**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended June 25, 2023**

**OR**

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

**For the transition period from ______ to ______**

Commission file number 001-40866

FIRST WATCH
BREAKFAST · BRUNCH · LUNCH

# First Watch Restaurant Group, Inc.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **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 59,523,950 shares of common stock as of July 28, 2023.

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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 Annual Report on Form 10-K as of and for the year ended December 25, 2022 ("2022 Form 10-K"), including under Part I. Item 1A. "Risk Factors" and Part II. Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations." Important factors that could cause actual results to differ materially from those in the forward-looking statements include the following: uncertainty regarding ongoing hostility between Russia and Ukraine and the related impact on macroeconomic conditions, including inflation, as a result of such conflict or other related events; our vulnerability to changes in economic conditions and consumer preferences; our inability to successfully open new restaurants or establish new markets; our inability to effectively manage our growth; adverse effects of the COVID-19 pandemic or other infectious diseases; potential negative impacts on sales at our and our franchisees' restaurants as a result of our opening new restaurants; a decline in visitors to any of the retail centers, lifestyle centers, or entertainment centers where our restaurants are located; lower than expected same-restaurant sales growth; unsuccessful marketing programs and limited time new offerings; changes in the cost of food; unprofitability or closure of new restaurants or lower than previously experienced performance in existing restaurants; our inability to compete effectively for customers; unsuccessful financial performance of our franchisees; our limited control over our franchisees' operations; our inability to maintain good relationships with our franchisees; conflicts of interest with our franchisees; the geographic concentration of our system-wide restaurant base in the southeast portion of the United States; damage to our reputation and negative publicity; our inability or failure to recognize, respond to and effectively manage the accelerated impact of social media; our limited number of suppliers and distributors for several of our frequently used ingredients and shortages or disruptions in the supply or delivery of such ingredients; information technology system failures or breaches of our network security; our failure to comply with federal and state laws and regulations relating to privacy, data protection, advertising and consumer protection, or the expansion of current or the enactment of new laws or regulations relating to privacy, data protection, advertising and consumer protection; our potential liability with our gift cards under the property laws of some states; our failure to enforce and maintain our trademarks and protect our other intellectual property; litigation with respect to intellectual property assets; our dependence on our executive officers and certain other key employees; our inability to identify, hire, train and retain qualified individuals for our workforce; our failure to obtain or to properly verify the employment eligibility of our employees; our failure to maintain our corporate culture as we grow; unionization activities among our employees; employment and labor law proceedings; labor shortages or increased labor costs or health care costs; risks associated with leasing property subject to long-term and non-cancelable leases; risks related to our sale of alcoholic beverages; costly and complex compliance with federal, state and local laws; changes in accounting principles applicable to us; our vulnerability to natural disasters, unusual weather conditions, pandemic outbreaks, political events, war and terrorism; our inability to secure additional capital to support business growth; our level of indebtedness; failure to comply with covenants under our credit facility; and the interests of our majority stockholder may differ from those of public stockholders.*

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

## Part I - Financial Information

### Item 1. Financial Statements (Unaudited)

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

| | JUNE 25, 2023 | DECEMBER 25, 2022 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 66,765 | $ 49,672 |
| Restricted cash | 326 | 251 |
| Accounts receivable | 4,466 | 6,164 |
| Inventory | 4,887 | 5,028 |
| Prepaid expenses | 5,893 | 5,800 |
| Derivative assets | 724 | — |
| Other current assets | 1,982 | 373 |
| Total current assets | 85,043 | 67,288 |
| Goodwill | 350,491 | 345,219 |
| Intangible assets, net | 144,083 | 143,151 |
| Operating lease right-of-use assets | 369,587 | 352,373 |
| Property, fixtures and equipment, net of accumulated depreciation of $162,238 and $145,720, respectively | 212,182 | 195,117 |
| Other long-term assets | 1,232 | 1,298 |
| Total assets | $ 1,162,618 | $ 1,104,446 |
| **Liabilities and Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 5,514 | $ 7,590 |
| Accrued liabilities | 32,321 | 22,729 |
| Accrued compensation | 20,895 | 17,899 |
| Deferred revenues | 3,472 | 5,193 |
| Current portion of operating lease liabilities | 39,734 | 38,936 |
| Current portion of long-term debt | 6,881 | 6,257 |
| Note payable | 344 | 1,376 |
| Total current liabilities | 109,161 | 99,980 |
| Operating lease liabilities | 387,868 | 366,113 |
| Long-term debt, net | 92,174 | 94,668 |
| Deferred income taxes | 23,040 | 17,166 |
| Derivative liabilities | 884 | — |
| Other long-term liabilities | 3,654 | 3,384 |
| Total liabilities | 616,781 | 581,311 |
| Commitments and contingencies (Note 12) | | |
| Equity: | | |
| Preferred stock; $0.01 par value; 10,000,000 shares authorized; none issued and outstanding | — | — |
| Common stock; $0.01 par value; 300,000,000 shares authorized; 59,463,950 and 59,211,019 shares issued and outstanding at June 25, 2023 and December 25, 2022, respectively | 594 | 592 |
| Additional paid-in capital | 626,216 | 620,675 |
| Accumulated deficit | (80,813) | (98,132) |
| Accumulated other comprehensive loss | (160) | — |
| Total equity | 545,837 | 523,135 |
| Total liabilities and equity | $ 1,162,618 | $ 1,104,446 |

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 | | TWENTY-SIX WEEKS ENDED | |
|---|---|---|---|---|
| | JUNE 25, 2023 | JUNE 26, 2022 | JUNE 25, 2023 | JUNE 26, 2022 |
| **Revenues:** | | | | |
| Restaurant sales | $ 212,587 | $ 181,682 | $ 420,555 | $ 352,351 |
| Franchise revenues | 3,713 | 2,771 | 7,151 | 5,214 |
| Total revenues | 216,300 | 184,453 | 427,706 | 357,565 |
| **Operating costs and expenses:** | | | | |
| Restaurant operating expenses (exclusive of depreciation and amortization shown below): | | | | |
| Food and beverage costs | 47,692 | 45,219 | 94,319 | 84,622 |
| Labor and other related expenses | 70,602 | 58,687 | 139,175 | 113,829 |
| Other restaurant operating expenses | 32,182 | 28,759 | 63,878 | 56,076 |
| Occupancy expenses | 16,461 | 14,844 | 32,395 | 29,227 |
| Pre-opening expenses | 1,252 | 1,094 | 2,288 | 2,079 |
| General and administrative expenses | 25,284 | 21,942 | 47,989 | 41,505 |
| Depreciation and amortization | 9,441 | 8,400 | 18,558 | 16,623 |
| Impairments and loss on disposal of assets | 299 | 155 | 433 | 234 |
| Transaction expenses, net | 1,744 | 300 | 1,997 | 557 |
| Total operating costs and expenses | 204,957 | 179,400 | 401,032 | 344,752 |
| Income from operations | 11,343 | 5,053 | 26,674 | 12,813 |
| Interest expense | (2,037) | (1,126) | (3,944) | (2,132) |
| Other income, net | 685 | 116 | 1,179 | 279 |
| Income before income taxes | 9,991 | 4,043 | 23,909 | 10,960 |
| Income tax expense | (2,032) | (1,336) | (6,590) | (3,613) |
| **Net income** | $ 7,959 | $ 2,707 | $ 17,319 | $ 7,347 |
| | | | | |
| **Net income** | $ 7,959 | $ 2,707 | $ 17,319 | $ 7,347 |
| Other comprehensive loss: | | | | |
| Unrealized loss on derivatives, net of tax | (160) | — | (160) | — |
| **Comprehensive income** | $ 7,799 | $ 2,707 | $ 17,159 | $ 7,347 |
| | | | | |
| Net income per common share - basic | $ 0.13 | $ 0.05 | $ 0.29 | $ 0.12 |
| Net income per common share - diluted | $ 0.13 | $ 0.05 | $ 0.28 | $ 0.12 |
| Weighted average number of common shares outstanding - basic | 59,385,510 | 59,057,991 | 59,314,470 | 59,053,219 |
| Weighted average number of common shares outstanding - diluted | 60,944,836 | 59,888,029 | 60,770,441 | 59,933,003 |

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

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

| | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total Equity |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| **Balance at March 26, 2023** | 59,284,590 | $ 593 | $ 622,736 | $ (88,772) | $ — | $ 534,557 |
| Net income | — | — | — | 7,959 | — | 7,959 |
| Stock-based compensation | — | — | 2,125 | — | — | 2,125 |
| Common stock issued under stock-based compensation plans, net | 179,360 | 1 | 1,355 | — | — | 1,356 |
| Other comprehensive loss | — | — | — | — | (160) | (160) |
| **Balance at June 25, 2023** | 59,463,950 | $ 594 | $ 626,216 | $ (80,813) | $ (160) | $ 545,837 |

| | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total Equity |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| **Balance at December 25, 2022** | 59,211,019 | $ 592 | $ 620,675 | $ (98,132) | $ — | $ 523,135 |
| Net income | — | — | — | 17,319 | — | 17,319 |
| Stock-based compensation | — | — | 3,622 | — | — | 3,622 |
| Common stock issued under stock-based compensation plans, net | 252,931 | 2 | 1,919 | — | — | 1,921 |
| Other comprehensive loss | — | — | — | — | (160) | (160) |
| **Balance at June 25, 2023** | 59,463,950 | $ 594 | $ 626,216 | $ (80,813) | $ (160) | $ 545,837 |

| | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Total Equity |
|---|---|---|---|---|---|
| | Shares | Amount | | | |
| **Balance at March 27, 2022** | 59,048,446 | $ 590 | $ 611,172 | $ (100,399) | $ 511,363 |
| Net income | — | — | — | 2,707 | 2,707 |
| Stock-based compensation | — | — | 2,808 | — | 2,808 |
| Common stock issued under stock-based compensation plans, net | 27,116 | 1 | 243 | — | 244 |
| **Balance at June 26, 2022** | 59,075,562 | $ 591 | $ 614,223 | $ (97,692) | $ 517,122 |

| | 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 | — | — | — | 7,347 | 7,347 |
| Stock-based compensation | — | — | 5,102 | — | 5,102 |
| Common stock issued under stock-based compensation plans, net | 27,116 | 1 | 243 | — | 244 |
| **Balance at June 26, 2022** | 59,075,562 | $ 591 | $ 614,223 | $ (97,692) | $ 517,122 |

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)*

| | TWENTY-SIX WEEKS ENDED | |
|---|---|---|
| | JUNE 25, 2023 | JUNE 26, 2022 |
| **Cash flows from operating activities:** | | |
| Net income | $ 17,319 | $ 7,347 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 18,558 | 16,623 |
| Stock-based compensation | 3,622 | 5,102 |
| Non-cash operating lease costs | 8,994 | 7,730 |
| Non-cash portion of gain on lease modifications | (123) | (62) |
| Deferred income taxes | 5,874 | 3,166 |
| Amortization of debt discount and deferred issuance costs | 221 | 223 |
| Impairments and loss on disposal of assets | 433 | 234 |
| Gain on insurance proceeds | (601) | — |
| Changes in assets and liabilities: | | |
| Accounts receivable | 1,698 | 581 |
| Inventory | 198 | 57 |
| Prepaid expenses | (92) | 135 |
| Other assets, current and long-term | (1,539) | (1,376) |
| Accounts payable | (2,076) | (4,074) |
| Accrued liabilities and other long-term liabilities | 5,821 | 3,636 |
| Accrued compensation and deferred payroll taxes | 2,996 | (2,223) |
| Deferred revenues, current and long-term | (1,920) | (1,504) |
| Operating lease liabilities | (3,800) | (3,783) |
| Net cash provided by operating activities | 55,583 | 31,812 |
| **Cash flows from investing activities:** | | |
| Capital expenditures | (29,677) | (26,566) |
| Acquisitions, net of cash acquired | (8,018) | — |
| Purchase of intangible assets | (76) | (379) |
| Insurance proceeds | 601 | — |
| Net cash used in investing activities | (37,170) | (26,945) |
| **Cash flows from financing activities:** | | |
| Repayments of note payable | (1,032) | (1,829) |
| Repayments of long-term debt, including finance lease liabilities | (2,134) | (1,502) |
| Proceeds from exercise of stock options, net of employee taxes paid | 1,921 | 244 |
| Contingent consideration payment | — | (78) |
| Net cash used in financing activities | (1,245) | (3,165) |
| Net increase in cash and cash equivalents and restricted cash | 17,168 | 1,702 |
| **Cash and cash equivalents and restricted cash:** | | |
| Beginning of period | 49,923 | 52,115 |
| End of period | $ 67,091 | $ 53,817 |
| **Supplemental cash flow information:** | | |
| Cash paid for interest | $ 3,421 | $ 1,996 |
| Cash paid for income taxes, net of refunds | $ 982 | $ 593 |

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)*

| | TWENTY-SIX WEEKS ENDED | |
|---|---|---|
| | JUNE 25, 2023 | JUNE 26, 2022 |
| **Supplemental disclosures of non-cash investing and financing activities:** | | |
| Leased assets obtained in exchange for new operating lease liabilities | $ 27,627 | $ 27,216 |
| Leased assets obtained in exchange for new finance lease liabilities | $ 62 | $ 50 |
| Remeasurements and terminations of operating lease assets and lease liabilities | $ (1,212) | $ (746) |
| Remeasurements and terminations of finance lease assets and lease liabilities | $ (19) | $ (135) |
| Increase in liabilities from acquisition of property, fixtures and equipment | $ 4,010 | $ 2,221 |

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

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

## 1. Nature of Business and Organization

First Watch Restaurant Group, Inc. (collectively with its wholly-owned subsidiaries, “the Company,” or “Management”) is a Delaware holding company. The Company operates and franchises restaurants in 29 states operating under the “First Watch” trade name, which are focused on made-to-order breakfast, brunch and lunch. The Company does not operate outside of the United States and all of its assets are located in the United States. As of June 25, 2023, the Company operated 381 company-owned restaurants and 111 franchise-owned restaurants.

## 2. Summary of Significant Accounting Policies

### Basis of Presentation

The Company reports financial information on a 52- or 53-week fiscal year ending on the last Sunday of each calendar year. The quarters ended June 25, 2023 and June 26, 2022 were 13-week periods. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K as of and for the year ended December 25, 2022 (“2022 Form 10-K”).

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

### Use of Estimates

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

### Fair Value of Financial Instruments

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

### Interest Rate Swaps

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

### Summary of Recently Issued Accounting Pronouncements

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

### 3. Business Acquisition

On May 1, 2023, the Company acquired substantially all of the assets of six franchise-owned restaurants for approximately $8.2 million in cash. Transaction costs of $0.3 million were expensed as incurred and the Company recognized $0.1 million of deferred franchise revenues as a result of terminating the pre-existing franchise agreements. The purchase price was allocated to the fair value of assets acquired and liabilities assumed as follows:

| | | *(in thousands)* |
|---|---|---|
| Cash | $ | 9 |
| Inventory | $ | 57 |
| Prepaid rent and other assets | $ | 67 |
| Property, fixtures and equipment | $ | 1,840 |
| Reacquired rights | $ | 1,342 |
| Goodwill (primarily expected synergies and assembled workforce; tax deductible) | $ | 5,272 |
| Unfavorable leasehold positions, net | $ | (330) |
| Gift card liabilities assumed | $ | (80) |

Revenues of $1.8 million and net income of $0.3 million realized in the acquired restaurants since the date of the acquisition are included in the accompanying unaudited interim consolidated financial statements. The fair values set forth above are based on preliminary valuations and are subject to adjustment as additional information is available.

## 4. Revenues

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

| *(in thousands)* | JUNE 25, 2023 | DECEMBER 25, 2022 |
|---|---|---|
| Deferred revenues: | | |
| Deferred gift card revenue | $ 3,154 | $ 4,897 |
| Deferred franchise fee revenue - current | 318 | 296 |
| Total current deferred revenues | $ 3,472 | $ 5,193 |
| Other long-term liabilities: | | |
| Deferred franchise fee revenue - non-current | $ 2,354 | $ 2,472 |

Changes in deferred gift card contract liabilities were as follows:

| | THIRTEEN WEEKS ENDED | | TWENTY-SIX WEEKS ENDED | |
|---|---|---|---|---|
| *(in thousands)* | JUNE 25, 2023 | JUNE 26, 2022 | JUNE 25, 2023 | JUNE 26, 2022 |
| Deferred gift card revenue: | | | | |
| Balance, beginning of period | $ 2,909 | $ 2,752 | $ 4,897 | $ 4,410 |
| Gift card sales | 3,027 | 2,362 | 4,561 | 3,578 |
| Gift card redemptions | (2,601) | (2,089) | (5,805) | (4,679) |
| Gift card breakage | (261) | (220) | (579) | (504) |
| Gift card liabilities assumed through acquisitions | 80 | — | 80 | — |
| Balance, end of period | $ 3,154 | $ 2,805 | $ 3,154 | $ 2,805 |

Changes in deferred franchise fee contract liabilities were as follows:

| | THIRTEEN WEEKS ENDED | | TWENTY-SIX WEEKS ENDED | |
|---|---|---|---|---|
| *(in thousands)* | JUNE 25, 2023 | JUNE 26, 2022 | JUNE 25, 2023 | JUNE 26, 2022 |
| Deferred franchise fee revenue: | | | | |
| Balance, beginning of period | $ 2,725 | $ 2,592 | $ 2,768 | $ 2,536 |
| Cash received | 105 | 110 | 139 | 230 |
| Franchise revenues recognized | (80) | (65) | (157) | (129) |
| Business combinations - franchise revenues recognized | (78) | — | (78) | — |
| Balance, end of period | $ 2,672 | $ 2,637 | $ 2,672 | $ 2,637 |

Revenues recognized disaggregated by type were as follows:

| | THIRTEEN WEEKS ENDED | | TWENTY-SIX WEEKS ENDED | |
|---|---|---|---|---|
| *(in thousands)* | JUNE 25, 2023 | JUNE 26, 2022 | JUNE 25, 2023 | JUNE 26, 2022 |
| Restaurant sales: | | | | |
| In-restaurant dining sales | $ 174,352 | $ 144,839 | $ 343,581 | $ 277,731 |
| Third-party delivery sales | 21,440 | 19,829 | 43,754 | 40,855 |
| Take-out sales | 16,795 | 17,014 | 33,220 | 33,765 |
| Total restaurant sales | $ 212,587 | $ 181,682 | $ 420,555 | $ 352,351 |
| | | | | |
| Franchise revenues: | | | | |
| Royalty and system fund contributions | $ 3,555 | $ 2,706 | $ 6,916 | $ 5,085 |
| Initial fees | 158 | 65 | 235 | 129 |
| Total franchise revenues | $ 3,713 | $ 2,771 | $ 7,151 | $ 5,214 |
| Total revenues | $ 216,300 | $ 184,453 | $ 427,706 | $ 357,565 |

## 5. Accounts Receivable

Accounts receivable consisted of the following:

| *(in thousands)* | JUNE 25, 2023 | DECEMBER 25, 2022 |
|---|---|---|
| Receivables from third-party delivery providers | $ 1,334 | $ 974 |
| Receivables from franchisees | 1,401 | 1,076 |
| Receivables from vendors | 1,086 | 920 |
| Receivables related to gift card sales | 581 | 1,565 |
| Other receivables | 64 | 1,629 |
| Total accounts receivable | $ 4,466 | $ 6,164 |

## 6. Accrued Liabilities

Accrued liabilities consisted of the following:

| *(in thousands)* | JUNE 25, 2023 | DECEMBER 25, 2022 |
|---|---|---|
| Construction liabilities | $ 10,918 | $ 6,908 |
| Sales tax | 4,472 | 3,791 |
| Self-insurance and general liability reserves | 2,385 | 1,529 |
| Utilities | 1,632 | 1,468 |
| Interest payable | 1,808 | 1,506 |
| Credit card fees | 1,228 | 1,043 |
| Property tax | 1,122 | 951 |
| Contingent rent | 769 | 811 |
| Common area maintenance | 803 | 680 |
| Other | 7,184 | 4,042 |
| Total accrued liabilities | $ 32,321 | $ 22,729 |

## 7. Debt

Long-term debt, net consisted of the following:

| | JUNE 25, 2023 | | DECEMBER 25, 2022 | |
|---|---|---|---|---|
| *(in thousands)* | Balance | Interest Rate | Balance | Interest Rate |
| Term Facility | $ 96,250 | 7.25% | $ 98,125 | 5.89% |
| Finance lease liabilities | 1,217 | | 1,433 | |
| Financing obligation | 3,050 | | 3,050 | |
| Less: Unamortized debt discount and deferred issuance costs | (1,462) | | (1,683) | |
| Total Debt, net | 99,055 | | 100,925 | |
| Less: Current portion of long-term debt | (6,881) | | (6,257) | |
| Long-term debt, net | $ 92,174 | | $ 94,668 | |

### Credit Facilities

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

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

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

### Fair Value of Debt

The estimated fair value of the outstanding debt, excluding finance lease obligations and financing obligations, is classified as Level 3 in the fair value hierarchy and was estimated using discounted cash flow models, market yield and yield volatility. The estimated fair value of the outstanding debt under the Credit Facilities was $96.0 million and $97.1 million at June 25, 2023 and December 25, 2022, respectively.

**8. Interest Rate Swaps**

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

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

Amounts reported in Other comprehensive income related to the interest rate swaps will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. Over the next 12 months, the Company estimates that $0.9 million will be reclassified as a reduction to interest expense.

## 9. Leases

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

| *(in thousands)* | Consolidated Balance Sheets Classification | JUNE 25, 2023 | DECEMBER 25, 2022 |
|---|---|---|---|
| Operating lease right-of-use assets | Operating lease right-of-use assets | $ 369,587 | $ 352,373 |
| Finance lease assets | Property, fixtures and equipment, net | 1,126 | 1,332 |
| Total lease assets | | $ 370,713 | $ 353,705 |
| | | | |
| Operating lease liabilities [1] - current | Current portion of operating lease liabilities | $ 39,734 | $ 38,936 |
| Operating lease liabilities - non-current | Operating lease liabilities | 387,868 | 366,113 |
| Finance lease liabilities - current | Current portion of long-term debt | 631 | 632 |
| Finance lease liabilities - non-current | Long-term debt, net | 586 | 801 |
| Total lease liabilities | | $ 428,819 | $ 406,482 |

(1) Excludes all variable lease expense.

The components of lease expense are as follows:

| | | THIRTEEN WEEKS ENDED | | TWENTY-SIX WEEKS ENDED | |
|---|---|---|---|---|---|
| *(in thousands)* | Consolidated Statements of Operations and Comprehensive Income Classification | JUNE 25, 2023 | JUNE 26, 2022 | JUNE 25, 2023 | JUNE 26, 2022 |
| Operating lease expense | Other restaurant operating expenses<br>Occupancy expenses<br>Pre-opening expenses<br>General and administrative expenses | $ 13,472 | $ 12,130 | $ 26,441 | $ 24,176 |
| Variable lease expense | Food and beverage costs<br>Occupancy expenses<br>General and administrative expenses | 4,126 | 3,594 | 8,006 | 6,993 |
| Finance lease expense: | | | | | |
| Amortization of leased assets | Depreciation and amortization | 127 | 132 | 254 | 267 |
| Interest on lease liabilities | Interest expense | 26 | 39 | 52 | 76 |
| Total lease expense [1] | | $ 17,751 | $ 15,895 | $ 34,753 | $ 31,512 |

(1) Includes contingent rent expense of $0.5 million and $0.4 million during the thirteen weeks ended June 25, 2023 and June 26, 2022, respectively, and $0.9 million and $0.8 million during the twenty-six weeks ended June 25, 2023 and June 26, 2022, respectively.

Supplemental cash flow information related to leases was as follows:

| | TWENTY-SIX WEEKS ENDED | |
|---|---|---|
| *(in thousands)* | JUNE 25, 2023 | JUNE 26, 2022 |
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows - operating leases | $ 21,247 | $ 20,229 |
| Operating cash flows - finance leases | $ 52 | $ 76 |
| Financing cash flows - finance leases | $ 259 | $ 252 |

Supplemental information related to leases was as follows:

| | TWENTY-SIX WEEKS ENDED | |
|---|---|---|
| | JUNE 25, 2023 | JUNE 26, 2022 |
| Weighted-average remaining lease term (in years) | | |
| Operating leases | 14.2 | 15.0 |
| Finance leases | 2.6 | 3.1 |
| Weighted-average discount rate [(1)] | | |
| Operating leases | 8.5 % | 8.7 % |
| Finance leases | 7.4 % | 7.8 % |

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

As of June 25, 2023, future minimum lease payments for operating and finance leases consisted of the following:

| *(in thousands)* | OPERATING LEASES | FINANCE LEASES |
|---|---|---|
| Fiscal year | | |
| 2023 | $ 20,647 | $ 351 |
| 2024 | 47,853 | 603 |
| 2025 | 53,407 | 244 |
| 2026 | 52,971 | 55 |
| 2027 | 52,158 | 43 |
| Thereafter | 541,589 | 41 |
| Total future minimum lease payments [(1)] | 768,625 | 1,337 |
| Less: imputed interest | (341,023) | (120) |
| Total present value of lease liabilities | $ 427,602 | $ 1,217 |

(1) Excludes approximately $83.8 million of executed operating leases that have not commenced as of June 25, 2023.

## 10. Equity and Stock-Based Compensation

***Equity Transactions***

During the thirteen weeks ended June 25, 2023, funds managed by the Company's majority owner, Advent International Corporation, sold 3,500,000 and 3,000,000 shares of the Company's common stock through underwritten secondary public offerings that were completed on May 18, 2023 and June 13, 2023, respectively (the "Secondary Offerings"). The selling stockholders sold an additional 525,000 and 450,000 shares of common stock on May 18, 2023 and July 3, 2023, respectively, pursuant to the terms of the underwriter's option associated with each Secondary Offering. All net proceeds from the sale of the shares of common stock were distributed to the selling stockholders. The Company incurred approximately $1.0 million of costs that were recorded within Transaction expenses, net on the Consolidated Statements of Operations and Comprehensive Income.

***Stock option awards***

There were no stock option awards granted under the 2021 Equity Plan during the twenty-six weeks ended June 25, 2023. A summary of stock option activity during the twenty-six weeks ended June 25, 2023 is as follows:

| | NUMBER OF OPTIONS | WEIGHTED AVERAGE EXERCISE PRICE | AGGREGATE INTRINSIC VALUE *(in thousands)* | WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE *(in years)* |
|---|---|---|---|---|
| Outstanding, December 25, 2022 | 5,115,674 | $ 10.12 | $ 20,981 | 6.1 |
| Exercised | (224,620) | $ 8.93 | | |
| Forfeited | (51,454) | $ 12.45 | | |
| Outstanding, June 25, 2023 | 4,839,600 | $ 10.15 | $ 28,820 | 5.6 |
| | | | | |
| Exercisable, June 25, 2023 | 2,966,385 | $ 9.63 | $ 19,187 | 5.1 |

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

A summary of the non-vested stock option activity during the twenty-six weeks ended June 25, 2023 is as follows:

| | NUMBER OF OPTIONS | WEIGHTED AVERAGE GRANT DATE FAIR VALUE |
|---|---|---|
| Nonvested, December 25, 2022 | 2,324,316 | $ 7.31 |
| Vested | (399,647) | $ 5.95 |
| Forfeited | (51,454) | $ 5.37 |
| Nonvested, June 25, 2023 | 1,873,215 | $ 7.65 |

***Restricted stock units***

A summary of activity for restricted stock units during the twenty-six weeks ended June 25, 2023 is as follows:

| | RESTRICTED STOCK UNITS | WEIGHTED AVERAGE GRANT DATE FAIR VALUE | AGGREGATE INTRINSIC VALUE *(in thousands)* |
|---|---|---|---|
| Outstanding, December 25, 2022 | 38,311 | $ 14.36 | $ 544 |
| Granted | 532,700 | $ 15.64 | |
| Vested | (38,311) | $ 14.36 | |
| Forfeited | (1,288) | $ 15.52 | |
| Outstanding, June 25, 2023 | 531,412 | $ 15.64 | $ 8,556 |

The aggregate intrinsic value is based on the closing price of the Company’s common stock on Nasdaq of $16.10 and $14.21 on June 23, 2023 and December 23, 2022, the last trading days for the periods, respectively.

Stock-based compensation expense was $2.1 million and $3.6 million during the thirteen and twenty-six weeks ended June 25, 2023, respectively. Stock-based compensation expense was $2.8 million and $5.1 million during the thirteen and twenty-six weeks ended June 26, 2022, respectively.

The total related income tax benefit for stock-based compensation expense was $0.4 million and $0.6 million during the thirteen and twenty-six weeks ended June 25, 2023, respectively. The total related income tax benefit for stock-based compensation expense was less than $0.1 million during the thirteen and twenty-six weeks ended June 26, 2022.

***Unrecognized stock-based compensation expense***

The following represents unrecognized stock-based compensation expense and the remaining weighted average vesting period as of June 25, 2023:

| | UNRECOGNIZED STOCK-BASED COMPENSATION EXPENSE *(in thousands)* | REMAINING WEIGHTED AVERAGE VESTING PERIOD *(in years)* |
|---|---|---|
| Stock options | $ 6,346 | 1.1 |
| Restricted stock units | $ 7,497 | 1.7 |

## 11. Income Taxes

| | THIRTEEN WEEKS ENDED | | TWENTY-SIX WEEKS ENDED | |
|---|---|---|---|---|
| *(in thousands)* | JUNE 25, 2023 | JUNE 26, 2022 | JUNE 25, 2023 | JUNE 26, 2022 |
| Income before income taxes | $ 9,991 | $ 4,043 | $ 23,909 | $ 10,960 |
| Income tax expense | $ (2,032) | $ (1,336) | $ (6,590) | $ (3,613) |
| Effective income tax rate | 20.3 % | 33.0 % | 27.6 % | 33.0 % |

The change in the effective income tax rates for the thirteen and twenty-six weeks ended June 25, 2023 as compared to the same periods in the prior year was primarily due to (i) the change in the valuation allowance for federal deferred tax assets, (ii) a decrease in the valuation allowance for state net operating loss carryforwards, (iii) the benefit of tax credits for FICA taxes on certain employees' tips, (iv) impacts of executive stock-based compensation and (v) non-deductible costs associated with the Secondary Offerings.

The effective income tax rates for the thirteen and twenty-six weeks ended June 25, 2023 and June 26, 2022 were different than the blended federal and state statutory rate primarily due to (i) the change in the valuation allowance for federal deferred tax assets, (ii) a decrease in the valuation allowance for state net operating loss carryforwards, (iii) the benefit of tax credits for FICA taxes on certain employees' tips, (iv) impacts of executive stock-based compensation and (v) non-deductible costs associated with the Secondary Offerings.

*Valuation allowance*

Management evaluates quarterly whether the resulting deferred tax assets are realizable given the Company's earnings history. Based on the available evidence, the Company does not meet the more likely than not standard related to the realization of a portion of the deferred tax assets as of June 25, 2023. Accordingly, the Company has established a valuation allowance on the portion of deferred tax assets deemed not realizable, including state charitable contribution carryovers, various state loss carryforwards and various federal tax credit carryforwards.

Management continues to monitor and evaluate the rationale for recording a valuation allowance for deferred tax assets. As the Company's future taxable earnings increase and deferred tax assets are utilized, it is possible that a portion of the valuation allowance will no longer be needed. Release of any portion of the valuation allowance would result in the recognition of certain deferred tax assets and a decrease to income tax expense in the period of the release. The timing and amount of any release related to future taxable income is currently indeterminable. During the thirteen weeks ended June 25, 2023, a release of the valuation allowance related to certain state loss carryforwards decreased income tax expense by approximately $1.0 million.

## 12. Commitments and Contingencies

*Legal Proceedings*

The Company is subject to legal proceedings, claims and liabilities that arise in the ordinary course of business. The amount of the anticipated liability with respect to these matters was not material as of June 25, 2023. 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.

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

## 13. Net Income Per Common Share

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

| | THIRTEEN WEEKS ENDED | | TWENTY-SIX WEEKS ENDED | |
|---|---|---|---|---|
| *(in thousands, except share and per share data)* | JUNE 25, 2023 | JUNE 26, 2022 | JUNE 25, 2023 | JUNE 26, 2022 |
| Numerator: | | | | |
| Net income | $ 7,959 | $ 2,707 | $ 17,319 | $ 7,347 |
| Denominator: | | | | |
| Weighted average common shares outstanding - basic | 59,385,510 | 59,057,991 | 59,314,470 | 59,053,219 |
| Weighted average common shares outstanding - diluted | 60,944,836 | 59,888,029 | 60,770,441 | 59,933,003 |
| Net income per common share - basic | $ 0.13 | $ 0.05 | $ 0.29 | $ 0.12 |
| Net income per common share - diluted | $ 0.13 | $ 0.05 | $ 0.28 | $ 0.12 |
| Stock options outstanding not included in diluted net income per common share as their effect is anti-dilutive | 1,005,061 | 2,213,408 | 1,005,359 | 1,567,102 |
| Restricted stock units outstanding not included in diluted net income per share as their effect is anti-dilutive | 9,065 | 11,185 | 4,533 | — |

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

## 14. Subsequent Events

On June 26, 2023, the Company acquired five restaurants, including franchise and development rights plus other associated assets from a franchisee for cash of $8.6 million.

On June 30, 2023, the Company executed an asset purchase agreement to acquire from a franchisee six operating restaurants and one restaurant under development, together with other associated assets, including, but not limited to, franchise and development rights for cash of approximately $13.9 million. The close date of the sale is subject to the satisfaction of certain customary closing conditions set forth in the asset purchase agreement.

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

### Cautionary Statement

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

### Overview

First Watch is an award-winning Daytime Dining concept serving made-to-order breakfast, brunch and lunch using fresh ingredients. A recipient of hundreds of local "Best Breakfast" and "Best Brunch" accolades, First Watch's award winning chef-driven menu includes elevated executions of classic favorites for breakfast, brunch and lunch. In 2023, First Watch was named the top restaurant brand in Yelp's inaugural list of the top 50 most-loved brands in the U.S. and 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. The Company's common stock trades on Nasdaq under the ticker symbol "FWRG."

The Company operates and franchises restaurants in 29 states under the "First Watch" trade name and as of June 25, 2023, the Company had 381 company-owned restaurants and 111 franchise-owned restaurants.

### Recent Developments

Financial highlights for the thirteen weeks ended June 25, 2023 ("second quarter of 2023") as compared to the thirteen weeks ended June 26, 2022 ("second quarter of 2022") reflect continued success and sustained growth despite a challenging macro environment and include the following:

- Total revenues increased 17.3% to $216.3 million in the second quarter of 2023 from $184.5 million in the second quarter of 2022
- System-wide sales increased 17.4% to $271.5 million in the second quarter of 2023 from $231.2 million in the second quarter of 2022
- Same-restaurant sales growth of 7.8% (39.6% relative to the second quarter of 2019*)
- Same-restaurant traffic decline of (1.2)% (7.4% same-restaurant traffic growth relative to the second quarter of 2019*)
- Income from operations margin increased to 5.3% during the second quarter of 2023 from 2.8% in the second quarter of 2022
- Restaurant level operating profit margin** increased to 20.9% in the second quarter of 2023 from 18.2% in the second quarter of 2022
- Net income increased to $8.0 million, or $0.13 per diluted share, in the second quarter of 2023 from $2.7 million, or $0.05 per diluted share, in the second quarter of 2022
- Adjusted EBITDA** increased to $25.8 million in the second quarter of 2023 from $17.8 million in the second quarter of 2022
- Opened 9 system-wide restaurants (6 company-owned and 3 franchise-owned) across 6 states, acquired 6 franchise-owned restaurants and closed one company-owned restaurant resulting in a total of 492 system-wide restaurants (381 company-owned and 111 franchise-owned) across 29 states

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* Comparison to the thirteen weeks ended June 30, 2019 ("second quarter of 2019") is presented for enhanced comparability due to the economic impact of COVID-19.
** See *Non-GAAP Financial Measures Reconciliations* section below.

**Business Trends**

In the second quarter, we benefited from a period of improving economic stability. Our same-restaurant sales grew 7.8%. Our dining rooms continued to enjoy low-single digit traffic growth, while our off-premises occasions continued down in comparison to last year, similar to industry-wide trends. We believe a meaningful portion of our direct off-premises traffic channel's negative transaction comparison is reflecting our customers' return to the full experience of our restaurants' dining room service.

Commodity inflation continued to decelerate, furthering a trend that began in the second half of last year. For 2023, we expect inflation of our market basket to be in the range of flat to 2.0%. Expectations of labor cost increases continue to range between 8.0% and 10.0%. Combined with improved labor management and menu price increases to offset inflation, the Restaurant level operating profit margin was 20.9%, a 270 basis point improvement over 2022. Starting the first day of our third quarter, we increased in-restaurant menu prices by 1.0% to offset the impact of inflationary costs.

Since the beginning of the year, through June 26, 2023, the Company has acquired 11 restaurants from its franchisees in continuation of this component of our growth strategy.

**Key Performance Indicators**

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

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

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

***Same-Restaurant Sales Growth***: the percentage change in year-over-year restaurant sales (excluding gift card breakage) for the comparable restaurant base, which we define as the number of company-owned First Watch branded restaurants open for 18 months or longer as of the beginning of the fiscal year ("Comparable Restaurant Base"). For the thirteen and twenty-six weeks ended June 25, 2023, there were 327 restaurants in our Comparable Restaurant Base. For the thirteen and twenty-six weeks ended June 26, 2022, there were 304 restaurants in our Comparable Restaurant Base. Measuring our same-restaurant sales growth allows management to evaluate the performance of our existing restaurant base. We believe this measure is useful for investors to provide a consistent comparison of restaurant sales results and trends across periods within our core, established restaurant base, unaffected by results of store openings, closings, and other transitional changes.

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

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

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

**Non-GAAP Financial Measures**

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

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

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

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

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

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

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

**Selected Operating Data**

| | THIRTEEN WEEKS ENDED | | TWENTY-SIX WEEKS ENDED | |
|---|---|---|---|---|
| | JUNE 25, 2023 | JUNE 26, 2022 | JUNE 25, 2023 | JUNE 26, 2022 |
| System-wide sales (in thousands) | $ 271,546 | $ 231,236 | $ 536,265 | $ 445,357 |
| System-wide restaurants | 492 | 449 | 492 | 449 |
| Company-owned | 381 | 350 | 381 | 350 |
| Franchise-owned | 111 | 99 | 111 | 99 |
| Same-restaurant sales growth | 7.8 % | 13.4 % | 10.4 % | 95.9 % |
| Same-restaurant traffic growth (decline) | (1.2)% | 8.1 % | 1.9 % | 76.3 % |
| Income from operations (in thousands) | $ 11,343 | $ 5,053 | $ 26,674 | $ 12,813 |
| Income from operations margin | 5.3 % | 2.8 % | 6.3 % | 3.6 % |
| Restaurant level operating profit (in thousands) (1) | $ 44,398 | $ 33,079 | $ 88,500 | $ 66,518 |
| Restaurant level operating profit margin (1) | 20.9 % | 18.2 % | 21.0 % | 18.9 % |
| Net income (in thousands) | $ 7,959 | $ 2,707 | $ 17,319 | $ 7,347 |
| Net income margin | 3.7 % | 1.5 % | 4.0 % | 2.1 % |
| Adjusted EBITDA (in thousands) (2) | $ 25,816 | $ 17,789 | $ 53,229 | $ 37,153 |
| Adjusted EBITDA margin (2) | 11.9 % | 9.6 % | 12.4 % | 10.4 % |

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

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

| THIRTEEN WEEKS ENDED | SAME-RESTAURANT SALES GROWTH (DECLINE) | SAME-RESTAURANT TRAFFIC GROWTH (DECLINE) | COMPARABLE RESTAURANT BASE |
|---|---|---|---|
| June 25, 2023 | 7.8 % | (1.2)% | 327 |
| June 26, 2022 | 13.4 % | 8.1 % | 304 |
| June 27, 2021 | 403.5 % | 360.9 % | 270 |

## Results of Operations

**Thirteen and Twenty-Six Weeks Ended June 25, 2023 Compared to Thirteen and Twenty-Six Weeks Ended June 26, 2022**

The following table summarizes our results of operations and the percentages of certain items in relation to Total revenues or, where indicated, Restaurant sales for the thirteen and twenty-six weeks ended June 25, 2023 and June 26, 2022:

| | THIRTEEN WEEKS ENDED | | | | TWENTY-SIX WEEKS ENDED | | | |
|---|---|---|---|---|---|---|---|---|
| *(in thousands)* | JUNE 25, 2023 | | JUNE 26, 2022 | | JUNE 25, 2023 | | JUNE 26, 2022 | |
| **Revenues** | | | | | | | | |
| Restaurant sales | $ 212,587 | 98.3 % | $ 181,682 | 98.5 % | $ 420,555 | 98.3 % | $ 352,351 | 98.5 % |
| Franchise revenues | 3,713 | 1.7 % | 2,771 | 1.5 % | 7,151 | 1.7 % | 5,214 | 1.5 % |
| Total revenues | 216,300 | 100.0 % | 184,453 | 100.0 % | 427,706 | 100.0 % | 357,565 | 100.0 % |
| **Operating costs and expenses** | | | | | | | | |
| Restaurant operating expenses [1] (exclusive of depreciation and amortization shown below): | | | | | | | | |
| Food and beverage costs | 47,692 | 22.4 % | 45,219 | 24.9 % | 94,319 | 22.4 % | 84,622 | 24.0 % |
| Labor and other related expenses | 70,602 | 33.2 % | 58,687 | 32.3 % | 139,175 | 33.1 % | 113,829 | 32.3 % |
| Other restaurant operating expenses | 32,182 | 15.1 % | 28,759 | 15.8 % | 63,878 | 15.2 % | 56,076 | 15.9 % |
| Occupancy expenses | 16,461 | 7.7 % | 14,844 | 8.2 % | 32,395 | 7.7 % | 29,227 | 8.3 % |
| Pre-opening expenses | 1,252 | 0.6 % | 1,094 | 0.6 % | 2,288 | 0.5 % | 2,079 | 0.6 % |
| General and administrative expenses | 25,284 | 11.7 % | 21,942 | 11.9 % | 47,989 | 11.2 % | 41,505 | 11.6 % |
| Depreciation and amortization | 9,441 | 4.4 % | 8,400 | 4.6 % | 18,558 | 4.3 % | 16,623 | 4.6 % |
| Impairments and loss on disposal of assets | 299 | 0.1 % | 155 | 0.1 % | 433 | 0.1 % | 234 | 0.1 % |
| Transaction expenses, net | 1,744 | 0.8 % | 300 | 0.2 % | 1,997 | 0.5 % | 557 | 0.2 % |
| Total operating costs and expenses | 204,957 | 94.8 % | 179,400 | 97.3 % | 401,032 | 93.8 % | 344,752 | 96.4 % |
| Income from operations [1] | 11,343 | 5.3 % | 5,053 | 2.8 % | 26,674 | 6.3 % | 12,813 | 3.6 % |
| Interest expense | (2,037) | (0.9)% | (1,126) | (0.6)% | (3,944) | (0.9)% | (2,132) | (0.6)% |
| Other income, net | 685 | 0.3 % | 116 | 0.1 % | 1,179 | 0.3 % | 279 | 0.1 % |
| **Income before income taxes** | 9,991 | 4.6 % | 4,043 | 2.2 % | 23,909 | 5.6 % | 10,960 | 3.1 % |
| Income tax expense | (2,032) | (0.9)% | (1,336) | (0.7)% | (6,590) | (1.5)% | (3,613) | (1.0)% |
| **Net income** | $ 7,959 | 3.7 % | $ 2,707 | 1.5 % | $ 17,319 | 4.0 % | $ 7,347 | 2.1 % |

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

### *Restaurant Sales*

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

| | THIRTEEN WEEKS ENDED | | | TWENTY-SIX WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | JUNE 25, 2023 | JUNE 26, 2022 | Change | JUNE 25, 2023 | JUNE 26, 2022 | Change |
| Restaurant sales: | | | | | | |
| In-restaurant dining sales | $ 174,352 | $ 144,839 | 20.4 % | $ 343,581 | $ 277,731 | 23.7 % |
| Third-party delivery sales | 21,440 | 19,829 | 8.1 % | 43,754 | 40,855 | 7.1 % |
| Take-out sales | 16,795 | 17,014 | (1.3)% | 33,220 | 33,765 | (1.6)% |
| Total Restaurant sales | $ 212,587 | $ 181,682 | 17.0 % | $ 420,555 | $ 352,351 | 19.4 % |

The increase in total restaurant sales during the thirteen weeks ended June 25, 2023 as compared to the same period in the prior year was primarily due to (i) same-restaurant sales growth of 7.8%, driven by the increase in menu prices and favorable mix, in addition to (ii) $28.5 million from restaurants not in the Comparable Restaurant Base, which included $14.7 million from our 28 NROs between June 26, 2022 and June 25, 2023.

The increase in total restaurant sales during the twenty-six weeks ended June 25, 2023 as compared to the same period in the prior year was primarily due to (i) same restaurant sales growth of 10.4%, driven by same-restaurant traffic growth of 1.9% and menu price increases, in addition to (ii) $52.5 million from restaurants not in the Comparable Restaurant Base, which included $26.8 million from our 28 NROs between June 26, 2022 and June 25, 2023.

***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 | | | TWENTY-SIX WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | JUNE 25, 2023 | JUNE 26, 2022 | Change | JUNE 25, 2023 | JUNE 26, 2022 | Change |
| Franchise revenues: | | | | | | |
| Royalty and system fund contributions | $ 3,555 | $ 2,706 | 31.4 % | $ 6,916 | $ 5,085 | 36.0 % |
| Initial fees | 158 | 65 | 143.1 % | 235 | 129 | 82.2 % |
| Total Franchise revenues | $ 3,713 | $ 2,771 | 34.0 % | $ 7,151 | $ 5,214 | 37.1 % |

The increase in franchise revenues during the thirteen and twenty-six weeks ended June 25, 2023 as compared to the same periods in the prior year was primarily driven by (i) the increase in sales from franchise-owned restaurants and (ii) $0.4 million and $0.6 million, respectively, from 18 franchise-owned NROs between June 26, 2022 and June 25, 2023. The increase was partially offset by $0.1 million lower franchise fees as a result of the six franchise-owned restaurants acquired in May 2023.

***Food and Beverage Costs***

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

| | THIRTEEN WEEKS ENDED | | | TWENTY-SIX WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | JUNE 25, 2023 | JUNE 26, 2022 | Change | JUNE 25, 2023 | JUNE 26, 2022 | Change |
| Food and beverage costs | $ 47,692 | $ 45,219 | 5.5 % | $ 94,319 | $ 84,622 | 11.5 % |
| As a percentage of restaurant sales | 22.4 % | 24.9 % | (2.5)% | 22.4 % | 24.0 % | (1.6)% |

Food and beverage costs as a percent of restaurant sales decreased during the thirteen and twenty-six weeks ended June 25, 2023 as compared to the same periods in the prior year primarily due to (i) lower commodity costs across the market basket, driven mostly by decreases in pork and avocado prices and (ii) leveraging restaurant sales.

Food and beverage costs increased during the thirteen and twenty-six weeks ended June 25, 2023 as compared to the same periods in the prior year primarily as a result of (i) the increase in restaurant sales and (ii) 28 NROs that have opened between June 26, 2022 and June 25, 2023. The increase was partially offset by lower commodity costs across the market basket, driven mostly by decreases in pork and avocado prices.

***Labor and Other Related Expenses***

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

| | THIRTEEN WEEKS ENDED | | | TWENTY-SIX WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | JUNE 25, 2023 | JUNE 26, 2022 | Change | JUNE 25, 2023 | JUNE 26, 2022 | Change |
| Labor and other related expenses | $ 70,602 | $ 58,687 | 20.3 % | $ 139,175 | $ 113,829 | 22.3 % |
| As a percentage of restaurant sales | 33.2 % | 32.3 % | 0.9 % | 33.1 % | 32.3 % | 0.8 % |

Labor and other related expenses as a percentage of restaurant sales increased during the thirteen and twenty-six weeks ended June 25, 2023 as compared to the same periods in the prior year primarily as a result of average hourly labor increases and addition staffing to serve growing dining room traffic. This was partially offset by the increase in menu prices.

The increase in labor and other related expenses during the thirteen and twenty-six weeks ended June 25, 2023 as compared to the same periods in the prior year was primarily due to (i) investments in labor, including increases in wages and staffing levels and (ii) 28 NROs that have opened between June 26, 2022 and June 25, 2023.

***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 | | | TWENTY-SIX WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | JUNE 25, 2023 | JUNE 26, 2022 | Change | JUNE 25, 2023 | JUNE 26, 2022 | Change |
| Other restaurant operating expenses | $ 32,182 | $ 28,759 | 11.9 % | $ 63,878 | $ 56,076 | 13.9 % |
| As a percentage of restaurant sales | 15.1 % | 15.8 % | (0.7)% | 15.2 % | 15.9 % | (0.7)% |

The decrease in other restaurant operating expenses as a percentage of restaurant sales during the thirteen and twenty-six weeks ended June 25, 2023 as compared to the same periods in the prior year was primarily due to (i) leveraging restaurant sales and (ii) lower costs of to-go supplies.

The increase in other restaurant operating expenses during the thirteen weeks ended June 25, 2023 as compared to the same period in the prior year was mainly due to the increase in restaurant sales and restaurant growth driving (i) the increase of $0.7 million in operating supplies expense, (ii) the increase of $1.7 million related to credit card fees, utilities and repairs and maintenance expense, in addition to (iii) the increase of $0.5 million in third-party delivery services fees.

The increase in other restaurant operating expenses during the twenty-six weeks ended June 25, 2023 as compared to the same period in the prior year was mainly due to the increase in restaurant sales and restaurant growth driving (i) the increase of $1.7 million in operating supplies expense, (ii) the increase of $4.1 million related to credit card fees, utilities and repairs and maintenance expense, in addition to (iii) the increase of $0.9 million in third-party delivery services.

***Occupancy Expenses***

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

| | THIRTEEN WEEKS ENDED | | | TWENTY-SIX WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | JUNE 25, 2023 | JUNE 26, 2022 | Change | JUNE 25, 2023 | JUNE 26, 2022 | Change |
| Occupancy expenses | $ 16,461 | $ 14,844 | 10.9 % | $ 32,395 | $ 29,227 | 10.8 % |
| As a percentage of restaurant sales | 7.7 % | 8.2 % | (0.5)% | 7.7 % | 8.3 % | (0.6)% |

As a percentage of restaurant sales, the decrease in occupancy expenses for the thirteen and twenty-six weeks ended June 25, 2023 as compared to the same periods in the prior year was primarily due to leveraging restaurant sales.

The increase in occupancy expenses during the thirteen and twenty-six weeks ended June 25, 2023 as compared to the same periods in the prior year was primarily due to the increase in the number of company-owned restaurants.

***Pre-opening Expenses***

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

| | THIRTEEN WEEKS ENDED | | | TWENTY-SIX WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | JUNE 25, 2023 | JUNE 26, 2022 | Change | JUNE 25, 2023 | JUNE 26, 2022 | Change |
| Pre-opening expenses | $ 1,252 | $ 1,094 | 14.4 % | $ 2,288 | $ 2,079 | 10.1 % |

The increase in pre-opening expenses during the thirteen and twenty-six weeks ended June 25, 2023 as compared to the same periods in the prior year was primarily due to (i) increased staffing and wages and (ii) the increase in pre-opening rent expense mainly related to the timing of company-owned restaurant openings and the investment in larger, stand-alone company-owned restaurants.

***General and Administrative Expenses***

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

| | THIRTEEN WEEKS ENDED | | | TWENTY-SIX WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | JUNE 25, 2023 | JUNE 26, 2022 | Change | JUNE 25, 2023 | JUNE 26, 2022 | Change |
| General and administrative expenses | $ 25,284 | $ 21,942 | 15.2 % | $ 47,989 | $ 41,505 | 15.6 % |

The increase in general and administrative expenses during the thirteen weeks ended June 25, 2023 as compared to the same period in the prior year was mainly due to (i) $3.4 million in compensation expense from salary increases, performance-based compensation and additional employee headcount to support growth and (ii) $0.3 million of fees associated with investments in technology initiatives. This was partially offset by the decrease in stock-based compensation of $0.7 million mainly due to the accelerated recognition method for certain stock option grants, net of the stock-based compensation expense recognized for stock-based awards issued during the twenty-six weeks ended June 25, 2023.

The increase in general and administrative expenses during the twenty-six weeks ended June 25, 2023 as compared to the same period in the prior year was mainly due to (i) $6.2 million in compensation expense from wage increases, performance-based compensation and additional employee headcount to support growth, (ii) $0.8 million of fees associated with investments in technology initiatives and (iii) $0.4 million of professional service costs incurred in connection with the Delaware Voluntary Disclosure Agreement Program related to unclaimed or abandoned property. This was partially offset by the decrease in stock-based compensation of $1.5 million mainly due to the accelerated recognition method for certain stock option grants, net of the stock-based compensation expense recognized for stock-based awards issued during the twenty-six weeks ended June 25, 2023.

***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 | | | TWENTY-SIX WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | JUNE 25, 2023 | JUNE 26, 2022 | Change | JUNE 25, 2023 | JUNE 26, 2022 | Change |
| Depreciation and amortization | $ 9,441 | $ 8,400 | 12.4 % | $ 18,558 | $ 16,623 | 11.6 % |

The increase in depreciation and amortization during the thirteen and twenty-six weeks ended June 25, 2023 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 | | | TWENTY-SIX WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | JUNE 25, 2023 | JUNE 26, 2022 | Change | JUNE 25, 2023 | JUNE 26, 2022 | Change |
| Impairments and loss on disposal of assets | $ 299 | $ 155 | 92.9 % | $ 433 | $ 234 | 85.0 % |

There were no impairment losses recognized on intangible assets or fixed assets during the thirteen and twenty-six weeks ended June 25, 2023 and June 26, 2022. The increase during the thirteen and twenty-six weeks ended June 25, 2023 as compared to the same periods in the prior year was primarily related to the closure of one company-owned restaurant.

***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 related to restaurant closures and (v) costs related to certain equity offerings.

| | THIRTEEN WEEKS ENDED | | | TWENTY-SIX WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | JUNE 25, 2023 | JUNE 26, 2022 | Change | JUNE 25, 2023 | JUNE 26, 2022 | Change |
| Transaction expenses, net | $ 1,744 | $ 300 | n/m [(1)] | $ 1,997 | $ 557 | n/m [(1)] |

(1) Not meaningful.

The increase in Transaction expenses, net during the thirteen and twenty-six weeks ended June 25, 2023 as compared to the same periods in the prior year was primarily due to (i) costs incurred by us in connection with the secondary public offerings of the Company's common stock by entities affiliated with our majority owner, Advent International Corporation (the "Secondary Offerings") and (ii) costs incurred in connection with the acquisition of certain franchise-owned restaurants.

During the thirteen and twenty-six weeks ended June 26, 2022 Transaction expenses, net included termination fees recognized in connection with certain service contracts and a termination fee in connection with the closure of one company-owned restaurant.

***Income from Operations***

| | THIRTEEN WEEKS ENDED | | | TWENTY-SIX WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | JUNE 25, 2023 | JUNE 26, 2022 | Change | JUNE 25, 2023 | JUNE 26, 2022 | Change |
| Income from operations | $ 11,343 | $ 5,053 | 124.5 % | $ 26,674 | $ 12,813 | 108.2 % |
| As a percentage of restaurant sales | 5.3 % | 2.8 % | 2.5 % | 6.3 % | 3.6 % | 2.7 % |

Income from operations margin increased during the thirteen and twenty-six weeks ended June 25, 2023 as compared to the same periods in the prior year primarily due to (i) leveraging restaurant sales, (ii) menu price increases and (iii) lower costs for commodities and to-go supplies. This was partially offset by (i) the increase in restaurant-level wages and staffing, (ii) the increase in general and administrative expenses mainly due to wage increases and additional employee headcount to support growth and (iii) the increase in transaction costs related to the Secondary Offerings and the acquisitions of certain franchise-owned restaurants.

Income from operations increased during the thirteen and twenty-six weeks ended June 25, 2023 as compared to the same periods in the prior year primarily due to (i) the increase in restaurant sales and franchise revenues and (ii) lower costs for commodities and to-go supplies. This was partially offset by (i) the increase in restaurant-level wages and staffing, (ii) higher operating costs and expenses driven by our restaurant growth, (iii) higher general and administrative expenses mainly attributable to wage increases, performance-based compensation and additional employee headcount, in addition to

(iv) the increase in transaction costs related to the Secondary Offerings and the acquisitions of certain franchise-owned restaurants.

***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.

| | THIRTEEN WEEKS ENDED | | | TWENTY-SIX WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | JUNE 25, 2023 | JUNE 26, 2022 | Change | JUNE 25, 2023 | JUNE 26, 2022 | Change |
| Interest expense | $ 2,037 | $ 1,126 | 80.9 % | $ 3,944 | $ 2,132 | 85.0 % |

The increase in interest expense during the thirteen and twenty-six weeks ended June 25, 2023 as compared to the same periods in the prior year was primarily due to higher interest rates.

***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 | | | TWENTY-SIX WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | JUNE 25, 2023 | JUNE 26, 2022 | Change | JUNE 25, 2023 | JUNE 26, 2022 | Change |
| Other income, net | $ 685 | $ 116 | n/m [(1)] | $ 1,179 | $ 279 | n/m [(1)] |

(1) Not meaningful.

The increase in Other income, net during the thirteen and twenty-six weeks ended June 25, 2023 was primarily due to (i) insurance recoveries, net of costs incurred, in connection with Hurricane Ian and (ii) the increase in interest income.

***Income Tax Expense***

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

| | THIRTEEN WEEKS ENDED | | | TWENTY-SIX WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | JUNE 25, 2023 | JUNE 26, 2022 | Change | JUNE 25, 2023 | JUNE 26, 2022 | Change |
| Income tax expense | $ (2,032) | $ (1,336) | 52.1 % | $ (6,590) | $ (3,613) | 82.4 % |
| Effective income tax rate | 20.3 % | 33.0 % | (12.7)% | 27.6 % | 33.0 % | (5.4)% |

The change in the effective income tax rates for the thirteen and twenty-six week period ended June 25, 2023 as compared to the same periods in the prior year was primarily due to (i) the change in the valuation allowance for federal deferred tax assets, (ii) a decrease in the valuation allowance for state net operating loss carryforwards, (iii) the benefit of tax credits for FICA taxes on certain employees' tips, (iv) impacts of executive stock-based compensation and (v) non-deductible costs associated with the Secondary Offerings.

***Net Income***

| | THIRTEEN WEEKS ENDED | | | TWENTY-SIX WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | JUNE 25, 2023 | JUNE 26, 2022 | Change | JUNE 25, 2023 | JUNE 26, 2022 | Change |
| Net income | $ 7,959 | $ 2,707 | n/m [(1)] | $ 17,319 | $ 7,347 | n/m [(1)] |
| As a percentage of total revenues | 3.7 % | 1.5 % | 2.2 % | 4.0 % | 2.1 % | 1.9 % |

(1) Not meaningful.

The increase in net income and net income margin during the thirteen and twenty-six weeks ended June 25, 2023 as compared to the same periods in the prior year was primarily due to the increase in income from operations. This was partially offset by (i) the increase in interest expense and (ii) the increase in income tax expense.

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

| | THIRTEEN WEEKS ENDED | | | TWENTY-SIX WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | JUNE 25, 2023 | JUNE 26, 2022 | Change | JUNE 25, 2023 | JUNE 26, 2022 | Change |
| Restaurant level operating profit | $ 44,398 | $ 33,079 | 34.2 % | $ 88,500 | $ 66,518 | 33.0 % |
| Restaurant level operating profit margin | 20.9 % | 18.2 % | 2.7 % | 21.0 % | 18.9 % | 2.1 % |

Restaurant level operating profit margin during the thirteen and twenty-six weeks ended June 25, 2023 increased as compared to the same period in the prior year primarily due to (i) leveraging the increase in restaurant sales and (ii) lower costs for commodities and to-go supplies. This was partially offset by the increase in wages and staffing levels.

Restaurant level operating profit during the thirteen and twenty-six weeks ended June 25, 2023 increased as compared to the same periods in the prior year primarily due to (i) same-restaurant sales growth, driven by menu price increases, (ii) 28 NROs between June 26, 2022 and June 25, 2023 and (iii) lower costs for commodities and to-go supplies. This was partially offset by (i) the increase in operating costs and expenses driven by our restaurant growth and (ii) the increase in restaurant-level wages and staffing.

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

| | THIRTEEN WEEKS ENDED | | | TWENTY-SIX WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | JUNE 25, 2023 | JUNE 26, 2022 | Change | JUNE 25, 2023 | JUNE 26, 2022 | Change |
| Adjusted EBITDA | $ 25,816 | $ 17,789 | 45.1 % | $ 53,229 | $ 37,153 | 43.3 % |
| Adjusted EBITDA margin | 11.9 % | 9.6 % | 2.3 % | 12.4 % | 10.4 % | 2.0 % |

The increase in Adjusted EBITDA and Adjusted EBITDA margin during the thirteen and twenty-six weeks ended June 25, 2023 as compared to the same periods in the prior year was primarily due to the increase in restaurant level operating profit and restaurant level operating profit margin. This was partially offset by the increase in general and administrative expenses mainly due to wage increases and additional employee headcount to support our growth.

### Non-GAAP Financial Measures Reconciliations

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

| | THIRTEEN WEEKS ENDED | | TWENTY-SIX WEEKS ENDED | |
|---|---|---|---|---|
| *(in thousands)* | JUNE 25, 2023 | JUNE 26, 2022 | JUNE 25, 2023 | JUNE 26, 2022 |
| Net income | $ 7,959 | $ 2,707 | $ 17,319 | $ 7,347 |
| Depreciation and amortization | 9,441 | 8,400 | 18,558 | 16,623 |
| Interest expense | 2,037 | 1,126 | 3,944 | 2,132 |
| Income taxes | 2,032 | 1,336 | 6,590 | 3,613 |
| EBITDA | 21,469 | 13,569 | 46,411 | 29,715 |
| Stock-based compensation (1) | 2,125 | 2,808 | 3,622 | 5,102 |
| Transaction expenses, net (2) | 1,744 | 300 | 1,997 | 557 |
| Strategic transition costs (3) | 208 | 721 | 513 | 1,171 |
| Delaware Voluntary Disclosure Agreement Program (4) | 45 | — | 412 | — |
| Insurance proceeds in connection with natural disasters, net (5) | (154) | — | (295) | — |
| Impairments and loss on disposal of assets (6) | 299 | 155 | 433 | 234 |
| Recruiting and relocation costs (7) | 80 | 143 | 110 | 219 |
| Severance costs (8) | — | 93 | 26 | 155 |
| Adjusted EBITDA | $ 25,816 | $ 17,789 | $ 53,229 | $ 37,153 |
| | | | | |
| Total revenues | $ 216,300 | $ 184,453 | $ 427,706 | $ 357,565 |
| Net income margin | 3.7 % | 1.5 % | 4.0 % | 2.1 % |
| Adjusted EBITDA margin | 11.9 % | 9.6 % | 12.4 % | 10.4 % |
| | | | | |
| Additional information | | | | |
| Deferred rent expense (9) | $ 330 | $ 651 | $ 914 | $ 1,231 |

(1) Represents non-cash, stock-based compensation expense which is recorded within General and administrative expenses on the Consolidated Statements of Operations and Comprehensive Income.
(2) Represents costs incurred in connection with the Secondary Offerings and the acquisition of certain franchise-owned restaurants. In 2022, represents termination fees incurred in connection with certain service contracts and a termination fee in connection with the closure of one company-owned restaurant.
(3) Represents costs related to process improvements and strategic initiatives. These costs are recorded within General and administrative expenses on the Consolidated Statements of Operations and Comprehensive Income.
(4) Represents professional service costs incurred in connection with the Delaware Voluntary Disclosure Agreement Program related to unclaimed or abandoned property. These costs are recorded in General and administrative expenses on the Consolidated Statements of Operations and Comprehensive Income.
(5) Represents insurance recoveries, net of costs incurred, in connection with Hurricane Ian, which were recorded in Other income, net on the Consolidated Statements of Operations and Comprehensive Income.
(6) Represents costs related to the disposal of assets due to retirements, replacements or certain restaurant closures. There were no impairments recognized during the periods presented.
(7) Represents costs incurred for hiring qualified individuals. These costs are recorded within General and administrative expenses on the Consolidated Statements of Operations and Comprehensive Income.
(8) Severance costs are recorded in General and administrative expenses on the Consolidated Statements of Operations and Comprehensive Income.
(9) Represents the non-cash portion of straight-line rent expense recorded within both Occupancy expenses and General and administrative expenses on the Consolidated Statements of Operations and Comprehensive Income.

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

| | THIRTEEN WEEKS ENDED | | TWENTY-SIX WEEKS ENDED | |
|---|---|---|---|---|
| *(in thousands)* | JUNE 25, 2023 | JUNE 26, 2022 | JUNE 25, 2023 | JUNE 26, 2022 |
| Income from operations | $ 11,343 | $ 5,053 | $ 26,674 | $ 12,813 |
| Less: Franchise revenues | (3,713) | (2,771) | (7,151) | (5,214) |
| Add: | | | | |
| General and administrative expenses | 25,284 | 21,942 | 47,989 | 41,505 |
| Depreciation and amortization | 9,441 | 8,400 | 18,558 | 16,623 |
| Transaction expenses, net (1) | 1,744 | 300 | 1,997 | 557 |
| Impairments and loss on disposal of assets (2) | 299 | 155 | 433 | 234 |
| Restaurant level operating profit | $ 44,398 | $ 33,079 | $ 88,500 | $ 66,518 |
| | | | | |
| Restaurant sales | $ 212,587 | $ 181,682 | $ 420,555 | $ 352,351 |
| Income from operations margin | 5.3 % | 2.8 % | 6.3 % | 3.6 % |
| Restaurant level operating profit margin | 20.9 % | 18.2 % | 21.0 % | 18.9 % |
| | | | | |
| Additional information | | | | |
| Deferred rent expense (3) | $ 280 | $ 601 | $ 814 | $ 1,131 |

(1) Represents costs incurred in connection with the Secondary Offerings and the acquisition of certain franchise-owned restaurants. In 2022, represents termination fees incurred in connection with certain service contracts and a termination fee in connection with the closure of one company-owned restaurant.
(2) Represents costs related to the disposal of assets due to retirements, replacements or certain restaurant closures. There were no impairments recognized during the periods presented.
(3) Represents the non-cash portion of straight-line rent expense recorded within Occupancy expenses on the Consolidated Statements of Operations and Comprehensive Income.

## Liquidity and Capital Resources

### *Liquidity*

As of June 25, 2023, we had cash and cash equivalents of $66.8 million and we had outstanding borrowings, excluding unamortized debt issuance costs and deferred issuance costs of $96.3 million. We had availability under our undrawn revolving credit facility of $75.0 million pursuant to our credit agreement dated as of October 6, 2021 (the “Credit Agreement”). Our principal uses of cash include capital expenditures for the development, acquisition or remodeling of restaurants, lease obligations, debt service payments and strategic infrastructure investments. Our working capital requirements are low because our restaurants store very little inventory and our customers pay for their purchases at the time of the sale which frequently precedes our payment terms with suppliers.

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

We estimate that our capital expenditures will total approximately $100.0 million to $110.0 million in 2023, which will be invested primarily in new restaurant projects and planned remodels. We plan to fund the capital expenditures primarily with cash generated from our operating activities as well as with borrowings from our facilities pursuant to our Credit Agreement.

***Summary of Cash Flows***

The following table presents a summary of our cash provided by (used in) operating, investing and financing activities for the twenty-six weeks ended June 25, 2023 and June 26, 2022:

| | TWENTY-SIX WEEKS ENDED | |
|---|---|---|
| *(in thousands)* | JUNE 25, 2023 | JUNE 26, 2022 |
| Cash provided by operating activities | $ 55,583 | $ 31,812 |
| Cash used in investing activities | (37,170) | (26,945) |
| Cash used in financing activities | (1,245) | (3,165) |
| Net increase in cash and cash equivalents and restricted cash | $ 17,168 | $ 1,702 |

Cash provided by operating activities during the twenty-six weeks ended June 25, 2023 increased to $55.6 million from $31.8 million during the twenty-six weeks ended June 26, 2022 primarily due to (i) the increase in net income of $10.0 million, (ii) the impact of non-cash charges that increased by a net $4.0 million and (iii) a net change in operating assets and liabilities of $9.8 million. The $4.0 million increase in non-cash charges was primarily driven by increases in (i) deferred income taxes, (ii) depreciation and amortization and (iii) non-cash operating lease costs. This increase was partially offset by a decrease in stock-based compensation expense. The net change of $9.8 million in operating assets and liabilities was primarily a result of higher accrued compensation and the timing of operational payments.

Cash used in investing activities increased to $37.2 million during the twenty-six weeks ended June 25, 2023 from $26.9 million during the twenty-six weeks ended June 26, 2022 primarily as a result of the increase in capital expenditures to support our restaurant growth and new restaurant technology and the acquisition of six franchise-owned restaurants.

Cash used in financing activities increased to $1.2 million during the twenty-six weeks ended June 25, 2023 from $3.2 million during the twenty-six weeks ended June 26, 2022 primarily due to (i) lower repayments on the note payable and (ii) increased proceeds from the exercise of stock options, net of employee taxes paid. This was partially offset by higher principal repayments of debt.

**Critical Accounting Estimates**

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

**Recently Issued Accounting Pronouncements**

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

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

We are exposed to interest rate risk through fluctuations in interest rates on our debt obligations. On June 23, 2023, we entered into a variable-to-fixed interest rate swap agreement with two financial institutions to hedge $90.0 million of the $96.3 million outstanding variable rate debt. Under the terms of the interest rate swap agreement, the Company will pay a weighted average fixed rate of 4.16% on the notional amount and will receive payments from the counterparties based on the three-month secured overnight financing rate. Refer to Note 8, *Interest Rate Swaps*, in the accompanying notes to the unaudited interim consolidated financial statements.

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

## Item 4. Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

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

Disclosure controls and procedures also include, without limitation, controls and procedures that are designed to ensure that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Due to the material weaknesses in our internal control over financial reporting, which were previously identified and disclosed in connection with our initial public offering and in our periodic reports filed with the SEC, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 25, 2023, our disclosure controls and procedures were not effective. In light of this fact, our management has performed additional analyses, reconciliations, and other post-closing procedures and has concluded that, notwithstanding the material weaknesses in our internal control over financial reporting, the consolidated financial statements for the periods covered by and included in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with GAAP.

### Previously Identified Material Weaknesses

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

Refer to the management report on internal control over financial reporting in Part II - Item 9A of the 2022 Form 10-K filed with SEC on March 7, 2023 for a discussion of the material weaknesses that continue to exist as of June 25, 2023.

### Remediation Efforts

We have taken certain measures to remediate the previously identified material weaknesses, 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 certain 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 and implemented controls over the accounting for income taxes to ensure the appropriate recording of deferred income taxes, income taxes and related disclosures.

- Designed sufficient user access controls to ensure appropriate segregation of duties and adequately restrict user and privileged access to financial applications, programs and data to appropriate Company personnel.

- Designed and implemented change management controls to ensure that information technology program and data changes affecting financial information technology applications and underlying accounting records are identified, tested, authorized, and implemented appropriately.

- Designed and implemented computer operation controls to ensure critical jobs are monitored and privileges are appropriately granted.

- Implemented a new backup and recovery platform to monitor data backups for all relevant systems in accordance with the applicable policy as well as manage a test recovery process.

As we continue to evaluate and work to improve our internal control over financial reporting, we may take additional measures to address control deficiencies, or we may modify certain of the remediation measures described above. The material weaknesses will not be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

**Changes in Internal Control over Financial Reporting**

As described above in the “Remediation Efforts” section, there were changes during the fiscal quarter ended June 25, 2023 in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## Part II - Other Information

### Item 1. Legal Proceedings

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

### Item 1A. Risk Factors

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

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

None

### Item 3. Defaults Upon Senior Securities

None

### Item 4. Mine Safety Disclosures

Not applicable

### Item 5. Other Information

None

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**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 second fiscal quarter ended June 25, 2023, filed on August 1, 2023, 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 August 1, 2023.

**FIRST WATCH RESTAURANT GROUP, INC.**

| | |
|---|---|
| By: | /s/ Christopher A. Tomasso |
| Name: | Christopher A. Tomasso |
| Title: | President, Chief Executive Officer and Director (Principal Executive Officer) |
| | |
| By: | /s/ Mel Hope |
| Name | Mel Hope |
| Title: | Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer) |

**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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 1, 2023 /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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 1, 2023 /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 June 25, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Christopher A. Tomasso, Chief Executive Officer of the Company, and Mel Hope, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to their knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 1, 2023

/s/ Christopher A. Tomasso

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

/s/ Mel Hope

Mel Hope
Chief Financial Officer
(Principal Financial Officer)