-order breakfast, brunch and lunch using fresh ingredients. A recipient of hundreds of local “Best Breakfast” and “Best Brunch” accolades, First Watch’s award winning chef-driven menu includes elevated executions of classic favorites for breakfast, brunch and lunch. In 2023, First Watch was named the top restaurant brand in Yelp’s inaugural list of the top 50 most-loved brands in the U.S. In 2023 and 2022, First Watch was named a Top 100 Most Loved Workplace® by Newsweek and the Best Practice Institute. In 2022, First Watch was recognized with ADP’s coveted Culture at Work Award. The Company is majority owned by Advent International Corporation, (“Advent”), one of the world’s largest private-equity firms. The Company’s common stock trades on Nasdaq under the ticker symbol “FWRG.”

The Company operates and franchises restaurants in 29 states under the “First Watch” trade name and as of September 24, 2023, the Company had 402 company-owned restaurants and 103 franchise-owned restaurants.

### Recent Developments

Financial and operational highlights for the thirteen weeks ended September 24, 2023 (“third quarter of 2023”) as compared to the thirteen weeks ended September 25, 2022 (“third quarter of 2022”) reflect continued success and sustained growth despite a challenging macro environment and include the following:

- Total revenues increased 17.3% to \$219.2 million in the third quarter of 2023 from \$186.9 million in the third quarter of 2022
- System-wide sales increased 14.9% to \$270.3 million in the third quarter of 2023 from \$235.2 million in the third quarter of 2022
- Same-restaurant sales growth of 4.8% (+38.8% relative to the third quarter of 2019\*)
- Same-restaurant traffic decline of 1.9% (+6.5% same-restaurant traffic growth relative to the third quarter of 2019\*)
- Income from operations margin increased to 3.6% during the third quarter of 2023 from 1.4% in the third quarter of 2022
- Restaurant level operating profit margin\*\* increased to 18.7% in the third quarter of 2023 from 17.3% in the third quarter of 2022
- Net income increased to \$5.4 million, or \$0.09 per diluted share, in the third quarter of 2023 from \$46.0 thousand in the third quarter of 2022
- Adjusted EBITDA\*\* increased to \$21.6 million in the third quarter of 2023 from \$17.0 million in the third quarter of 2022
- Opened 13 system-wide restaurants (10 company-owned and 3 franchise-owned) across 10 states and acquired 11 franchise-owned restaurants resulting in a total of 505 system-wide restaurants (402 company-owned and 103 franchise-owned) across 29 states

\* Comparison to the thirteen weeks ended September 29, 2019 (“third quarter of 2019”) is presented for enhanced comparability due to the economic impact of COVID-19.

\*\* See *Non-GAAP Financial Measures Reconciliations* section below.

## **Business Trends**

In the third quarter of 2023, we benefited from a decline in the average costs of our consolidated market basket combined with price increases, primarily to cover inflation, implemented over the past year.

Our same-restaurant sales grew 4.8% with marginally positive in-restaurant dining traffic growth, though off-premises occasions continued to decline in comparison to last year, similar to industry-wide trends. We continue to believe the decline of our off-premises traffic reflects customers foregoing a comparatively high-ticket dining occasion combined with customers returning to the full experience of our restaurants' dining room service.

We expect full year commodity deflation to be in the range of negative 1.0% to flat. In addition, we expect hourly labor cost inflation to remain in the range of 9.0% to 11.0%, with overall restaurant-level labor cost inflation to range between 8.0% and 10.0% in 2023.

During the thirty-nine weeks ended September 24, 2023, we acquired 17 operating restaurants and one restaurant under development from our franchisees in continuation of this component of our growth strategy. Furthermore, we continue to execute on our long-term growth associated with new restaurant openings and we are staffed with over 120 managers to lead and operate our future new company-owned restaurants.

## **Key Performance Indicators**

Throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations" we commonly discuss the following key operating metrics which we believe will drive our financial results and long-term growth model. We believe these metrics are useful to investors because management uses these metrics to evaluate performance and assess the growth of our business as well as the effectiveness of our marketing and operational strategies.

***New Restaurant Openings*** ("NROs"): the number of new company-owned First Watch restaurants commencing operations during the period. Management reviews the number of new restaurants to assess new restaurant growth and company-owned restaurant sales.

***Franchise-owned New Restaurant Openings*** ("Franchise-owned NROs"): the number of new franchise-owned First Watch restaurants commencing operations during the period.

***Same-Restaurant Sales Growth***: the percentage change in year-over-year restaurant sales (excluding gift card breakage) for the comparable restaurant base, which we define as the number of company-owned First Watch branded restaurants open for 18 months or longer as of the beginning of the fiscal year ("Comparable Restaurant Base"). For the thirteen and thirty-nine weeks ended September 24, 2023, there were 327 restaurants in our Comparable Restaurant Base. For the thirteen and thirty-nine weeks ended September 25, 2022, there were 303 restaurants in our Comparable Restaurant Base. Measuring our same-restaurant sales growth allows management to evaluate the performance of our existing restaurant base. We believe this measure is useful for investors to provide a consistent comparison of restaurant sales results and trends across periods within our core, established restaurant base, unaffected by results of store openings, closings, and other transitional changes.

***Same-Restaurant Traffic Growth***: the percentage change in traffic counts as compared to the same period in the prior year using the Comparable Restaurant Base. Measuring our same-restaurant traffic growth allows management to evaluate the performance of our existing restaurant base. We believe this measure is useful for investors because an increase in same-restaurant traffic provides an indicator as to the development of our brand and the effectiveness of our marketing strategy.

***System-wide restaurants***: the total number of restaurants, including all company-owned and franchise-owned restaurants.

***System-wide sales***: consists of restaurant sales from our company-owned restaurants and franchise-owned restaurants. We do not recognize the restaurant sales from our franchise-owned restaurants as revenue.

## Non-GAAP Financial Measures

To supplement the consolidated financial statements, which are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), we use the following non-GAAP measures, which present operating results on an adjusted basis: (i) Adjusted EBITDA, (ii) Adjusted EBITDA margin, (iii) Restaurant level operating profit and (iv) Restaurant level operating profit margin. Our presentation of these non-GAAP measures includes isolating the effects of some items that are either nonrecurring in nature or vary from period to period without any correlation to our ongoing core operating performance. These supplemental measures of performance are not required by or presented in accordance with GAAP. Management believes these non-GAAP measures provide investors with additional visibility into our operations, facilitate analysis and comparisons of our ongoing business operations because they exclude items that may not be indicative of our ongoing operating performance, help to identify operational trends and allow for greater transparency with respect to key metrics used by management in our financial and operational decision making. Our non-GAAP measures may not be comparable to similarly titled measures used by other companies and have important limitations as analytical tools. These non-GAAP measures should not be considered in isolation or as substitutes for analysis of our results as reported under GAAP as they may not provide a complete understanding of our performance. These non-GAAP measures should be reviewed in conjunction with our consolidated financial statements prepared in accordance with GAAP.

We use Adjusted EBITDA and Adjusted EBITDA margin (i) as factors in evaluating management’s performance when determining incentive compensation, (ii) to evaluate our operating results and the effectiveness of our business strategies and (iii) internally as benchmarks to compare our performance to that of our competitors.

We use Restaurant level operating profit and Restaurant level operating profit margin (i) to evaluate the performance and profitability of each operating restaurant, individually and in the aggregate and (ii) to make decisions regarding future spending and other operational decisions.

**Adjusted EBITDA:** represents Net income before depreciation and amortization, interest expense, income taxes, and items that we do not consider in our evaluation of ongoing core operating performance as identified in the reconciliation of Net income, the most directly comparable measure in accordance with GAAP, to Adjusted EBITDA, included in the section *Non-GAAP Financial Measure Reconciliations* below.

**Adjusted EBITDA Margin:** represents Adjusted EBITDA as a percentage of total revenues. See *Non-GAAP Financial Measure Reconciliations* below for a reconciliation to Net income margin, the most directly comparable GAAP measure.

**Restaurant Level Operating Profit:** represents restaurant sales, less restaurant operating expenses, which include food and beverage costs, labor and other related expenses, other restaurant operating expenses, pre-opening expenses and occupancy expenses. Restaurant level operating profit excludes corporate-level expenses and other items that we do not consider in the evaluation of the ongoing core operating performance of our restaurants as identified in the reconciliation of Income from operations, the most directly comparable GAAP measure, to Restaurant level operating profit, included in the section *Non-GAAP Financial Measure Reconciliations* below.

**Restaurant Level Operating Profit Margin:** represents Restaurant level operating profit as a percentage of restaurant sales. See *Non-GAAP Financial Measure Reconciliations* below for a reconciliation to Income from operations margin, the most directly comparable GAAP measure.

**Selected Operating Data**

	<b>THIRTEEN WEEKS ENDED SEPTEMBER 24, 2023</b>		
	<b>Company-owned</b>	<b>Franchise-owned</b>	<b>Total</b>
<b>Beginning of period</b>	381	111	492
New restaurants	10	3	13
Acquisitions of franchise-owned restaurants	11	(11)	—
<b>End of period</b>	<b>402</b>	<b>103</b>	<b>505</b>

	<b>THIRTY-NINE WEEKS ENDED SEPTEMBER 24, 2023</b>		
	<b>Company-owned</b>	<b>Franchise-owned</b>	<b>Total</b>
<b>Beginning of period</b>	366	108	474
New restaurant openings	20	12	32
Acquisitions of franchise-owned restaurants	17	(17)	—
Closures	(1)	—	(1)
<b>End of period</b>	<b>402</b>	<b>103</b>	<b>505</b>

	<b>THIRTEEN WEEKS ENDED</b>		<b>THIRTY-NINE WEEKS ENDED</b>	
	<b>SEPTEMBER 24, 2023</b>	<b>SEPTEMBER 25, 2022</b>	<b>SEPTEMBER 24, 2023</b>	<b>SEPTEMBER 25, 2022</b>
<i>(dollars in thousands)</i>				
System-wide sales	\$ 270,291	\$ 235,231	\$ 806,556	\$ 680,588
Same-restaurant sales growth	4.8 %	12.0 %	8.5 %	17.0 %
Same-restaurant traffic growth (decline)	(1.9)%	3.7 %	0.7 %	10.6 %
Income from operations	\$ 7,738	\$ 2,621	\$ 34,412	\$ 15,434
Income from operations margin	3.6 %	1.4 %	5.4 %	2.9 %
Restaurant level operating profit	\$ 40,365	\$ 31,872	\$ 128,865	\$ 98,390
Restaurant level operating profit margin <sup>(1)</sup>	18.7 %	17.3 %	20.3 %	18.3 %
Net income	\$ 5,418	\$ 46	\$ 22,737	\$ 7,393
Net income margin	2.5 %	— %	3.5 %	1.4 %
Adjusted EBITDA <sup>(2)</sup>	\$ 21,629	\$ 17,023	\$ 74,858	\$ 54,176
Adjusted EBITDA margin <sup>(2)</sup>	9.9 %	9.1 %	11.6 %	10.0 %

(1) Reconciliations from Income from operations and Income from operations margin, the most comparable GAAP measures, to Restaurant level operating profit and Restaurant level operating profit margin, are set forth in the schedules within the *Non-GAAP Financial Measures Reconciliations* section below.

(2) Reconciliations from Net income and Net income margin, the most comparable GAAP measures, to Adjusted EBITDA and Adjusted EBITDA margin, are set forth in the schedules within the *Non-GAAP Financial Measures Reconciliations* section below.

**Same-Restaurant Sales Growth (Decline) and Same-Restaurant Traffic Growth (Decline)**

<b>THIRTEEN WEEKS ENDED</b>	<b>SAME-RESTAURANT SALES GROWTH</b>	<b>SAME-RESTAURANT TRAFFIC GROWTH (DECLINE)</b>	<b>COMPARABLE RESTAURANT BASE</b>
September 24, 2023	4.8 %	(1.9)%	327
September 25, 2022	12.0 %	3.7 %	303
September 26, 2021	46.2 %	40.1 %	270



## Results of Operations

### **Thirteen and Thirty-Nine Weeks Ended September 24, 2023 Compared to Thirteen and Thirty-Nine Weeks Ended September 25, 2022**

The following table summarizes our results of operations and the percentages of certain items in relation to Total revenues or, where indicated, Restaurant sales for the thirteen and thirty-nine weeks ended September 24, 2023 and September 25, 2022:

<i>(dollars in thousands)</i>	THIRTEEN WEEKS ENDED				THIRTY-NINE WEEKS ENDED			
	SEPTEMBER 24, 2023		SEPTEMBER 25, 2022		SEPTEMBER 24, 2023		SEPTEMBER 25, 2022	
<b>Revenues</b>								
Restaurant sales	\$ 215,495	98.3 %	\$ 183,978	98.5 %	\$ 636,050	98.3 %	\$ 536,329	98.5 %
Franchise revenues	3,717	1.7 %	2,874	1.5 %	10,868	1.7 %	8,088	1.5 %
Total revenues	219,212	100.0 %	186,852	100.0 %	646,918	100.0 %	544,417	100.0 %
<b>Operating costs and expenses</b>								
Restaurant operating expenses <sup>(1)</sup> (exclusive of depreciation and amortization shown below):								
Food and beverage costs	48,709	22.6 %	44,578	24.2 %	143,028	22.5 %	129,200	24.1 %
Labor and other related expenses	73,137	33.9 %	61,262	33.3 %	212,312	33.4 %	175,091	32.6 %
Other restaurant operating expenses	33,694	15.6 %	29,685	16.1 %	97,572	15.3 %	85,761	16.0 %
Occupancy expenses	17,555	8.1 %	15,091	8.2 %	49,950	7.9 %	44,318	8.3 %
Pre-opening expenses	2,035	0.9 %	1,490	0.8 %	4,323	0.7 %	3,569	0.7 %
General and administrative expenses	25,179	11.5 %	21,689	11.6 %	73,168	11.3 %	63,194	11.6 %
Depreciation and amortization	10,434	4.8 %	8,679	4.6 %	28,992	4.5 %	25,302	4.6 %
Impairments and loss on disposal of assets	185	0.1 %	338	0.2 %	618	0.1 %	572	0.1 %
Transaction expenses, net	546	0.2 %	1,419	0.8 %	2,543	0.4 %	1,976	0.4 %
Total operating costs and expenses	211,474	96.5 %	184,231	98.6 %	612,506	94.7 %	528,983	97.2 %
Income from operations <sup>(1)</sup>	7,738	3.6 %	2,621	1.4 %	34,412	5.4 %	15,434	2.9 %
Interest expense	(1,848)	(0.8)%	(1,362)	(0.7)%	(5,792)	(0.9)%	(3,494)	(0.6)%
Other income, net	771	0.4 %	116	0.1 %	1,950	0.3 %	395	0.1 %
<b>Income before income taxes</b>	6,661	3.0 %	1,375	0.7 %	30,570	4.7 %	12,335	2.3 %
Income tax expense	(1,243)	(0.6)%	(1,329)	(0.7)%	(7,833)	(1.2)%	(4,942)	(0.9)%
<b>Net income</b>	\$ 5,418	2.5 %	\$ 46	— %	\$ 22,737	3.5 %	\$ 7,393	1.4 %

(1) Percentages are calculated as a percentage of restaurant sales.

### Restaurant Sales

Restaurant sales represent the aggregate sales of food and beverages, net of discounts, at company-owned restaurants. Restaurant sales in any period are directly influenced by the number of operating weeks in the period, the number of open restaurants, customer traffic and average check. Average check growth is driven by our menu price increases and changes to our menu mix. In both the thirteen and twenty-six week comparative periods in the table below, the trend of declining off-premises occasions is reflected as the change in the relative contribution of the Third-party delivery sales and Take-out sales to the Total Restaurant sales.

(dollars in thousands)	THIRTEEN WEEKS ENDED			THIRTY-NINE WEEKS ENDED		
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change
Restaurant sales:						
In-restaurant dining sales	\$ 176,696	\$ 147,491	19.8 %	\$ 520,277	\$ 425,222	22.4 %
Third-party delivery sales	22,011	20,105	9.5 %	65,765	60,960	7.9 %
Take-out sales	16,788	16,382	2.5 %	50,008	50,147	(0.3)%
Total Restaurant sales	\$ 215,495	\$ 183,978	17.1 %	\$ 636,050	\$ 536,329	18.6 %

The increase in total restaurant sales during the thirteen weeks ended September 24, 2023 as compared to the same period in the prior year was primarily due to (i) same-restaurant sales growth of 4.8%, mainly driven by menu price increases, and (ii) \$23.3 million from restaurants not in the Comparable Restaurant Base, which included \$14.6 million from our 31 NROs between September 25, 2022 and September 24, 2023 and \$7.1 million from restaurants we had acquired from our franchisees.

The increase in total restaurant sales during the thirty-nine weeks ended September 24, 2023 as compared to the same period in the prior year was primarily due to (i) same restaurant sales growth of 8.5%, driven by same-restaurant traffic growth of 0.7% and menu price increases and (ii) \$57.0 million from restaurants not in the Comparable Restaurant Base, which included \$32.6 million from our 31 NROs between September 25, 2022 and September 24, 2023 and \$8.9 million from restaurants we had acquired from our franchisees.

### Franchise Revenues

Franchise revenues are comprised of sales-based royalty fees, system fund contributions and the amortization of upfront initial franchise fees, which are recognized as revenue on a straight-line basis over the term of the franchise agreement. Franchise revenues in any period are directly influenced by the number of open franchise-owned restaurants.

(dollars in thousands)	THIRTEEN WEEKS ENDED			THIRTY-NINE WEEKS ENDED		
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change
Franchise revenues:						
Royalty and system fund contributions	\$ 3,244	\$ 2,807	15.6 %	\$ 10,160	\$ 7,892	28.7 %
Initial fees	473	67	n/m <sup>(1)</sup>	708	196	n/m <sup>(1)</sup>
Total Franchise revenues	\$ 3,717	\$ 2,874	29.3 %	\$ 10,868	\$ 8,088	34.4 %

(1) Not meaningful.

The increase in franchise revenues during the thirteen and thirty-nine weeks ended September 24, 2023 as compared to the same periods in the prior year was primarily driven by (i) the increase in sales from franchise-owned restaurants and (ii) \$0.3 million and \$0.8 million, respectively, from 17 franchise-owned NROs between September 25, 2022 and September 24, 2023. The increase was partially offset by \$0.3 million and \$0.2 million lower franchise fees, respectively, as a result of the acquisitions of restaurants from our franchisees during the thirteen and thirty-nine weeks ended September 24, 2023.

### Food and Beverage Costs

The components of food and beverage costs at company-owned restaurants are variable by nature, change with sales volume, are impacted by product mix and are subject to increases or decreases in commodity costs.

	THIRTEEN WEEKS ENDED			THIRTY-NINE WEEKS ENDED		
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change
<i>(dollars in thousands)</i>						
Food and beverage costs	\$ 48,709	\$ 44,578	9.3 %	\$ 143,028	\$ 129,200	10.7 %
As a percentage of restaurant sales	22.6 %	24.2 %	(1.6)%	22.5 %	24.1 %	(1.6)%

Food and beverage costs as a percent of restaurant sales decreased during the thirteen and thirty-nine weeks ended September 24, 2023 as compared to the same periods in the prior year primarily due to (i) lower commodity costs across the market basket, driven mostly by decreases in pork and avocado prices and (ii) leveraging restaurant sales.

Food and beverage costs increased during the thirteen and thirty-nine weeks ended September 24, 2023 as compared to the same periods in the prior year primarily as a result of (i) the increase in restaurant sales, (ii) 31 NROs that have opened between September 25, 2022 and September 24, 2023 and (iii) restaurants we had acquired from our franchisees. The increase was partially offset by lower commodity costs across the market basket, driven mostly by decreases in pork and avocado prices.

### Labor and Other Related Expenses

Labor and other related expenses are variable by nature and include hourly and management wages, bonuses, payroll taxes, workers' compensation expense and employee benefits. Factors that influence labor costs include minimum wage and payroll tax legislation, health care costs, the number and performance of our company-owned restaurants and increased competition for qualified staff.

	THIRTEEN WEEKS ENDED			THIRTY-NINE WEEKS ENDED		
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change
<i>(dollars in thousands)</i>						
Labor and other related expenses	\$ 73,137	\$ 61,262	19.4 %	\$ 212,312	\$ 175,091	21.3 %
As a percentage of restaurant sales	33.9 %	33.3 %	0.6 %	33.4 %	32.6 %	0.8 %

Labor and other related expenses as a percentage of restaurant sales increased during the thirteen and thirty-nine weeks ended September 24, 2023 as compared to the same periods in the prior year primarily as a result of the increase in wages and staffing to serve growing dining room traffic. This was partially offset by (i) the increase in menu prices and (ii) the decrease in health insurance costs.

The increase in labor and other related expenses during the thirteen and thirty-nine weeks ended September 24, 2023 as compared to the same periods in the prior year was primarily due to (i) investments in labor, including increases in wages and staffing levels, (ii) 31 NROs that have opened between September 25, 2022 and September 24, 2023 and (iii) restaurants we had acquired from our franchisees. This was partially offset by the decrease in health insurance costs.

### Other Restaurant Operating Expenses

Other restaurant operating expenses consist of marketing and advertising expenses, utilities, insurance and other operating variable expenses incidental to operating company-owned restaurants, such as operating supplies (including paper products, menus and to-go supplies), credit card fees, repairs and maintenance, and third-party delivery services fees.

	THIRTEEN WEEKS ENDED			THIRTY-NINE WEEKS ENDED		
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change
<i>(dollars in thousands)</i>						
Other restaurant operating expenses	\$ 33,694	\$ 29,685	13.5 %	\$ 97,572	\$ 85,761	13.8 %
As a percentage of restaurant sales	15.6 %	16.1 %	(0.5)%	15.3 %	16.0 %	(0.7)%

The decrease in other restaurant operating expenses as a percentage of restaurant sales during the thirteen and thirty-nine weeks ended September 24, 2023 as compared to the same periods in the prior year was primarily due to (i) leveraging in-restaurant dining sales, (ii) lower costs of to-go supplies and (iii) lower insurance costs. This was partially offset by the increase in repairs and maintenance expense.

The increase in other restaurant operating expenses during the thirteen weeks ended September 24, 2023 as compared to the same period in the prior year was mainly due to the increase in restaurant sales and restaurant growth, including restaurants we acquired from our franchisees, driving (i) \$2.9 million related to repairs and maintenance, utilities, and credit card fees, (ii) \$0.5 million in operating supplies expense and (iii) \$0.5 million in third-party delivery service fees. The increase was partially offset by \$0.4 million lower insurance costs.

The increase in other restaurant operating expenses during the thirty-nine weeks ended September 24, 2023 as compared to the same period in the prior year was mainly due to the increase in restaurant sales and restaurant growth driving (i) \$2.2 million in operating supplies expense, (ii) \$7.0 million related to credit card fees, utilities and repairs and maintenance expense, in addition to (iii) \$1.4 million in third-party delivery service fees.

### Occupancy Expenses

Occupancy expenses primarily consist of rent expense, property insurance, common area expenses and property taxes.

	THIRTEEN WEEKS ENDED			THIRTY-NINE WEEKS ENDED		
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change
<i>(dollars in thousands)</i>						
Occupancy expenses	\$ 17,555	\$ 15,091	16.3 %	\$ 49,950	\$ 44,318	12.7 %
As a percentage of restaurant sales	8.1 %	8.2 %	(0.1)%	7.9 %	8.3 %	(0.4)%

As a percentage of restaurant sales, the decrease in occupancy expenses for the thirteen and thirty-nine weeks ended September 24, 2023 as compared to the same periods in the prior year was primarily due to leveraging restaurant sales.

The increase in occupancy expenses during the thirteen and thirty-nine weeks ended September 24, 2023 as compared to the same periods in the prior year was primarily due to the increase in the number of company-owned restaurants.

### Pre-opening Expenses

Pre-opening expenses are costs incurred to open new company-owned restaurants. Pre-opening expenses include pre-opening rent expense, which is recognized during the period between the date of possession of the restaurant facility and the restaurant opening date. In addition, pre-opening expenses include manager salaries, recruiting expenses, employee payroll and training costs, which are recognized in the period in which the expense was incurred. Pre-opening expenses can fluctuate from period to period, based on the number and timing of new company-owned restaurant openings.

	THIRTEEN WEEKS ENDED			THIRTY-NINE WEEKS ENDED		
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change
<i>(dollars in thousands)</i>						
Pre-opening expenses	\$ 2,035	\$ 1,490	36.6 %	\$ 4,323	\$ 3,569	21.1 %

The increase in pre-opening expenses during the thirteen and thirty-nine weeks ended September 24, 2023 as compared to the same periods in the prior year was primarily due to (i) increased staffing and wages and (ii) pre-opening rent expense mainly related to the increase in the number of restaurants expected to open and the investment in larger, stand-alone company-owned restaurants.

### General and Administrative Expenses

General and administrative expenses primarily consist of costs associated with our corporate and administrative functions that support restaurant development and operations including marketing and advertising costs incurred as well as legal fees, professional fees, stock-based compensation and expenses associated with being a public company, including costs associated with our compliance with the Sarbanes-Oxley Act. General and administrative expenses are impacted by changes in our employee headcount and costs related to strategic and growth initiatives.

	THIRTEEN WEEKS ENDED			THIRTY-NINE WEEKS ENDED		
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change
<i>(dollars in thousands)</i>						
General and administrative expenses	\$ 25,179	\$ 21,689	16.1 %	\$ 73,168	\$ 63,194	15.8 %

The increase in general and administrative expenses during the thirteen weeks ended September 24, 2023 as compared to the same period in the prior year was mainly due to \$3.7 million in compensation expense from performance-based compensation and additional employee headcount to support growth. This was partially offset by the \$1.0 million decrease in stock-based compensation expense mainly due to the accelerated recognition method for certain stock option grants as well as forfeitures of stock option grants, net of the stock-based compensation expense recognized for stock-based awards issued.

The increase in general and administrative expenses during the thirty-nine weeks ended September 24, 2023 as compared to the same period in the prior year was mainly due to (i) \$9.9 million in compensation expense from performance-based compensation and additional employee headcount to support growth, (ii) \$1.0 million of fees associated with investments in technology initiatives and (iii) \$0.4 million of professional service costs incurred in connection with the Delaware Voluntary Disclosure Agreement Program related to unclaimed or abandoned property. This was partially offset by (i) the decrease in stock-based compensation expense of \$2.5 million mainly due to the accelerated recognition method for certain stock option grants as well as forfeitures of stock option grants, net of the stock-based compensation expense recognized for stock-based awards issued during the thirty-nine weeks ended September 24, 2023 and (ii) the decrease of \$0.7 million in insurance costs.

### **Depreciation and Amortization**

Depreciation and amortization consists of the depreciation of fixed assets, including leasehold improvements, fixtures and equipment and the amortization of definite-lived intangible assets, which are primarily comprised of franchise rights. Franchise rights includes rights which arose from the purchase price allocation in connection with the merger agreement through which the Company was acquired by funds affiliated with or managed by Advent in August 2017 as well as reacquired rights from our acquisitions of franchise-owned restaurants.

	THIRTEEN WEEKS ENDED			THIRTY-NINE WEEKS ENDED		
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change
<i>(dollars in thousands)</i>						
Depreciation and amortization	\$ 10,434	\$ 8,679	20.2 %	\$ 28,992	\$ 25,302	14.6 %

The increase in depreciation and amortization during the thirteen and thirty-nine weeks ended September 24, 2023 as compared to the same periods in the prior year was primarily due to incremental depreciation of capital expenditures associated with NROs and the acquired restaurants from our franchisees.

### **Impairments and Loss on Disposal of Assets**

Impairments and loss on disposal of assets include (i) the impairment of long-lived assets and intangible assets where the carrying amount of the asset is not recoverable and exceeds the fair value of the asset, (ii) the write-off of the net book value of assets that have been retired or replaced in the normal course of business and (iii) the write-off of the net book value of assets in connection with restaurant closures.

	THIRTEEN WEEKS ENDED			THIRTY-NINE WEEKS ENDED		
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change
<i>(dollars in thousands)</i>						
Impairments and loss on disposal of assets	\$ 185	\$ 338	(45.3)%	\$ 618	\$ 572	8.0 %

There were no impairment losses recognized on intangible assets or fixed assets during the thirteen and thirty-nine weeks ended September 24, 2023 and September 25, 2022.

### Transaction Expenses, Net

Transaction expenses, net include (i) revaluations of contingent consideration payable to previous stockholders for tax savings generated through the use of federal and state loss carryforwards and general business credits that had been accumulated from operations prior to August 2017, (ii) gains or losses associated with lease or contract terminations, (iii) costs incurred in connection with the acquisition of certain restaurants from our franchisees, (iv) costs related to restaurant closures and (v) costs related to certain equity offerings.

(dollars in thousands)	THIRTEEN WEEKS ENDED			THIRTY-NINE WEEKS ENDED		
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change
Transaction expenses, net	\$ 546	\$ 1,419	(61.5)%	\$ 2,543	\$ 1,976	28.7 %

The decrease in Transaction expenses, net during the thirteen weeks ended September 24, 2023 as compared to the same period in the prior year was primarily due to costs incurred by us during the thirteen weeks ended September 25, 2022 totaling \$1.6 million in connection with the sale of the Company's common stock by funds managed by our majority owner, Advent through secondary public offerings. The decrease was partially offset by costs incurred in connection with the acquisitions of certain restaurants from our franchisees.

The increase in Transaction expenses, net during the thirty-nine weeks ended September 24, 2023 as compared to the same period in the prior year was primarily due to costs incurred in connection with the acquisition of certain restaurants from our franchisees. The increase was partially offset by (i) lower costs incurred by us in connection with the sale of the Company's common stock by funds managed by Advent through secondary public offerings and (ii) costs related to the closures of company-owned restaurants incurred during the thirty-nine weeks ended September 25, 2022.

### Income from Operations

(dollars in thousands)	THIRTEEN WEEKS ENDED			THIRTY-NINE WEEKS ENDED		
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change
Income from operations	\$ 7,738	\$ 2,621	n/m <sup>(1)</sup>	\$ 34,412	\$ 15,434	n/m <sup>(1)</sup>
As a percentage of restaurant sales	3.6 %	1.4 %	2.2 %	5.4 %	2.9 %	2.5 %

(1) Not meaningful.

Income from operations margin increased during the thirteen and thirty-nine weeks ended September 24, 2023 as compared to the same periods in the prior year primarily due to (i) leveraging restaurant sales, (ii) lower costs for pork, avocados and to-go supplies and (iii) lower transaction costs. This was partially offset by the increase in restaurant-level wages and staffing.

Income from operations increased during the thirteen and thirty-nine weeks ended September 24, 2023 as compared to the same periods in the prior year primarily due to (i) the increase in restaurant sales and franchise revenues and (ii) lower costs for commodities and to-go supplies. This was partially offset by (i) the increase in restaurant-level wages and staffing, (ii) higher operating costs and depreciation expense driven by our restaurant growth and acquisitions of certain franchise-owned restaurant, as well as (iii) higher general and administrative expenses mainly attributable to wage increases, performance-based compensation and additional employee headcount.

### Interest Expense

Interest expense primarily consists of interest and fees on our outstanding debt and the amortization expense for debt discount and deferred issuance costs.

(dollars in thousands)	THIRTEEN WEEKS ENDED			THIRTY-NINE WEEKS ENDED		
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change
Interest expense	\$ 1,848	\$ 1,362	35.7 %	\$ 5,792	\$ 3,494	65.8 %

The increase in interest expense during the thirteen and thirty-nine weeks ended September 24, 2023 as compared to the same periods in the prior year was primarily due to higher interest rates, which was partially offset by the decrease in outstanding debt due to expected principal repayments.

### Other Income, Net

Other income, net includes items deemed to be non-operating based on management's assessment of the nature of the item in relation to our core operations.

(dollars in thousands)	THIRTEEN WEEKS ENDED			THIRTY-NINE WEEKS ENDED		
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change
Other income, net	\$ 771	\$ 116	n/m <sup>(1)</sup>	\$ 1,950	\$ 395	n/m <sup>(1)</sup>

(1) Not meaningful.

The increase in Other income, net during the thirteen and thirty-nine weeks ended September 24, 2023 was primarily due to (i) insurance recoveries, net of costs incurred, in connection with Hurricane Ian and (ii) the increase in interest income.

### Income Tax Expense

Income tax expense primarily consists of various federal and state taxes.

(dollars in thousands)	THIRTEEN WEEKS ENDED			THIRTY-NINE WEEKS ENDED		
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change
Income tax expense	\$ (1,243)	\$ (1,329)	(6.5)%	\$ (7,833)	\$ (4,942)	58.5 %
Effective income tax rate	18.7 %	96.7 %	(78.0)%	25.6 %	40.1 %	(14.5)%

The change in the effective income tax rates for the thirteen and thirty-nine week period ended September 24, 2023 as compared to the same periods in the prior year was primarily due to (i) the change in the valuation allowance for federal deferred tax assets, (ii) the decrease in the valuation allowance for state net operating loss carryforwards, (iii) the benefit of tax credits for FICA taxes on certain employees' tips, (iv) impacts of executive stock-based compensation and (v) non-deductible costs associated with the secondary offerings.

### Net Income

(dollars in thousands)	THIRTEEN WEEKS ENDED			THIRTY-NINE WEEKS ENDED		
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change
Net income	\$ 5,418	\$ 46	n/m <sup>(1)</sup>	\$ 22,737	\$ 7,393	n/m <sup>(1)</sup>
As a percentage of total revenues	2.5 %	— %	2.5 %	3.5 %	1.4 %	2.1 %

(1) Not meaningful.

The increase in net income and net income margin during the thirteen and thirty-nine weeks ended September 24, 2023 as compared to the same periods in the prior year was primarily due to the increase in income from operations. This was partially offset by (i) the increase in interest expense and (ii) the increase in income tax expense.

**Restaurant Level Operating Profit and Restaurant level Operating Profit Margin**

<i>(dollars in thousands)</i>	THIRTEEN WEEKS ENDED			THIRTY-NINE WEEKS ENDED		
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change
Restaurant level operating profit	\$ 40,365	\$ 31,872	26.6 %	\$ 128,865	\$ 98,390	31.0 %
Restaurant level operating profit margin	18.7 %	17.3 %	1.4 %	20.3 %	18.3 %	2.0 %

Restaurant level operating profit margin during the thirteen and thirty-nine weeks ended September 24, 2023 increased as compared to the same period in the prior year primarily due to (i) leveraging the increase in restaurant sales and (ii) lower costs for pork, avocados and to-go supplies. This was partially offset by the increase in wages and staffing levels.

Restaurant level operating profit during the thirteen and thirty-nine weeks ended September 24, 2023 increased as compared to the same periods in the prior year primarily due to (i) same-restaurant sales growth, driven by menu price increases, (ii) 31 NROs between September 25, 2022 and September 24, 2023, (iii) restaurants we had acquired from our franchisees and (iv) lower costs for commodities and to-go supplies. This was partially offset by (i) the increase in operating costs and expenses driven by our restaurant growth and (ii) the increase in restaurant-level wages and staffing.

**Adjusted EBITDA and Adjusted EBITDA Margin**

<i>(dollars in thousands)</i>	THIRTEEN WEEKS ENDED			THIRTY-NINE WEEKS ENDED		
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change
Adjusted EBITDA	\$ 21,629	\$ 17,023	27.1 %	\$ 74,858	\$ 54,176	38.2 %
Adjusted EBITDA margin	9.9 %	9.1 %	0.8 %	11.6 %	10.0 %	1.6 %

The increase in Adjusted EBITDA and Adjusted EBITDA margin during the thirteen and thirty-nine weeks ended September 24, 2023 as compared to the same periods in the prior year was primarily due to the increase in restaurant level operating profit and restaurant level operating profit margin. This was partially offset by the increase in general and administrative expenses mainly due to wage increases and additional employee headcount to support our growth.



## Non-GAAP Financial Measures Reconciliations

*Adjusted EBITDA and Adjusted EBITDA margin* - The following table reconciles Net income and Net income margin, the most directly comparable GAAP measures to Adjusted EBITDA and Adjusted EBITDA margin for the periods indicated:

<i>(dollars in thousands)</i>	THIRTEEN WEEKS ENDED		THIRTY-NINE WEEKS ENDED	
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022
Net income	\$ 5,418	\$ 46	\$ 22,737	\$ 7,393
Depreciation and amortization	10,434	8,679	28,992	25,302
Interest expense	1,848	1,362	5,792	3,494
Income taxes	1,243	1,329	7,833	4,942
EBITDA	18,943	11,416	65,354	41,131
Stock-based compensation <sup>(1)</sup>	1,764	2,719	5,386	7,821
Transaction expenses, net <sup>(2)</sup>	546	1,419	2,543	1,976
Strategic transition costs <sup>(3)</sup>	168	780	681	1,951
Delaware Voluntary Disclosure Agreement Program <sup>(4)</sup>	44	—	456	—
Insurance proceeds in connection with natural disasters, net <sup>(5)</sup>	(326)	—	(621)	—
Impairments and loss on disposal of assets <sup>(6)</sup>	185	338	618	572
Recruiting and relocation costs <sup>(7)</sup>	305	351	415	570
Severance costs <sup>(8)</sup>	—	—	26	155
Adjusted EBITDA	\$ 21,629	\$ 17,023	\$ 74,858	\$ 54,176
Total revenues	\$ 219,212	\$ 186,852	\$ 646,918	\$ 544,417
Net income margin	2.5 %	— %	3.5 %	1.4 %
Adjusted EBITDA margin	9.9 %	9.1 %	11.6 %	10.0 %
Additional information				
Deferred rent expense <sup>(9)</sup>	\$ 661	\$ 680	\$ 1,575	\$ 1,911

(1) Represents non-cash, stock-based compensation expense which is recorded within General and administrative expenses on the Consolidated Statements of Operations and Comprehensive Income.

(2) Represents costs incurred in connection with the secondary offerings by Advent and the acquisition of certain franchise-owned restaurants.

(3) Represents costs related to process improvements and strategic initiatives. These costs are recorded within General and administrative expenses on the Consolidated Statements of Operations and Comprehensive Income.

(4) Represents professional service costs incurred in connection with the Delaware Voluntary Disclosure Agreement Program related to unclaimed or abandoned property. These costs are recorded in General and administrative expenses on the Consolidated Statements of Operations and Comprehensive Income.

(5) Represents insurance recoveries, net of costs incurred, in connection with Hurricane Ian, which were recorded in Other income, net on the Consolidated Statements of Operations and Comprehensive Income.

(6) Represents costs related to the disposal of assets due to retirements, replacements or certain restaurant closures. There were no impairments recognized during the periods presented.

(7) Represents costs incurred for hiring qualified individuals. These costs are recorded within General and administrative expenses on the Consolidated Statements of Operations and Comprehensive Income.

(8) Severance costs are recorded in General and administrative expenses on the Consolidated Statements of Operations and Comprehensive Income.

(9) Represents the non-cash portion of straight-line rent expense recorded within both Occupancy expenses and General and administrative expenses on the Consolidated Statements of Operations and Comprehensive Income.

*Restaurant level operating profit and Restaurant level operating profit margin* - The following table reconciles Income from operations and Income from operations margin, the most comparable GAAP measures to Restaurant level operating profit and Restaurant level operating profit margin for the periods indicated:

<i>(dollars in thousands)</i>	THIRTEEN WEEKS ENDED		THIRTY-NINE WEEKS ENDED	
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022
Income from operations	\$ 7,738	\$ 2,621	\$ 34,412	\$ 15,434
Less: Franchise revenues	(3,717)	(2,874)	(10,868)	(8,088)
Add:				
General and administrative expenses	25,179	21,689	73,168	63,194
Depreciation and amortization	10,434	8,679	28,992	25,302
Transaction expenses, net <sup>(1)</sup>	546	1,419	2,543	1,976
Impairments and loss on disposal of assets <sup>(2)</sup>	185	338	618	572
Restaurant level operating profit	\$ 40,365	\$ 31,872	\$ 128,865	\$ 98,390
Restaurant sales	\$ 215,495	\$ 183,978	\$ 636,050	\$ 536,329
Income from operations margin	3.6 %	1.4 %	5.4 %	2.9 %
Restaurant level operating profit margin	18.7 %	17.3 %	20.3 %	18.3 %
Additional information				
Deferred rent expense <sup>(3)</sup>	\$ 611	\$ 631	\$ 1,425	\$ 1,762

(1) Represents costs incurred in connection with the secondary offerings by Advent and the acquisition of certain franchise-owned restaurants.

(2) Represents costs related to the disposal of assets due to retirements, replacements or certain restaurant closures. There were no impairments recognized during the periods presented.

(3) Represents the non-cash portion of straight-line rent expense recorded within Occupancy expenses on the Consolidated Statements of Operations and Comprehensive Income.

## Liquidity and Capital Resources

### Liquidity

As of September 24, 2023, we had cash and cash equivalents of \$39.9 million and we had outstanding borrowings, excluding unamortized debt issuance costs and deferred issuance costs of \$95.0 million. We had availability under our undrawn revolving credit facility of \$75.0 million pursuant to our credit agreement dated as of October 6, 2021 (the "Credit Agreement"). Our principal uses of cash include capital expenditures for the development, acquisition or remodeling of restaurants, lease obligations, debt service payments and strategic infrastructure investments. Our working capital requirements are low because our restaurants store very little inventory and our customers pay for their purchases at the time of the sale which frequently precedes our payment terms with suppliers.

We believe that our cash flow from operations, availability under our Credit Agreement and available cash and cash equivalents will be sufficient to meet our liquidity needs for at least the next 12 months. We anticipate that to the extent that we require additional liquidity, or should we decide to pursue one or more significant acquisitions, it will be funded first through additional indebtedness and thereafter through the issuance of equity. Although we believe that our current level of total available liquidity is sufficient to meet our short-term and long-term liquidity requirements, we regularly evaluate opportunities to improve our liquidity position in order to enhance financial flexibility.

We estimate that our capital expenditures will total approximately \$85.0 million to \$90.0 million in 2023, which will be invested primarily in new restaurant projects and planned remodels. We plan to fund the capital expenditures primarily with cash generated from our operating activities as well as with borrowings from our facilities pursuant to our Credit Agreement.

**Summary of Cash Flows**

The following table presents a summary of our cash provided by (used in) operating, investing and financing activities for the thirty-nine weeks ended September 24, 2023 and September 25, 2022:

<i>(in thousands)</i>	THIRTY-NINE WEEKS ENDED	
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022
Cash provided by operating activities	\$ 73,044	\$ 46,644
Cash used in investing activities	(82,633)	(45,700)
Cash used in financing activities	(85)	(3,437)
Net increase in cash and cash equivalents and restricted cash	\$ (9,674)	\$ (2,493)

Cash provided by operating activities during the thirty-nine weeks ended September 24, 2023 increased to \$73.0 million from \$46.6 million during the thirty-nine weeks ended September 25, 2022 primarily due to (i) the increase in net income of \$15.3 million, (ii) the impact of non-cash charges that increased by a net \$5.1 million and (iii) the net change in operating assets and liabilities of \$6.0 million. The \$5.1 million increase in non-cash charges was primarily driven by increases in (i) deferred income taxes, (ii) depreciation and amortization and (iii) non-cash operating lease costs. This increase was partially offset by a decrease in stock-based compensation expense. The net change of \$6.0 million in operating assets and liabilities was primarily a result of higher accrued compensation.

Cash used in investing activities increased to \$82.6 million during the thirty-nine weeks ended September 24, 2023 from \$45.7 million during the thirty-nine weeks ended September 25, 2022 primarily as a result of the increase in capital expenditures to support our restaurant growth and new restaurant technology as well as the acquisition of certain restaurants from our franchisees.

Cash used in financing activities decreased to \$0.1 million during the thirty-nine weeks ended September 24, 2023 from \$3.4 million during the thirty-nine weeks ended September 25, 2022 primarily due to the increased proceeds from the exercise of stock options, net of employee taxes paid, which was partially offset by higher principal repayments of debt.

**Critical Accounting Estimates**

Our discussion and analysis of our financial condition and results of operations is based upon the accompanying unaudited interim consolidated financial statements and notes thereto, which have been prepared in accordance with GAAP. The preparation of these unaudited interim consolidated financial statements and related notes requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Certain of our accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on our historical experience, terms of existing contracts, our evaluation of trends in the industry and information available from other outside sources, as appropriate. We evaluate our estimates and judgments on an on-going basis. Our actual results may differ from these estimates. Judgments and uncertainties affecting the application of those policies may result in materially different amounts being reported under different conditions or using different assumptions. There have been no significant changes to our critical accounting policies as disclosed in “*Critical Accounting Estimates*” in the 2022 Form 10-K.

**Recently Issued Accounting Pronouncements**

For a discussion of recently issued accounting pronouncements, see Note 2, *Summary of Significant Accounting Policies*, in the accompanying notes to the unaudited interim consolidated financial statements.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to interest rate risk through fluctuations in interest rates on our debt obligations. On June 23, 2023, we entered into a variable-to-fixed interest rate swap agreement with two financial institutions to hedge \$90.0 million of the \$95.0 million outstanding variable rate debt. Under the terms of the interest rate swap agreement, the Company will pay a weighted average fixed rate of 4.16% on the notional amount and will receive payments from the counterparties based on

the three-month secured overnight financing rate. Refer to Note 8, *Interest Rate Swaps*, in the accompanying notes to the unaudited interim consolidated financial statements.

Except as described above, there have been no material changes to our exposure to market risks as disclosed in the 2022 Form 10-K.

#### **Item 4. Controls and Procedures**

##### **Evaluation of Disclosure Controls and Procedures**

We are responsible for establishing and maintaining disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act, such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

Disclosure controls and procedures also include, without limitation, controls and procedures that are designed to ensure 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.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Due to the material weaknesses in our internal control over financial reporting, which were previously identified and disclosed in connection with our initial public offering and in our periodic reports filed with the SEC, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 24, 2023, our disclosure controls and procedures were not effective. In light of this fact, our management has performed additional analyses, reconciliations, and other post-closing procedures and has concluded that, notwithstanding the material weaknesses in our internal control over financial reporting, the consolidated financial statements for the periods covered by and included in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with GAAP.

##### **Previously Identified Material Weaknesses**

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of annual or interim financial statements would not be prevented or detected on a timely basis.

Refer to the management report on internal control over financial reporting in Part II - Item 9A of the 2022 Form 10-K filed with the SEC on March 7, 2023 for a discussion of the material weaknesses that continue to exist as of September 24, 2023.

##### **Remediation Efforts**

Management continues to implement measures designed to improve the Company’s internal control over financial reporting, including disclosure controls and procedures, to address and remediate the previously identified material weaknesses. To date, such measures include the following:

- Hired new and reassigned existing financial reporting, accounting, and information technology leadership with public company experience to enhance public company financial reporting, technical accounting, and information technology services and solutions.
- Augmented financial reporting capabilities by staffing professionals with special skills in income tax, internal audit, information technology, and legal.
- Established various policies, including a formal delegation of authority policy defining the protocols for reviewing and authorizing commitments, contracts, invoices, and transactions as well as a comprehensive set of information technology policies to govern the Company’s information technology practices.
- Formalized certain roles and reviewed responsibilities, including ensuring appropriate segregation of duties.

- Designed and implemented period-end financial reporting controls, such as controls over the preparation and review of account reconciliations, financial statement disclosures, and the consolidated financial statements as well as establishing a formal management Disclosure Committee to review the draft financial statements and disclosures prior to release, including a sub-certification process from various functional groups.
- Enhanced access restrictions for certain users over general ledger journal entries to further segregate journal entry creation from journal entry approval authority. In addition, we are designing new processes to review and approve journal entries.
- Designed and implemented controls over the accounting for income taxes to ensure the appropriate recording of deferred income taxes, income taxes and related disclosures.
- Designed sufficient user access controls to ensure appropriate segregation of duties and adequately restrict user and privileged access to financial applications, programs and data to appropriate Company personnel.
- Designed and implemented change management controls to ensure that information technology program and data changes affecting financial information technology applications and underlying accounting records are identified, tested, authorized, and implemented appropriately.
- Designed and implemented computer operation controls to ensure critical jobs are monitored and privileges are appropriately granted.
- Implemented a new backup and recovery platform to monitor data backups for all relevant systems in accordance with the applicable policy as well as manage a test recovery process.

While the material weaknesses previously disclosed have not yet been remediated as of September 24, 2023, management is devoting substantial resources to the ongoing remediation efforts. As we continue to evaluate and work to improve our internal control over financial reporting, we may take additional measures to address control deficiencies, or we may modify certain of the remediation measures described above. The material weaknesses will not be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are designed and operating effectively.

#### **Changes in Internal Control over Financial Reporting**

There have been no changes in internal control over financial reporting during the quarter ended September 24, 2023 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **Part II - Other Information**

### **Item 1. Legal Proceedings**

From time to time, we are involved in various claims and legal actions that arise in the ordinary course of business. We currently do not believe that the ultimate resolution of any of these actions, individually or taken in the aggregate, will have a material adverse effect on our financial position, results of operations, liquidity or capital resources. A significant increase in the number of claims or an increase in amounts owing under successful claims could materially adversely affect our business, financial condition, results of operations and cash flows. See Note 12, *Commitments and Contingencies*, in the accompanying notes to the unaudited interim consolidated financial statements.

### **Item 1A. Risk Factors**

In addition to the other information discussed in this report, please consider the factors described in Part I, Item 1A., “Risk Factors” in our 2022 Form 10-K which could materially affect our business, financial condition or future results. There have been no material changes to the risk factors disclosed in our 2022 Form 10-K, but these are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may adversely affect our business, financial condition or results of operations.

### **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**

The exhibits listed in the Exhibits index to this Form 10-Q are incorporated herein by reference.

<b>Exhibit No.</b>	<b>Description</b>	<b>FILINGS REFERENCED FOR INCORPORATION BY REFERENCE</b>
31.1	<a href="#">Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>	Filed herewith
31.2	<a href="#">Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>	Filed herewith
32.1*	<a href="#">Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>	Furnished herewith
101	The financial information from First Watch Restaurant Group, Inc's Quarterly Report on Form 10-Q for the third fiscal quarter ended September 24, 2023, filed on November 1, 2023, formatted in Inline Extensible Business Reporting Language ("iXBRL")	Filed herewith
104	Cover Page Interactive Data File (formatted as iXBRL and contained in Exhibit 101)	Filed herewith

\* This certification is not deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section. This certification will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates them by reference.

**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 on November 1, 2023.

**FIRST WATCH RESTAURANT GROUP, INC.**

By: /s/ Christopher A. Tomasso  
Name: Christopher A. Tomasso  
Title: President, Chief Executive Officer and Director (Principal Executive Officer)

By: /s/ Mel Hope  
Name: Mel Hope  
Title: Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

**Certification of Principal Executive Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Christopher A. Tomasso, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of First Watch Restaurant Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2023

/s/ Christopher A. Tomasso

Christopher A. Tomasso  
Chief Executive Officer  
(Principal Executive Officer)



**Certification of Principal Financial Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a) as Adopted  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Mel Hope, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of First Watch Restaurant Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2023      /s/ Mel Hope

Mel Hope  
Chief Financial Officer  
(Principal Financial Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of First Watch Restaurant Group, Inc. (the "Company") for the quarter ended September 24, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Christopher A. Tomasso, Chief Executive Officer of the Company, and Mel Hope, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to their knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 1, 2023

/s/ Christopher A. Tomasso

Christopher A. Tomasso  
Chief Executive Officer  
(Principal Executive Officer)

/s/ Mel Hope

Mel Hope  
Chief Financial Officer  
(Principal Financial Officer)