# 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 25, 2022**

**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
THE DAYTIME CAFE

# First Watch Restaurant Group, Inc.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **82-4271369** |
| (State or other jurisdiction of incorporation or organization) | (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 |
|---|---|---|
| **Common Stock, $0.01 par value** | **FWRG** | **The Nasdaq Stock Market LLC (Nasdaq Global Select Market)** |

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 | ☐ | Accelerated filer | ☐ |
| Non-accelerated filer | ☒ | Smaller reporting company | ☒ |
| | | Emerging growth company | ☒ |

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

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 59,199,619 shares of common stock as of November 3, 2022.

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**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 other filings with the Securities and Exchange Commission ("SEC"), including under Part I. Item 1A. "Risk Factors" in our Annual Report on Form 10-K as of and for the year ended December 26, 2021 ("2021 Form 10-K") and in Part II. Item 1A. "Risk Factors" in our Quarterly Report on Form 10-Q as of and for the quarter ended March 27, 2022. 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 25, 2022 | DECEMBER 26, 2021 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 49,371 | $ 51,864 |
| Restricted cash | 251 | 251 |
| Accounts receivable | 3,432 | 4,450 |
| Inventory | 4,116 | 4,023 |
| Prepaid expenses | 4,331 | 5,677 |
| Other current assets | 3,724 | 1,432 |
| Total current assets | 65,225 | 67,697 |
| Goodwill | 345,219 | 345,219 |
| Intangible assets, net | 142,988 | 143,000 |
| Operating lease right-of-use assets | 349,272 | 324,995 |
| Property, fixtures and equipment, net of accumulated depreciation of $138,124 and $115,582, respectively | 186,579 | 164,695 |
| Other long-term assets | 1,195 | 1,311 |
| Total assets | $ 1,090,478 | $ 1,046,917 |
| **Liabilities and Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 7,500 | $ 11,060 |
| Accrued liabilities | 23,684 | 15,889 |
| Accrued compensation and deferred payroll taxes | 15,306 | 21,196 |
| Deferred revenues | 2,387 | 4,654 |
| Current portion of operating lease liabilities | 38,039 | 38,186 |
| Current portion of long-term debt | 5,628 | 3,186 |
| Note payable | — | 2,352 |
| Total current liabilities | 92,544 | 96,523 |
| Operating lease liabilities | 361,172 | 330,495 |
| Long-term debt, net | 95,908 | 99,753 |
| Deferred income taxes | 16,842 | 12,489 |
| Other long-term liabilities | 3,741 | 3,228 |
| Total liabilities | 570,207 | 542,488 |
| Commitments and contingencies (Note 9) | | |
| 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; 59,116,723 and 59,048,446 shares issued and outstanding at September 25, 2022 and December 26, 2021, respectively | 591 | 590 |
| Additional paid-in capital | 617,326 | 608,878 |
| Accumulated deficit | (97,646) | (105,039) |
| Total equity | 520,271 | 504,429 |
| Total liabilities and equity | $ 1,090,478 | $ 1,046,917 |

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 25, 2022 | SEPTEMBER 26, 2021 | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 |
| **Revenues:** | | | | |
| Restaurant sales | $ 183,978 | $ 155,082 | $ 536,329 | $ 432,136 |
| Franchise revenues | 2,874 | 2,359 | 8,088 | 6,437 |
| Total revenues | 186,852 | 157,441 | 544,417 | 438,573 |
| **Operating costs and expenses:** | | | | |
| Restaurant operating expenses (exclusive of depreciation and amortization shown below): | | | | |
| Food and beverage costs | 44,578 | 35,871 | 129,200 | 96,383 |
| Labor and other related expenses | 61,262 | 50,587 | 175,091 | 136,586 |
| Other restaurant operating expenses | 29,685 | 23,905 | 85,761 | 69,348 |
| Occupancy expenses | 15,091 | 13,969 | 44,318 | 41,035 |
| Pre-opening expenses | 1,490 | 510 | 3,569 | 2,573 |
| General and administrative expenses | 21,689 | 17,019 | 63,194 | 44,360 |
| Depreciation and amortization | 8,679 | 8,203 | 25,302 | 23,965 |
| Impairments and loss on disposal of assets | 338 | 98 | 572 | 261 |
| Transaction expenses, net | 1,419 | 126 | 1,976 | 752 |
| Total operating costs and expenses | 184,231 | 150,288 | 528,983 | 415,263 |
| Income from operations | 2,621 | 7,153 | 15,434 | 23,310 |
| Interest expense | (1,362) | (6,051) | (3,494) | (18,656) |
| Other income, net | 116 | 215 | 395 | 536 |
| Income before income taxes | 1,375 | 1,317 | 12,335 | 5,190 |
| Income tax expense | (1,329) | (534) | (4,942) | (2,644) |
| **Net income and total comprehensive income** | $ 46 | $ 783 | $ 7,393 | $ 2,546 |
| | | | | |
| Net income per common share - basic | $ — | $ 0.02 | $ 0.13 | $ 0.06 |
| Net income per common share - diluted | $ — | $ 0.02 | $ 0.12 | $ 0.06 |
| Weighted average number of common shares outstanding - basic | 59,089,831 | 45,013,784 | 59,065,423 | 45,013,784 |
| Weighted average number of common shares outstanding - diluted | 60,464,062 | 46,085,650 | 60,088,622 | 46,077,196 |

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 | Total Equity |
|---|---|---|---|---|---|
| | Shares | Amount | | | |
| **Balance at June 26, 2022** | 59,075,562 | $ 591 | $ 614,223 | $ (97,692) | $ 517,122 |
| Net income | — | — | — | 46 | 46 |
| Stock-based compensation | — | — | 2,719 | — | 2,719 |
| Common stock issued upon exercise of stock options, net | 41,161 | — | 384 | — | 384 |
| **Balance at September 25, 2022** | 59,116,723 | $ 591 | $ 617,326 | $ (97,646) | $ 520,271 |

| | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Total Equity |
|---|---|---|---|---|---|
| | Shares | Amount | | | |
| **Balance at December 26, 2021** | 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 upon exercise of stock options, net | 68,277 | 1 | 627 | — | 628 |
| **Balance at September 25, 2022** | 59,116,723 | $ 591 | $ 617,326 | $ (97,646) | $ 520,271 |

| | Preferred Stock | | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Total Equity |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | |
| **Balance at June 27, 2021** | 266,667 | $ 3 | 45,013,784 | $ 450 | $ 423,661 | $ (101,169) | $ 322,945 |
| Net income | — | — | — | — | — | 783 | 783 |
| Stock-based compensation | — | — | — | — | 430 | — | 430 |
| **Balance at September 26, 2021** | 266,667 | $ 3 | 45,013,784 | $ 450 | $ 424,091 | $ (100,386) | $ 324,158 |

| | Preferred Stock | | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Total Equity |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | |
| **Balance at December 27, 2020** | 266,667 | $ 3 | 45,013,784 | $ 450 | $ 423,345 | $ (102,932) | $ 320,866 |
| Net income | — | — | — | — | — | 2,546 | 2,546 |
| Stock-based compensation | — | — | — | — | 746 | — | 746 |
| **Balance at September 26, 2021** | 266,667 | $ 3 | 45,013,784 | $ 450 | $ 424,091 | $ (100,386) | $ 324,158 |

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 25, 2022 | SEPTEMBER 26, 2021 |
| **Cash flows from operating activities:** | | |
| Net income | $ 7,393 | $ 2,546 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 25,302 | 23,965 |
| Stock-based compensation | 7,821 | 746 |
| Non-cash operating lease costs | 11,907 | 9,582 |
| Non-cash portion of gain on lease modifications | (84) | — |
| Deferred income taxes | 4,353 | 2,526 |
| Amortization of debt discount and deferred issuance costs | 334 | 958 |
| Impairments and loss on disposal of assets | 572 | 261 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 1,018 | 1,014 |
| Inventory | (93) | (558) |
| Prepaid expenses | 1,346 | (814) |
| Deferred offering costs | — | (2,454) |
| Other assets, current and long-term | (2,176) | (639) |
| Accounts payable | (3,560) | 2,757 |
| Accrued liabilities and other long-term liabilities | 6,032 | 8,406 |
| Accrued compensation and deferred payroll taxes, current and long-term | (5,890) | 4,399 |
| Deferred revenues, current and long-term | (2,061) | (1,714) |
| Operating lease liabilities | (5,570) | (6,716) |
| Net cash provided by operating activities | 46,644 | 44,265 |
| **Cash flows from investing activities:** | | |
| Capital expenditures | (44,985) | (27,065) |
| Purchase of intangible assets | (715) | (359) |
| Net cash used in investing activities | (45,700) | (27,424) |
| **Cash flows from financing activities:** | | |
| Repayments of note payable | (2,352) | — |
| Repayments of long-term debt, including finance lease liabilities | (1,635) | (2,581) |
| Proceeds from exercise of stock options, net of employee taxes paid | 628 | — |
| Contingent consideration payment | (78) | — |
| Payment of deferred offering costs | — | (1,255) |
| Net cash used in financing activities | (3,437) | (3,836) |
| Net (decrease) increase in cash and cash equivalents and restricted cash | (2,493) | 13,005 |
| **Cash and cash equivalents and restricted cash:** | | |
| Beginning of period | 52,115 | 39,097 |
| End of period | $ 49,622 | $ 52,102 |
| **Supplemental cash flow information:** | | |
| Cash paid for interest | $ 2,800 | $ 14,763 |
| Cash paid for income taxes, net of refunds | $ 777 | $ 55 |

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 25, 2022 | SEPTEMBER 26, 2021 |
| **Supplemental disclosures of non-cash investing and financing activities:** | | |
| Interest converted to long-term debt | $ — | $ 3,062 |
| Leased assets obtained in exchange for new operating lease liabilities | $ 37,961 | $ 23,391 |
| Leased assets obtained in exchange for new finance lease liabilities | $ 89 | $ 185 |
| Remeasurements and terminations of operating lease assets and lease liabilities | $ (1,861) | $ (2,396) |
| Remeasurements and terminations of finance lease assets and lease liabilities | $ (191) | $ 9 |
| Increase (Decrease) in liabilities from acquisition of property, fixtures and equipment | $ 2,148 | $ (1,153) |

The accompanying notes are an integral part of these 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 25, 2022 and December 26, 2021, the Company operated 356 company-owned restaurants and 341 company-owned restaurants, respectively, and had 103 franchise-owned restaurants and 94 franchise-owned restaurants, respectively.

## 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 Company’s fiscal quarters are comprised of 13 weeks each, except for fiscal years consisting of 53 weeks for which the fourth quarter will consist of 14 weeks, and end on the 13th Sunday of each quarter (14th Sunday of the fourth quarter, when applicable). The quarters ended September 25, 2022 and September 26, 2021 were both 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 26, 2021 (“2021 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 2021 Form 10-K and include all adjustments necessary for the fair statement of the consolidated financial statements for the interim periods presented. The results of operations for interim periods are not necessarily indicative of the results to be expected for other interim periods or the entire fiscal year.

### Reclassifications

The Company reclassified certain items in the accompanying unaudited interim consolidated financial statements for the prior periods to be comparable with the classification for the current period. These reclassifications are related to the presentation of Pre-opening expenses on the Consolidated Statements of Operations and Comprehensive Income for the prior periods presented, which were previously included in Other restaurant operating expenses and Occupancy expenses. These reclassifications had no effect on previously reported net income and comprehensive income.

### 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. At September 25, 2022, the Company’s outstanding debt under the facilities pursuant to the credit agreement executed in October 2021 had a fair value of $96.7 million and a carrying value of $98.8 million.

**Summary of Recently Issued Accounting Pronouncements**

In March 2020, the Financial Accounting Standards Board ("FASB") issued ASU 2020-04, "*Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*" ("ASU 2020-04"). The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. ASU 2020-04 was effective beginning March 12, 2020 and may be applied prospectively to contract modifications made and hedging relationships entered into or evaluated on or before December 31, 2022. Management is currently evaluating its contracts and the optional expedients provided by the new standard.

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

## 3. Revenues

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

| *(in thousands)* | SEPTEMBER 25, 2022 | DECEMBER 26, 2021 |
|---|---|---|
| Deferred revenues: | | |
| Deferred gift card revenue | $ 2,111 | $ 4,410 |
| Deferred franchise fee revenue - current | 276 | 244 |
| Total current deferred revenues | $ 2,387 | $ 4,654 |
| Other long-term liabilities: | | |
| Deferred franchise fee revenue - non-current | $ 2,498 | $ 2,292 |

Changes in deferred gift card contract liabilities were as follows:

| | THIRTEEN WEEKS ENDED | | THIRTY-NINE WEEKS ENDED | |
|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 |
| Deferred gift card revenue: | | | | |
| Balance, beginning of period | $ 2,805 | $ 2,657 | $ 4,410 | $ 4,024 |
| Gift card sales | 1,218 | 1,003 | 4,796 | 4,088 |
| Gift card redemptions | (1,720) | (1,483) | (6,399) | (5,543) |
| Gift card breakage | (192) | (165) | (696) | (557) |
| Balance, end of period | $ 2,111 | $ 2,012 | $ 2,111 | $ 2,012 |

Changes in deferred franchise fee contract liabilities were as follows:

| | THIRTEEN WEEKS ENDED | | THIRTY-NINE WEEKS ENDED | |
|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 |
| Deferred franchise fee revenue: | | | | |
| Balance, beginning of period | $ 2,637 | $ 2,232 | $ 2,536 | $ 2,274 |
| Cash received | 204 | 400 | 434 | 482 |
| Franchise revenues recognized | (67) | (59) | (196) | (183) |
| Balance, end of period | $ 2,774 | $ 2,573 | $ 2,774 | $ 2,573 |

Revenues recognized disaggregated by type were as follows:

| | THIRTEEN WEEKS ENDED | | THIRTY-NINE WEEKS ENDED | |
|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 |
| Restaurant sales: | | | | |
| In-restaurant dining sales | $ 147,491 | $ 123,311 | $ 425,222 | $ 327,147 |
| Third-party delivery sales | 20,105 | 15,232 | 60,960 | 52,584 |
| Take-out sales | 16,382 | 16,539 | 50,147 | 52,405 |
| Total restaurant sales | $ 183,978 | $ 155,082 | $ 536,329 | $ 432,136 |
| | | | | |
| Franchise revenues: | | | | |
| Royalty and system fund contributions | $ 2,807 | $ 2,300 | $ 7,892 | $ 6,254 |
| Initial fees | 67 | 59 | 196 | 183 |
| Total franchise revenues | $ 2,874 | $ 2,359 | $ 8,088 | $ 6,437 |
| Total revenues | $ 186,852 | $ 157,441 | $ 544,417 | $ 438,573 |

## 4. Accounts Receivable

Accounts receivable consisted of the following:

| *(in thousands)* | SEPTEMBER 25, 2022 | DECEMBER 26, 2021 |
|---|---|---|
| Receivables from third-party delivery providers | $ 1,163 | $ 1,021 |
| Receivables from franchisees | 1,230 | 927 |
| Receivables from vendors | 565 | 428 |
| Receivables related to gift card sales | 359 | 1,453 |
| Other receivables | 115 | 621 |
| Total accounts receivable | $ 3,432 | $ 4,450 |

## 5. Accrued Liabilities

Accrued liabilities consisted of the following:

| *(in thousands)* | SEPTEMBER 25, 2022 | DECEMBER 26, 2021 |
|---|---|---|
| Construction liabilities | $ 6,593 | $ 4,445 |
| Sales tax | 3,884 | 3,337 |
| Self-insurance and general liability reserves | 1,223 | 1,353 |
| Utilities | 1,666 | 1,306 |
| Legal | 1,561 | 105 |
| Credit card fees | 1,049 | 940 |
| Property tax | 1,296 | 638 |
| Contingent rent | 911 | 628 |
| Common area maintenance | 624 | 482 |
| Other | 4,877 | 2,655 |
| Total accrued liabilities | $ 23,684 | $ 15,889 |

## 6. Leases

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

| *(in thousands)* | Consolidated Balance Sheets Classification | SEPTEMBER 25, 2022 | DECEMBER 26, 2021 |
|---|---|---|---|
| Operating lease right-of-use assets | Operating lease right-of-use assets | $ 349,272 | $ 324,995 |
| Finance lease assets | Property, fixtures and equipment, net | 1,426 | 1,892 |
| Total lease assets | | $ 350,698 | $ 326,887 |
| | | | |
| Operating lease liabilities [(1)] - current | Current portion of operating lease liabilities | 38,039 | 38,186 |
| Operating lease liabilities - non-current | Operating lease liabilities | 361,172 | 330,495 |
| Finance lease liabilities - current | Current portion of long-term debt | 628 | 686 |
| Finance lease liabilities - non-current | Long-term debt, net | 902 | 1,331 |
| Total lease liabilities | | $ 400,741 | $ 370,698 |

(1) Excludes all variable lease expense.

The components of lease expense are as follows:

| | | THIRTEEN WEEKS ENDED | | THIRTY-NINE WEEKS ENDED | |
|---|---|---|---|---|---|
| *(in thousands)* | **Consolidated Statements of Operations and Comprehensive Income Classification** | **SEPTEMBER 25, 2022** | **SEPTEMBER 26, 2021** | **SEPTEMBER 25, 2022** | **SEPTEMBER 26, 2021** |
| Operating lease expense | Other restaurant operating expenses<br>Occupancy expenses<br>Pre-opening expenses<br>General and administrative expenses | $ 12,667 | $ 11,377 | $ 36,843 | $ 33,263 |
| Variable lease expense | Food and beverage costs<br>Occupancy expenses<br>General and administrative expenses | 3,676 | 3,202 | 10,669 | 9,294 |
| Finance lease expense: | | | | | |
| Amortization of leased assets | Depreciation and amortization | 127 | 139 | 394 | 405 |
| Interest on lease liabilities | Interest expense | 25 | 43 | 101 | 133 |
| Total lease expense (1) | | $ 16,495 | $ 14,761 | $ 48,007 | $ 43,095 |

(1) Includes contingent rent expense of $0.4 million and $0.3 million during the thirteen weeks ended September 25, 2022 and September 26, 2021, respectively, and $1.2 million and $0.7 million during the thirty-nine weeks ended September 25, 2022 and September 26, 2021, respectively.

Supplemental cash flow information related to leases was as follows:

| | THIRTY-NINE WEEKS ENDED | |
|---|---|---|
| *(in thousands)* | **SEPTEMBER 25, 2022** | **SEPTEMBER 26, 2021** |
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows - operating leases | $ 30,506 | $ 30,388 |
| Operating cash flows - finance leases | $ 101 | $ 133 |
| Financing cash flows - finance leases | $ 385 | $ 371 |

Supplemental information related to leases was as follows:

| | THIRTY-NINE WEEKS ENDED | |
|---|---|---|
| | **SEPTEMBER 25, 2022** | **SEPTEMBER 26, 2021** |
| Weighted-average remaining lease term (in years) | | |
| Operating leases | 14.8 | 15.6 |
| Finance leases | 3.0 | 3.7 |
| Weighted-average discount rate (1) | | |
| Operating leases | 8.6 % | 9.1 % |
| Finance leases | 7.7 % | 8.0 % |

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

As of September 25, 2022, future minimum lease payments for operating and finance leases consisted of the following:

| *(in thousands)* | OPERATING LEASES | FINANCE LEASES |
|---|---|---|
| Fiscal year | | |
| 2022 | $ 10,454 | $ 194 |
| 2023 | 41,398 | 607 |
| 2024 | 49,185 | 607 |
| 2025 | 48,934 | 227 |
| 2026 | 48,762 | 38 |
| Thereafter | 540,510 | 39 |
| Total future minimum lease payments [1] | 739,243 | 1,712 |
| Less: imputed interest | (340,032) | (182) |
| Total present value of lease liabilities | $ 399,211 | $ 1,530 |

(1) Excludes approximately $35.0 million of executed operating leases that have not commenced as of September 25, 2022.

## 7. Equity and Stock-Based Compensation

### *Equity Transactions*

During the thirteen weeks ended September 25, 2022, funds managed by the Company’s majority owner, Advent International Corporation, sold 4,500,000 shares of the Company’s common stock through a secondary public offering that was completed on September 19, 2022 (the “Secondary Offering”). 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 that were recorded within Transaction expenses, net on the Consolidated Statements of Operations and Comprehensive Income.

### *Stock Option Awards*

Stock-based awards are granted to employees and non-employee directors. The Company has two compensation plans that provide for the granting of stock options and other share-based awards to key employees and non-employee members of the board of directors. The 2017 Omnibus Equity Incentive Plan (the “2017 Equity Plan”) and the 2021 Equity Incentive Plan (the “2021 Equity Plan”) provide for the grant of incentive stock options, non-qualified stock options, restricted stock awards, restricted stock units, stock appreciation rights and stock-based awards. No awards were granted under the 2017 Equity Plan during the thirteen and thirty-nine weeks ended September 25, 2022 and the Company does not intend to grant any further awards under the 2017 Equity Plan. At September 25, 2022, a total of 2,987,536 common shares were available to grant under the 2021 Equity Plan.

A total of 1,018,975 time-based stock option awards were granted under the 2021 Equity Plan during the thirty-nine weeks ended September 25, 2022, which vest over a three-year requisite service period from the date of grant and expire 10 years after the grant date.

A summary of stock option activity during the thirty-nine weeks ended September 25, 2022 is as follows:

| | NUMBER OF OPTIONS | WEIGHTED AVERAGE EXERCISE PRICE | AGGREGATE INTRINSIC VALUE *(in thousands)* |
|---|---|---|---|
| Outstanding, December 26, 2021 | 4,409,331 | $ 9.48 | $ 28,598 |
| Granted | 1,018,975 | $ 12.67 | |
| Forfeited | (150,059) | $ 10.24 | |
| Exercised | (68,277) | $ 9.19 | |
| Outstanding, September 25, 2022 | 5,209,970 | $ 10.09 | $ 23,083 |
| | | | |
| Exercisable, September 25, 2022 | 2,355,416 | $ 8.98 | $ 13,037 |

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 the Nasdaq Global Select Market.

A summary of the non-vested stock option activity during the thirty-nine weeks ended September 25, 2022 is as follows:

| | NUMBER OF OPTIONS | WEIGHTED AVERAGE GRANT DATE FAIR VALUE |
|---|---|---|
| Nonvested, December 26, 2021 | 2,633,391 | $ 7.03 |
| Granted | 1,018,975 | $ 6.81 |
| Vested | (647,753) | $ 4.01 |
| Forfeited | (150,059) | $ 7.29 |
| Nonvested, September 25, 2022 | 2,854,554 | $ 7.62 |

*Fair value of Stock Options*

The fair value of stock option awards is estimated on the date of grant using the Black-Scholes valuation model. The assumptions utilized to estimate the grant date fair value of the stock option awards granted during the thirty-nine weeks ended September 25, 2022 were as follows:

| | |
|---|---|
| Expected term (years) | 6.5 |
| Expected volatility | 52.4 % |
| Risk-free interest rate | 2.6 % |
| Expected dividend yield | — |

The Company does not have sufficient historical stock option exercise activity and therefore Management estimated the expected term of stock options granted using the simplified method, which represents the mid-point between the vesting period and the contractual term for each grant. The expected volatility of stock options is based on the historical volatilities of a set of publicly traded peer companies in a similar industry. The risk-free interest rate is determined by reference to the U.S. Treasury yield curve for time periods approximately equal to the expected term of the stock option award. The expected dividend yield is based on the fact that the Company has never paid cash dividends and does not have intentions of paying dividends in the foreseeable future.

*Restricted Stock Units*

During the thirty-nine weeks ended September 25, 2022, a total of 38,311 restricted stock units were granted under the 2021 Equity Plan at the weighted average grant date fair value of $14.36. The restricted stock units will vest over a one-year requisite service period from the date of grant.

*Stock-Based Compensation Expense*

Stock-based compensation expense was $2.7 million and $7.8 million during the thirteen and thirty-nine weeks ended September 25, 2022, respectively. Stock based compensation expense was $0.4 million and $0.7 million during the thirteen and thirty-nine weeks ended September 26, 2021, respectively.

*Unrecognized Stock-Based Compensation Expense*

The following represents unrecognized stock-based compensation expense and the remaining weighted average vesting period as of September 25, 2022:

| | UNRECOGNIZED STOCK-BASED COMPENSATION EXPENSE *(in thousands)* | REMAINING WEIGHTED AVERAGE VESTING PERIOD *(in years)* |
|---|---|---|
| Stock options | $ 11,267 | 1.5 |
| Restricted stock units | $ 371 | 0.7 |

## 8. Income Taxes

| | THIRTEEN WEEKS ENDED | | THIRTY-NINE WEEKS ENDED | |
|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 |
| Income before income taxes | $ 1,375 | $ 1,317 | $ 12,335 | $ 5,190 |
| Income tax expense | $ (1,329) | $ (534) | $ (4,942) | $ (2,644) |
| Effective income tax rate | 96.7 % | 40.5 % | 40.1 % | 50.9 % |

The change in the effective income tax rates for the thirteen and thirty-nine weeks ended September 25, 2022 as compared to the same periods in the prior year was primarily due to (i) the change in the valuation allowance for federal and state deferred tax assets, (ii) the benefit of tax credits for FICA taxes on certain employees' tips, (iii) limitations on deductions of certain compensation and (iv) non-deductible costs associated with the Secondary Offering.

The Company has a blended federal and state statutory rate of approximately 25.0%. The effective income tax rates for the thirteen and thirty-nine weeks ended September 25, 2022 are different than the blended federal and state statutory rate primarily due to (i) the change in the valuation allowance for federal and state deferred tax assets, (ii) the benefit of tax credits for FICA taxes on certain employees' tips, (iii) limitations on deductions of certain compensation and (iv) non-deductible costs associated with the Secondary Offering.

## 9. Commitments and Contingencies

*Purchase Commitments*

In July 2022, Management entered into an agreement with a vendor to purchase product. The agreement will remain in effect through the later of (i) the purchase of 585,940 gallons of product or (ii) 5 years from the effective date of the agreement. The remaining minimum purchase commitment as of September 25, 2022 was approximately $9.5 million.

*Legal Proceedings*

The Company is subject to legal proceedings, claims and liabilities that arise in the ordinary course of business. The amount of the ultimate liability with respect to these matters was not material as of September 25, 2022. In the event any litigation losses become probable and estimable, the Company will recognize any anticipated losses.

*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.

## 10. Net Income Per Common Share

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

| | THIRTEEN WEEKS ENDED | | THIRTY-NINE WEEKS ENDED | |
|---|---|---|---|---|
| *(in thousands, except share and per share data)* | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 |
| Numerator: | | | | |
| Net income | $ 46 | $ 783 | $ 7,393 | $ 2,546 |
| Denominator: | | | | |
| Weighted average common shares outstanding - basic | 59,089,831 | 45,013,784 | 59,065,423 | 45,013,784 |
| Weighted average common shares outstanding - diluted | 60,464,062 | 46,085,650 | 60,088,622 | 46,077,196 |
| Net income per common share - basic | $ — | $ 0.02 | $ 0.13 | $ 0.06 |
| Net income per common share - diluted | $ — | $ 0.02 | $ 0.12 | $ 0.06 |
| Stock options outstanding not included in diluted net income per common share as their effect is anti-dilutive | 1,255,089 | 90,045 | 1,708,602 | 90,045 |

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 preferred stock using the two-class method, as well as for stock options and restricted stock units outstanding and unvested as of the respective periods using the treasury method.

During the thirteen and thirty-nine weeks ended September 26, 2021, the performance-based stock options that were granted under the 2017 Equity Plan, certain of which were converted into time-based stock options upon the Company's initial public offering, were excluded from the diluted net income per common share calculation as the performance condition was not considered probable of being met.

## 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 as of and for the fiscal year ended December 26, 2021 and notes included in our 2021 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 below and those discussed in "Risk Factors" under Part II, Item 1A in this Form 10-Q, the Form 10-Q for the quarterly period ended March 27, 2022 and in our 2021 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 2022, First Watch was recognized with ADP's coveted Culture at Work Award and named a Top 100 Most Loved Workplace® by Newsweek and the Best Practice Institute. The Company is majority owned by Advent International Corporation, one of the world's largest private-equity firms. On October 1, 2021, the Company's common stock began trading on Nasdaq under the ticker symbol "FWRG."

The Company does not operate outside of the United States. The Company operates and franchises restaurants in 29 states under the "First Watch" trade name and as of September 25, 2022, the Company had 356 company-owned restaurants and 103 franchise-owned restaurants.

### Recent Developments

Financial highlights for the thirteen weeks ended September 25, 2022 ("third quarter of 2022") as compared to the thirteen weeks ended September 26, 2021 ("third quarter of 2021") include the following:

- System-wide sales increased 19.2% to $235.2 million in the third quarter of 2022 from $197.4 million in the third quarter of 2021
- Total revenues increased 18.7% to $186.9 million in the third quarter of 2022 from $157.4 million in the third quarter of 2021
- Same-restaurant sales growth of 12.0% (32.7% relative to the third quarter of 2019*)
- Same-restaurant traffic growth of 3.7% (7.0% relative to the third quarter of 2019*)
- Income from operations margin of 1.4% during the third quarter of 2022 compared to 4.6% in the third quarter of 2021
- Restaurant level operating profit margin** of 17.3% in the third quarter of 2022 as compared to 19.5% in the third quarter of 2021
- Net income of $46.0 thousand in the third quarter of 2022 compared to $0.8 million in the third quarter of 2021
- Adjusted EBITDA** of $17.0 million in the third quarter of 2022 was flat compared to the third quarter of 2021
- Opened 11 system-wide restaurants (7 company-owned and 4 franchise-owned) across 9 states resulting in a total of 459 system-wide restaurants (356 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* section below.

**Key Performance Indicators**

Throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations" we commonly discuss the following key operating metrics that 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 25, 2022, there were 303 restaurants in our Comparable Restaurant Base. For the thirteen and thirty-nine weeks ended September 26, 2021, there were 270 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 that the use of these non-GAAP measures provides investors with additional transparency of our operations, facilitates analysis and comparisons of our ongoing business operations because they exclude items that may not be indicative of our ongoing operating performance, identifies operational trends and allows for greater transparency with respect to key metrics used by us 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.

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### Selected Operating Data

| | THIRTEEN WEEKS ENDED | | THIRTY-NINE WEEKS ENDED | |
|---|---|---|---|---|
| | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 |
| System-wide sales (in thousands) | $ 235,231 | $ 197,409 | $ 680,588 | $ 548,005 |
| System-wide restaurants | 459 | 428 | 459 | 428 |
| Company-owned | 356 | 337 | 356 | 337 |
| Franchise-owned | 103 | 91 | 103 | 91 |
| Same-restaurant sales growth | 12.0 % | 46.2 % | 17.0 % | 75.0 % |
| Same-restaurant traffic growth | 3.7 % | 40.1 % | 10.6 % | 61.6 % |
| Income from operations (in thousands) | $ 2,621 | $ 7,153 | $ 15,434 | $ 23,310 |
| Income from operations margin | 1.4 % | 4.6 % | 2.9 % | 5.4 % |
| Restaurant level operating profit (in thousands) (1) | $ 31,872 | $ 30,240 | $ 98,390 | $ 86,230 |
| Restaurant level operating profit margin (1) | 17.3 % | 19.5 % | 18.3 % | 20.0 % |
| Net income (in thousands) | $ 46 | $ 783 | $ 7,393 | $ 2,546 |
| Net income margin | — % | 0.5 % | 1.4 % | 0.6 % |
| Adjusted EBITDA (in thousands) (2) | $ 17,023 | $ 16,952 | $ 54,176 | $ 52,134 |
| Adjusted EBITDA margin (2) | 9.1 % | 10.8 % | 10.0 % | 11.9 % |

_______________

(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 Measure 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 Measure Reconciliations* section below.

### Same-Restaurant Sales Growth and Same-Restaurant Traffic Growth

| THIRTEEN WEEKS ENDED | SAME-RESTAURANT SALES GROWTH | SAME-RESTAURANT TRAFFIC GROWTH | COMPARABLE RESTAURANT BASE |
|---|---|---|---|
| September 25, 2022 | 12.0 % | 3.7 % | 303 |
| September 26, 2021 | 46.2 % | 40.1 % | 270 |
| September 27, 2020 | (17.2)% | (24.3)% | 212 |
| September 29, 2019 | 5.1 % | 0.6 % | 168 |

## Results of Operations

**Thirteen and Thirty-Nine Weeks Ended September 25, 2022 Compared to Thirteen and Thirty-Nine Weeks Ended September 26, 2021**

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 25, 2022 and September 26, 2021:

| | THIRTEEN WEEKS ENDED | | | | THIRTY-NINE WEEKS ENDED | | | |
|---|---|---|---|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 25, 2022 | | SEPTEMBER 26, 2021 | | SEPTEMBER 25, 2022 | | SEPTEMBER 26, 2021 | |
| **Revenues** | | | | | | | | |
| Restaurant sales | $ 183,978 | 98.5 % | $ 155,082 | 98.5 % | $ 536,329 | 98.5 % | $ 432,136 | 98.5 % |
| Franchise revenues | 2,874 | 1.5 % | 2,359 | 1.5 % | 8,088 | 1.5 % | 6,437 | 1.5 % |
| Total revenues | 186,852 | 100.0 % | 157,441 | 100.0 % | 544,417 | 100.0 % | 438,573 | 100.0 % |
| **Operating costs and expenses** | | | | | | | | |
| Restaurant operating expenses [(1)] (exclusive of depreciation and amortization shown below): | | | | | | | | |
| Food and beverage costs | 44,578 | 24.2 % | 35,871 | 23.1 % | 129,200 | 24.1 % | 96,383 | 22.3 % |
| Labor and other related expenses | 61,262 | 33.3 % | 50,587 | 32.6 % | 175,091 | 32.6 % | 136,586 | 31.6 % |
| Other restaurant operating expenses | 29,685 | 16.1 % | 23,905 | 15.4 % | 85,761 | 16.0 % | 69,348 | 16.0 % |
| Occupancy expenses | 15,091 | 8.2 % | 13,969 | 9.0 % | 44,318 | 8.3 % | 41,035 | 9.5 % |
| Pre-opening expenses | 1,490 | 0.8 % | 510 | 0.3 % | 3,569 | 0.7 % | 2,573 | 0.6 % |
| General and administrative expenses | 21,689 | 11.6 % | 17,019 | 10.8 % | 63,194 | 11.6 % | 44,360 | 10.1 % |
| Depreciation and amortization | 8,679 | 4.6 % | 8,203 | 5.2 % | 25,302 | 4.6 % | 23,965 | 5.5 % |
| Impairments and loss on disposal of assets | 338 | 0.2 % | 98 | 0.1 % | 572 | 0.1 % | 261 | 0.1 % |
| Transaction expenses, net | 1,419 | 0.8 % | 126 | 0.1 % | 1,976 | 0.4 % | 752 | 0.2 % |
| Total operating costs and expenses | 184,231 | 98.6 % | 150,288 | 95.5 % | 528,983 | 97.2 % | 415,263 | 94.7 % |
| Income from operations [(1)] | 2,621 | 1.4 % | 7,153 | 4.6 % | 15,434 | 2.9 % | 23,310 | 5.4 % |
| Interest expense | (1,362) | (0.7)% | (6,051) | (3.8)% | (3,494) | (0.6)% | (18,656) | (4.3)% |
| Other income, net | 116 | 0.1 % | 215 | 0.1 % | 395 | 0.1 % | 536 | 0.1 % |
| **Income before income taxes** | 1,375 | 0.7 % | 1,317 | 0.8 % | 12,335 | 2.3 % | 5,190 | 1.2 % |
| Income tax expense | (1,329) | (0.7)% | (534) | (0.3)% | (4,942) | (0.9)% | (2,644) | (0.6)% |
| **Net income and total comprehensive income** | $ 46 | — % | $ 783 | 0.5 % | $ 7,393 | 1.4 % | $ 2,546 | 0.6 % |

(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.

| | THIRTEEN WEEKS ENDED | | | THIRTY-NINE WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | Change | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | Change |
| Restaurant sales: | | | | | | |
| In-restaurant dining sales | $ 147,491 | $ 123,311 | 19.6 % | $ 425,222 | $ 327,147 | 30.0 % |
| Third-party delivery sales | 20,105 | 15,232 | 32.0 % | 60,960 | 52,584 | 15.9 % |
| Take-out sales | 16,382 | 16,539 | (0.9)% | 50,147 | 52,405 | (4.3)% |
| Total Restaurant sales | $ 183,978 | $ 155,082 | 18.6 % | $ 536,329 | $ 432,136 | 24.1 % |

The increase in total restaurant sales during the thirteen weeks ended September 25, 2022 as compared to the same period in the prior year was primarily due to (i) same-restaurant sales growth of 12.0%, driven by same-restaurant traffic growth of 3.7%, menu price increases and the increase in third-party delivery sales, in addition to (ii) 23 NROs between September 26, 2021 and September 25, 2022.

The increase in total restaurant sales during the thirty-nine weeks ended September 25, 2022 as compared to the same period in the prior year was primarily due to (i) same restaurant sales growth of 17.0%, driven by same-restaurant traffic growth of 10.6%, menu price increases and the increase in third-party delivery sales, in addition to (ii) 23 NROs between September 26, 2021 and September 25, 2022.

***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.

| | THIRTEEN WEEKS ENDED | | | THIRTY-NINE WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | Change | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | Change |
| Franchise revenues: | | | | | | |
| Royalty and system fund contributions | $ 2,807 | $ 2,300 | 22.0 % | $ 7,892 | $ 6,254 | 26.2 % |
| Initial fees | 67 | 59 | 13.6 % | 196 | 183 | 7.1 % |
| Total Franchise revenues | $ 2,874 | $ 2,359 | 21.8 % | $ 8,088 | $ 6,437 | 25.6 % |

The increase in franchise revenues during the thirteen and thirty-nine weeks ended September 25, 2022 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) $0.2 million and $0.4 million, respectively, from 12 franchise-owned NROs between September 26, 2021 and September 25, 2022.

***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 | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | Change | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | Change |
| Food and beverage costs | $ 44,578 | $ 35,871 | 24.3 % | $ 129,200 | $ 96,383 | 34.0 % |
| As a percentage of restaurant sales | 24.2 % | 23.1 % | 1.1 % | 24.1 % | 22.3 % | 1.8 % |

Food and beverage costs as a percent of restaurant sales increased during the thirteen and thirty-nine weeks ended September 25, 2022 as compared to the same periods in the prior year primarily due to inflation across the market basket, partially offset by menu price increases.

Food and beverage costs increased during the thirteen and thirty-nine weeks ended September 25, 2022 as compared to the same periods in the prior year primarily as a result of (i) the increase in restaurant sales, (ii) inflation across the market basket and (iii) 23 NROs that have opened between September 26, 2021 and September 25, 2022.

Management currently expects a continuation of cost pressures in our market basket for the balance of the year, with inflation of 12.0% to 14.0% in the fourth fiscal quarter.

***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 | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | Change | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | Change |
| Labor and other related expenses | $ 61,262 | $ 50,587 | 21.1 % | $ 175,091 | $ 136,586 | 28.2 % |
| As a percentage of restaurant sales | 33.3 % | 32.6 % | 0.7 % | 32.6 % | 31.6 % | 1.0 % |

Labor and other related expenses as a percentage of restaurant sales increased during the thirteen and thirty-nine weeks ended September 25, 2022 as compared to the same periods in the prior year primarily as a result of the increase in wages and staffing levels. This increase was partially offset by (i) retention bonuses recognized during the thirteen and thirty-nine weeks ended September 26, 2021 and (ii) a decrease in health insurance costs, which includes rebates from our group health plan.

The increase in labor and other related expenses during the thirteen and thirty-nine weeks ended September 25, 2022 as compared to the same periods in the prior year was primarily due to (i) the increase in wages and staffing levels and (ii) 23 NROs that have opened between September 26, 2021 and September 25, 2022. This increase was partially offset by (i) retention bonuses recognized during the thirteen and thirty-nine weeks ended September 26, 2021 and (ii) a decrease in health insurance costs, which includes rebates from our group health plan.

We expect inflation to remain between 8.0% to 10.0% for our restaurant labor cost for the balance of the year.

***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 | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | Change | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | Change |
| Other restaurant operating expenses | $ 29,685 | $ 23,905 | 24.2 % | $ 85,761 | $ 69,348 | 23.7 % |
| As a percentage of restaurant sales | 16.1 % | 15.4 % | 0.7 % | 16.0 % | 16.0 % | — % |

The increase in other restaurant operating expenses as a percentage of restaurant sales during the thirteen weeks ended September 25, 2022 as compared to the same period in the prior year was primarily due to the increase in the cost of to-go supplies and repairs and maintenance costs.

The increase in other restaurant operating expenses during the thirteen weeks ended September 25, 2022 as compared to the same period in the prior year was mainly due to (i) $2.2 million related to credit card fees, utilities, repairs and maintenance and insurance expense primarily driven by the increase in restaurant sales and restaurant growth, (ii) $1.9 million in operating supplies expense primarily driven by inflation and the increase in restaurant sales and restaurant growth, as well as (iii) $0.7 million in third-party delivery services fees.

Other restaurant operating expenses as a percentage of restaurant sales during the thirty-nine weeks ended September 25, 2022 was flat compared to the same period in the prior year primarily due to leveraging in-restaurant dining sales offset by the increase in the cost of to-go supplies and repairs and maintenance costs.

The increase in other restaurant operating expenses during the thirty-nine weeks ended September 25, 2022 as compared to the same period in the prior year was mainly due to (i) $7.8 million related to credit card fees, utilities, repairs and maintenance and insurance expense primarily driven by the increase in restaurant sales and restaurant growth, (ii) $6.3 million in operating supplies expense primarily driven by inflation and the increase in restaurant sales and restaurant growth, as well as (iii) $0.8 million in third-party delivery services 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 | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | Change | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | Change |
| Occupancy expenses | $ 15,091 | $ 13,969 | 8.0 % | $ 44,318 | $ 41,035 | 8.0 % |
| As a percentage of restaurant sales | 8.2 % | 9.0 % | (0.8)% | 8.3 % | 9.5 % | (1.2)% |

The decrease in occupancy expenses as a percentage of restaurant sales for the thirteen and thirty-nine weeks ended September 25, 2022 as compared to the same periods in the prior year was primarily due to sales leverage driven by the increase in restaurant sales.

The increase in occupancy expenses during the thirteen and thirty-nine weeks ended September 25, 2022 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 | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | Change | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | Change |
| Pre-opening expenses | $ 1,490 | $ 510 | n/m [1] | $ 3,569 | $ 2,573 | 38.7 % |

(1) Not meaningful.

The increase in pre-opening expenses during the thirteen and thirty-nine weeks ended September 25, 2022 as compared to the same periods in the prior year was primarily due to (i) the higher number of restaurants opened in addition to (ii) the higher number of restaurants expected to open and the related increase in pre-opening rent.

### *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 and stock-based compensation. General and administrative expenses are impacted by changes in our employee headcount and costs related to strategic and growth initiatives. In preparation for and after the consummation of the Company’s initial public offering (“IPO”) in October 2021, we have incurred and we expect to incur in the future significant additional legal, accounting and other expenses associated with being a public company, including costs associated with our compliance with the Sarbanes-Oxley Act.

| | THIRTEEN WEEKS ENDED | | | THIRTY-NINE WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | Change | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | Change |
| General and administrative expenses | $ 21,689 | $ 17,019 | 27.4 % | $ 63,194 | $ 44,360 | 42.5 % |

The increase in general and administrative expenses during the thirteen weeks ended September 25, 2022 as compared to the same period in the prior year was mainly due to (i) $2.3 million of stock-based compensation expense from certain stock option awards that converted into time-based stock options upon the Company’s IPO, in addition to stock options and restricted stock units granted under the 2021 Equity Incentive Plan (the “2021 Equity Plan”), (ii) $1.3 million related to legal, accounting and consulting services associated with being a public company and (iii) $0.9 million related to insurance expense associated with being a public company.

The increase in general and administrative expenses during the thirty-nine weeks ended September 25, 2022 as compared to the same period in the prior year was mainly due to (i) $7.1 million of stock-based compensation expense from certain stock option awards that converted into time-based stock options upon the Company’s IPO, in addition to stock options and restricted stock units granted under the 2021 Equity Plan, (ii) $2.3 million in marketing expenses, (iii) $2.9 million related to insurance expense associated with being a public company, (iv) $2.1 million related to legal, accounting and consulting services associated with being a public company and (v) $1.5 million of expenses associated with investments in technology initiatives and the redesign of our systems and processes.

***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 International Corporation in August 2017 as well as reacquired rights from our acquisitions of franchise-owned restaurants.

| | THIRTEEN WEEKS ENDED | | | THIRTY-NINE WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | Change | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | Change |
| Depreciation and amortization | $ 8,679 | $ 8,203 | 5.8 % | $ 25,302 | $ 23,965 | 5.6 % |

The increase in depreciation and amortization during the thirteen and thirty-nine weeks ended September 25, 2022 as compared to the same periods in the prior year was primarily due to incremental depreciation of capital expenditures associated with NROs.

***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 | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | Change | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | Change |
| Impairments and loss on disposal of assets | $ 338 | $ 98 | n/m [(1)] | $ 572 | $ 261 | n/m [(1)] |

Not meaningful.

There were no impairment losses recognized on intangible assets or fixed assets during the thirteen and thirty-nine weeks ended September 25, 2022 and September 26, 2021. Loss on disposal of assets recognized during the periods indicated were primarily related to costs of disposals of assets associated with retirements, replacements and the closure of restaurants.

***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 franchise-owned restaurants, (iv) costs incurred in connection with the conversion of certain restaurants to company-owned restaurants operating under the First Watch trade name, (v) costs related to restaurant closures and (vi) costs related to secondary offerings of our common stock.

| (in thousands) | THIRTEEN WEEKS ENDED SEPTEMBER 25, 2022 | THIRTEEN WEEKS ENDED SEPTEMBER 26, 2021 | Change | THIRTY-NINE WEEKS ENDED SEPTEMBER 25, 2022 | THIRTY-NINE WEEKS ENDED SEPTEMBER 26, 2021 | Change |
|---|---|---|---|---|---|---|
| Transaction expenses, net | $ 1,419 | $ 126 | n/m [1] | $ 1,976 | $ 752 | n/m [1] |

Not meaningful.

The increase in Transaction expenses, net during the thirteen and thirty-nine weeks ended September 25, 2022 as compared to the same periods in the prior year was primarily due to approximately $1.6 million of costs incurred by us in connection with the secondary public offering of the Company’s common stock by entities affiliated with our majority owner, Advent International Corporation (the “Secondary Offering”), partially offset by credits recognized in connection with certain service contracts.

***Income from Operations***

| (in thousands) | THIRTEEN WEEKS ENDED SEPTEMBER 25, 2022 | THIRTEEN WEEKS ENDED SEPTEMBER 26, 2021 | Change | THIRTY-NINE WEEKS ENDED SEPTEMBER 25, 2022 | THIRTY-NINE WEEKS ENDED SEPTEMBER 26, 2021 | Change |
|---|---|---|---|---|---|---|
| Income from operations | $ 2,621 | $ 7,153 | (63.4)% | $ 15,434 | $ 23,310 | (33.8)% |
| As a percentage of restaurant sales | 1.4 % | 4.6 % | (3.2)% | 2.9 % | 5.4 % | (2.5)% |

Income from operations margin decreased during the thirteen and thirty-nine weeks ended September 25, 2022 as compared to the same periods in the prior year primarily due to (i) inflation across commodities and supplies, (ii) the increase in restaurant-level wages and staffing and (iii) higher general and administrative expenses mainly due to stock-based compensation expense and expenses associated with being a public company. This decrease was partially offset by menu price increases.

Income from operations decreased during the thirteen and thirty-nine weeks ended September 25, 2022 as compared to the same periods in the prior year primarily due to (i) inflation across commodities and supplies, (ii) the increase in restaurant-level wages and staffing, (iii) higher operating costs and expenses driven by the increase in restaurant sales and restaurant growth and (iv) higher general and administrative expenses mainly due to stock-based compensation expense and expenses associated with being a public company. This decrease was partially offset by the increase in restaurant sales and franchise revenues.

***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.

| (in thousands) | THIRTEEN WEEKS ENDED SEPTEMBER 25, 2022 | THIRTEEN WEEKS ENDED SEPTEMBER 26, 2021 | Change | THIRTY-NINE WEEKS ENDED SEPTEMBER 25, 2022 | THIRTY-NINE WEEKS ENDED SEPTEMBER 26, 2021 | Change |
|---|---|---|---|---|---|---|
| Interest expense | $ (1,362) | $ (6,051) | (77.5)% | $ (3,494) | $ (18,656) | (81.3)% |

The decrease in interest expense during the thirteen and thirty-nine weeks ended September 25, 2022 as compared to the same periods in the prior year was primarily due to lower outstanding debt and reduced interest rates from the term loan A facility pursuant to our credit agreement executed in October 2021 (the “New Credit Agreement”).

***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.

| | THIRTEEN WEEKS ENDED | | | THIRTY-NINE WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | Change | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | Change |
| Other income, net | $ 116 | $ 215 | (46.0)% | $ 395 | $ 536 | (26.3)% |

***Income Tax Expense***

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

| | THIRTEEN WEEKS ENDED | | | THIRTY-NINE WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | Change | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | Change |
| Income tax expense | $ (1,329) | $ (534) | n/m [1] | $ (4,942) | $ (2,644) | 86.9 % |
| Effective income tax rate | 96.7 % | 40.5 % | 56.2 % | 40.1 % | 50.9 % | (10.8)% |

(1) Not meaningful.

The change in the effective income tax rates for the thirteen and thirty-nine weeks ended September 25, 2022 as compared to the same periods in the prior year was mainly due to (i) the change in the valuation allowance for federal and state deferred tax assets, (ii) the benefit of tax credits for FICA taxes on certain employees' tips, (iii) limitations on deductions of certain compensation and (iv) non-deductible costs associated with the Secondary Offering.

***Net Income***

| | THIRTEEN WEEKS ENDED | | | THIRTY-NINE WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | Change | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | Change |
| Net income | $ 46 | $ 783 | n/m [1] | $ 7,393 | $ 2,546 | n/m [1] |
| As a percentage of total revenues | — % | 0.5 % | (0.5)% | 1.4 % | 0.6 % | 0.8 % |

(1) Not meaningful.

Net income and Net income margin decreased during the thirteen weeks ended September 25, 2022 as compared to the same period in the prior year primarily due to (i) the decrease in income from operations, (ii) costs associated with the Secondary Offering and (iii) higher income tax expense. This decrease was partially offset by lower interest expense.

The increase in Net income and Net income margin during the thirty-nine weeks ended September 25, 2022 as compared to the same period in the prior year was primarily due to lower interest expense. This increase was partially offset by (i) lower income from operations, (ii) the increase in transaction expenses due to costs associated with the Secondary Offering and (iii) higher income tax expense.

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

| | THIRTEEN WEEKS ENDED | | | THIRTY-NINE WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | Change | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | Change |
| Restaurant level operating profit | $ 31,872 | $ 30,240 | 5.4 % | $ 98,390 | $ 86,230 | 14.1 % |
| Restaurant level operating profit margin | 17.3 % | 19.5 % | (2.2)% | 18.3 % | 20.0 % | (1.7)% |

Restaurant level operating profit margin during the thirteen and thirty-nine weeks ended September 25, 2022 decreased as compared to the same periods in the prior year primarily due to (i) inflation across commodities and supplies and (ii) the increase in restaurant-level wages and staffing. This decrease was partially offset by menu price increases.

Restaurant level operating profit during the thirteen and thirty-nine weeks ended September 25, 2022 increased as compared to the same periods in the prior year primarily due to same-restaurant sales growth, driven by same-restaurant traffic growth, menu price increases and the increase in third-party delivery sales. This increase was partially offset by (i) inflation across commodities and supplies, (ii) the increase in restaurant-level wages and staffing and (iii) the increase in operating costs and expenses driven by higher restaurant sales and our restaurant growth.

***Adjusted EBITDA and Adjusted EBITDA Margin***

| | THIRTEEN WEEKS ENDED | | | THIRTY-NINE WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | Change | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | Change |
| Adjusted EBITDA | $ 17,023 | $ 16,952 | 0.4 % | $ 54,176 | $ 52,134 | 3.9 % |
| Adjusted EBITDA margin | 9.1 % | 10.8 % | (1.7)% | 10.0 % | 11.9 % | (1.9)% |

The decrease in Adjusted EBITDA margin during the thirteen weeks ended September 25, 2022 as compared to the same period in the prior year was primarily due to (i) the decrease in restaurant level operating profit margin and (ii) the increase in general and administrative expenses mainly due to legal, accounting, consulting and insurance costs associated with being a public company.

The decrease in Adjusted EBITDA margin during the thirty-nine weeks ended September 25, 2022 as compared to the same period in the prior year was primarily due to (i) the decrease in restaurant level operating profit margin and (ii) the increase in general and administrative expenses mainly due to legal, accounting, consulting and insurance costs associated with being a public company, as well as the increase in marketing expenses.

Adjusted EBITDA during the thirteen weeks ended September 25, 2022 was flat compared to the same period in the prior year primarily due to the increase in restaurant level operating profit which was offset by higher general and administrative expenses mainly due to legal, accounting, consulting and insurance costs associated with being a public company.

The increase in Adjusted EBITDA during the thirty-nine weeks ended September 25, 2022 as compared to the same period in the prior year was primarily due to the increase in restaurant level operating profit. This increase was partially offset by higher general and administrative expenses mainly due to legal, accounting, consulting and insurance costs associated with being a public company, as well as the increase in marketing expenses.

### Non-GAAP Financial Measure 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:

| | THIRTEEN WEEKS ENDED | | THIRTY-NINE WEEKS ENDED | |
|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 |
| Net income | $ 46 | $ 783 | $ 7,393 | $ 2,546 |
| Depreciation and amortization | 8,679 | 8,203 | 25,302 | 23,965 |
| Interest expense | 1,362 | 6,051 | 3,494 | 18,656 |
| Income taxes | 1,329 | 534 | 4,942 | 2,644 |
| EBITDA | 11,416 | 15,571 | 41,131 | 47,811 |
| IPO-readiness and strategic transition costs (1) | 780 | 576 | 1,951 | 1,755 |
| Stock-based compensation (2) | 2,719 | 430 | 7,821 | 746 |
| Transaction expenses, net (3) | 1,419 | 126 | 1,976 | 752 |
| Impairments and loss on disposal of assets (4) | 338 | 98 | 572 | 261 |
| Recruiting and relocation costs (5) | 351 | 151 | 570 | 333 |
| Severance costs (6) | — | — | 155 | 265 |
| COVID-19 related charges (7) | — | — | — | 211 |
| Adjusted EBITDA | $ 17,023 | $ 16,952 | $ 54,176 | $ 52,134 |
| | | | | |
| Total revenues | $ 186,852 | $ 157,441 | $ 544,417 | $ 438,573 |
| Net income margin | — % | 0.5 % | 1.4 % | 0.6 % |
| Adjusted EBITDA margin | 9.1 % | 10.8 % | 10.0 % | 11.9 % |
| | | | | |
| Additional information | | | | |
| Deferred rent expense (income) (8) | $ 680 | $ (156) | $ 1,911 | $ (1,963) |

(1) Represents costs related to the assessment and redesign of our systems and processes. In 2021, the costs also include information technology support and external professional service costs incurred in connection with IPO-readiness efforts. These costs are recorded within General and administrative expenses on the Consolidated Statements of Operations and Comprehensive Income.

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

(3) Represents (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 franchise-owned restaurants, (iv) costs incurred in connection with the conversion of certain restaurants to company-owned restaurants operating under the First Watch trade name, (v) costs related to restaurant closures and (vi) costs related to secondary offerings of the Company's common stock.

(4) 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.

(5) Represents costs incurred for hiring qualified individuals as we assessed the redesign of our systems and processes. These costs are recorded within General and administrative expenses on the Consolidated Statements of Operations and Comprehensive Income.

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

(7) Represents costs incurred in connection with the economic impact of the COVID-19 pandemic.

(8) 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:

| | THIRTEEN WEEKS ENDED | | THIRTY-NINE WEEKS ENDED | |
|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 |
| Income from operations | $ 2,621 | $ 7,153 | $ 15,434 | $ 23,310 |
| Less: Franchise revenues | (2,874) | (2,359) | (8,088) | (6,437) |
| Add: | | | | |
| General and administrative expenses | 21,689 | 17,019 | 63,194 | 44,360 |
| Depreciation and amortization | 8,679 | 8,203 | 25,302 | 23,965 |
| Transaction expenses, net (1) | 1,419 | 126 | 1,976 | 752 |
| Impairments and loss on disposal of assets (2) | 338 | 98 | 572 | 261 |
| COVID-19 related charges (3) | — | — | — | 19 |
| Restaurant level operating profit | $ 31,872 | $ 30,240 | $ 98,390 | $ 86,230 |
| | | | | |
| Restaurant sales | $ 183,978 | $ 155,082 | $ 536,329 | $ 432,136 |
| Income from operations margin | 1.4 % | 4.6 % | 2.9 % | 5.4 % |
| Restaurant level operating profit margin | 17.3 % | 19.5 % | 18.3 % | 20.0 % |
| | | | | |
| Additional information | | | | |
| Deferred rent expense (income) (4) | $ 631 | $ (244) | $ 1,762 | $ (1,978) |

(1) Represents (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 franchise-owned restaurants, (iv) costs incurred in connection with the conversion of certain restaurants to company-owned restaurants operating under the First Watch trade name, (v) costs related to restaurant closures and (vi) costs related to secondary offerings of the Company's common stock.
(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 costs incurred in connection with the economic impact of the COVID-19 pandemic.
(4) 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 25, 2022, we had cash and cash equivalents of $49.4 million and we had outstanding borrowings, excluding unamortized debt issuance costs and deferred issuance costs of $98.8 million. As of September 25, 2022, we had availability of $75.0 million under our revolving credit facility pursuant to our New 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 requirements for working capital are not significant because our customers pay for their food and beverage purchases in cash or on debit or credit cards at the time of the sale and we are able to sell many of our inventory items before payment is due to the supplier of such items.

We believe that our cash flow from operations, availability under our New 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, it will be funded through additional indebtedness, the issuance of equity, or a combination thereof. 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. Although we have no specific current plans to do so, if we decide to pursue one or more significant acquisitions, we may incur additional debt or sell additional equity to finance such acquisitions, which would result in additional expenses or dilution.

We estimate that our capital expenditures will total approximately $60.0 million to $70.0 million in 2022, which will be invested primarily in new restaurant projects, planned remodels and new in-restaurant technology. We plan to fund the capital expenditures primarily with cash generated from our operating activities as well as with borrowings from our new facilities pursuant to our New 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 25, 2022 and September 26, 2021:

| | THIRTY-NINE WEEKS ENDED | |
|---|---|---|
| *(in thousands)* | SEPTEMBER 25, 2022 | SEPTEMBER 26, 2021 |
| Cash provided by operating activities | $ 46,644 | $ 44,265 |
| Cash used in investing activities | (45,700) | (27,424) |
| Cash used in financing activities | (3,437) | (3,836) |
| Net (decrease) increase in cash and cash equivalents and restricted cash | $ (2,493) | $ 13,005 |

Cash provided by operating activities during the thirty-nine weeks ended September 25, 2022 increased to $46.6 million from $44.3 million during the thirty-nine weeks ended September 26, 2021 primarily due to (i) the increase in net income of $4.8 million and (ii) the impact of non-cash charges of $12.2 million, partially offset by (iii) a net change in operating assets and liabilities of $14.6 million. The increase in the non-cash charges was primarily driven by additional stock-based compensation expense resulting from certain stock option awards that converted into time-based stock option awards upon closing of the IPO as well as new stock option awards and restricted stock units issued under the 2021 Equity Plan. The net change in operating assets and liabilities of $14.6 million was primarily a result of (i) the timing and the increase of employee compensation payments, in addition to (ii) the timing of operational payments.

Cash used in investing activities increased to $45.7 million during the thirty-nine weeks ended September 25, 2022 from $27.4 million during the thirty-nine weeks ended September 26, 2021 primarily as a result of the increase in capital expenditures to support our restaurant growth and new restaurant technology.

Cash used in financing activities decreased to $3.4 million during the thirty-nine weeks ended September 25, 2022 from $3.8 million during the thirty-nine weeks ended September 26, 2021 primarily due to the timing of repayments made on the long-term debt, partially offset by repayments made on the note payable.

**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 2021 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

There have been no material changes to our exposure to market risks as disclosed in the 2021 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 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 discussed below, which were previously identified and disclosed in connection with our IPO and in our periodic reports filed with the SEC, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 25, 2022, 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 Reported Material Weaknesses in Internal Control Over Financial Reporting

We identified material weaknesses in our internal control over financial reporting. The material weaknesses we identified were as follows:

We did not design and maintain an effective internal control environment commensurate with the financial reporting requirements of a public company. Specifically, we lacked a sufficient complement of personnel with an appropriate level of knowledge, experience and training in internal control over financial reporting and the reporting requirements of a public company. Additionally, we did not formally delegate authority or establish appropriate segregation of duties in our finance and accounting functions. As a result, we did not perform an effective risk assessment nor did we design and maintain internal controls in response to the risks of material misstatement. These material weaknesses contributed to the following material weaknesses:

- We did not design and maintain effective controls over the period-end financial reporting process, including controls over the preparation and review of account reconciliations and journal entries, and the appropriate classification and presentation of accounts and disclosures in the consolidated financial statements. This material weakness resulted in adjustments to accruals and within the statement of cash flows in our fiscal 2018 consolidated financial statements, which were recorded prior to the issuance of our fiscal 2018 consolidated financial statements.

- We did not design and maintain effective controls over the accounting for income taxes over the recording of deferred income taxes and the assessment of the realization of deferred tax assets. This material weakness resulted in adjustments to the income tax benefit, deferred taxes, goodwill, and liabilities in our fiscal 2018 consolidated financial statements, which were recorded prior to issuance. This material weakness also resulted in immaterial adjustments to the income tax benefit and deferred taxes and related disclosures in the fiscal 2017 and 2019 consolidated financial statements, which were corrected in the fiscal 2019 and 2020 consolidated financial statements, respectively. This material weakness also resulted in adjustments to the income tax expense and deferred taxes in our fiscal 2021 consolidated financial statements, which were recorded prior to issuance.

- We did not design and maintain effective controls over information technology general controls for information systems and applications that are relevant to the preparation of the consolidated financial statements. Specifically, we did not design and maintain: 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; program 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; computer operations controls to ensure that critical batch jobs are monitored, privileges are appropriately granted, and data backups are authorized and monitored; and testing and approval controls for program development to ensure that new software development is aligned with business and information technology requirements. The deficiencies, when aggregated, could impact our ability to maintain effective segregation of duties, as well as the effectiveness of information technology-dependent controls (such as automated controls that address the risk of material misstatement to one or more assertions, along with the information technology controls and underlying data that support the effectiveness of system-generated data and reports) that could result in misstatements potentially impacting all financial statement accounts and disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. Therefore, we concluded the information technology deficiencies resulted in a material weakness. However, these information technology deficiencies did not result in any misstatements to the consolidated financial statements.

Additionally, each of the aforementioned material weaknesses could result in a misstatement of the consolidated financial statements that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

**Remediation Efforts**

We have taken certain measures to remediate the material weaknesses described above, including 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 roles and review 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.

- 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.

**Status of Remediation Efforts**

We are in the process of designing controls over our risk assessment process as well as the preparation and review of journal entries and income taxes. We are committed to continuing to improve our internal control over financial reporting and will continue to review, optimize and enhance our controls as needed. 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. These material weaknesses will not be considered remediated until the applicable controls have been fully designed, implemented and operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

Design and implementation of and training related to redesigned internal controls and remediation efforts are on-going as is management’s assessment of the design of our control environment and testing of operating effectiveness. We believe these efforts have strengthened our 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 9, *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 2021 Form 10-K and in Part II. Item 1A. “Risk Factors” in our Quarterly Report on Form 10-Q as of and for the quarter ended March 27, 2022 which could materially affect our business, financial condition or future results. There have been no material changes to the risk factors disclosed in our 2021 Form 10-K as updated in our Quarterly Report on Form 10-Q as of and for the quarter ended March 27, 2022, which update is incorporated by reference herein, 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.

| Exhibit No. | Description | FILINGS REFERENCED FOR INCORPORATION BY REFERENCE |
|---|---|---|
| 31.1 | Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith |
| 31.2 | Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith |
| 32.1* | 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 | 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 25, 2022, filed on November 7, 2022, formatted in Inline Extensible Business Reporting Language ("iXBRL") | Filed herewith |
| 104 | Cover Page Interactive Date 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 7, 2022.

**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) |

**Exhibit 31.1**

**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)) 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) [Omitted];

    (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 7, 2022

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

**Exhibit 31.2**

**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)) 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) [Omitted];

   (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 7, 2022

/s/ Mel Hope
Mel Hope
Chief Financial Officer
(Principal Financial Officer)

**Exhibit 32.1**

**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 25, 2022, 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 7, 2022

/s/ Christopher A. Tomasso

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

/s/ Mel Hope

Mel Hope
Chief Financial Officer
(Principal Financial Officer)