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

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended September 29, 2024**

**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®

# 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.:

| | | | |
|---|---|---|---|
| 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 60,569,820 shares of common stock as of November 5, 2024.

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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 31, 2023 (“2023 Form 10-K”), including under Part I. Item 1A. “Risk Factors” and Part II. Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Important factors that could cause actual results to differ materially from those in the forward-looking statements include the following: uncertainty regarding the Russia and Ukraine war, Israel-Hamas war and the related impact on macroeconomic conditions, including inflation, as a result of such conflicts 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; 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 largest stockholder may differ from those of public stockholders.*

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

## Part I - Financial Information

### Item 1. Financial Statements (Unaudited)

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

| | SEPTEMBER 29, 2024 | DECEMBER 31, 2023 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 51,129 | $ 49,632 |
| Restricted cash | — | 329 |
| Accounts receivable | 4,932 | 5,532 |
| Inventory | 5,329 | 5,381 |
| Prepaid expenses | 7,439 | 7,494 |
| Derivative assets, current | — | 457 |
| Other current assets | 4,180 | 2,365 |
| Total current assets | 73,009 | 71,190 |
| Goodwill | 398,565 | 359,883 |
| Intangible assets, net | 169,328 | 151,186 |
| Operating lease right-of-use assets | 507,627 | 420,001 |
| Property, fixtures and equipment, net of accumulated depreciation of $216,367 and $181,481, respectively | 333,054 | 263,082 |
| Other long-term assets | 3,374 | 1,703 |
| Total assets | $ 1,484,957 | $ 1,267,045 |
| **Liabilities and Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 6,874 | $ 6,324 |
| Accrued liabilities | 43,787 | 35,630 |
| Accrued compensation | 25,197 | 21,711 |
| Deferred revenues | 2,373 | 5,499 |
| Current portion of operating lease liabilities | 47,565 | 40,281 |
| Current portion of long-term debt | 7,830 | 5,628 |
| Derivative liabilities, current | 389 | — |
| Total current liabilities | 134,015 | 115,073 |
| Operating lease liabilities | 533,849 | 441,290 |
| Long-term debt, net | 189,652 | 119,767 |
| Deferred income taxes | 32,224 | 25,331 |
| Derivative liabilities | 2,921 | 1,346 |
| Other long-term liabilities | 3,165 | 2,954 |
| Total liabilities | 895,826 | 705,761 |
| 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; 60,552,093 and 59,891,705 shares issued and outstanding at September 29, 2024 and December 31, 2023, respectively | 606 | 599 |
| Additional paid-in capital | 645,530 | 634,099 |
| Accumulated deficit | (54,521) | (72,747) |
| Accumulated other comprehensive loss | (2,484) | (667) |
| Total equity | 589,131 | 561,284 |
| Total liabilities and equity | $ 1,484,957 | $ 1,267,045 |

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

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

| | THIRTEEN WEEKS ENDED | | THIRTY-NINE WEEKS ENDED | |
|---|---|---|---|---|
| | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 |
| **Revenues:** | | | | |
| Restaurant sales | $ 248,965 | $ 215,495 | $ 743,730 | $ 636,050 |
| Franchise revenues | 2,644 | 3,717 | 8,889 | 10,868 |
| Total revenues | 251,609 | 219,212 | 752,619 | 646,918 |
| **Operating costs and expenses:** | | | | |
| Restaurant operating expenses (exclusive of depreciation and amortization shown below): | | | | |
| Food and beverage costs | 55,865 | 48,709 | 163,852 | 143,028 |
| Labor and other related expenses | 83,756 | 73,137 | 247,332 | 212,312 |
| Other restaurant operating expenses | 38,891 | 33,694 | 113,232 | 97,572 |
| Occupancy expenses | 21,075 | 17,555 | 60,733 | 49,950 |
| Pre-opening expenses | 2,387 | 2,035 | 5,782 | 4,323 |
| General and administrative expenses | 27,680 | 25,179 | 82,527 | 73,168 |
| Depreciation and amortization | 15,153 | 10,434 | 41,960 | 28,992 |
| Impairments and loss on disposal of assets | 114 | 185 | 386 | 618 |
| Transaction expenses, net | 375 | 546 | 1,769 | 2,543 |
| Total operating costs and expenses | 245,296 | 211,474 | 717,573 | 612,506 |
| Income from operations | 6,313 | 7,738 | 35,046 | 34,412 |
| Interest expense | (3,441) | (1,848) | (9,421) | (5,792) |
| Other income, net | 624 | 771 | 1,663 | 1,950 |
| Income before income taxes | 3,496 | 6,661 | 27,288 | 30,570 |
| Income tax expense | (1,384) | (1,243) | (9,062) | (7,833) |
| **Net income** | $ 2,112 | $ 5,418 | $ 18,226 | $ 22,737 |
| | | | | |
| **Net income** | $ 2,112 | $ 5,418 | $ 18,226 | $ 22,737 |
| Other comprehensive income | | | | |
| Unrealized (loss) gain on derivatives | (3,560) | 1,257 | (2,421) | 1,097 |
| Income tax related to other comprehensive income | 888 | (272) | 604 | (272) |
| **Comprehensive (loss) income** | $ (560) | $ 6,403 | $ 16,409 | $ 23,562 |
| | | | | |
| Net income per common share - basic | $ 0.03 | $ 0.09 | $ 0.30 | $ 0.38 |
| Net income per common share - diluted | $ 0.03 | $ 0.09 | $ 0.29 | $ 0.37 |
| Weighted average number of common shares outstanding - basic | 60,428,016 | 59,646,027 | 60,275,167 | 59,424,989 |
| Weighted average number of common shares outstanding - diluted | 61,851,127 | 61,562,524 | 62,343,751 | 61,016,105 |

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 Income (Loss) | Total Equity |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| **Balance at December 25, 2022** | 59,211,019 | $ 592 | $ 620,675 | $ (98,132) | $ — | $ 523,135 |
| Net income | — | — | — | 9,360 | — | 9,360 |
| Stock-based compensation | — | — | 1,497 | — | — | 1,497 |
| Common stock issued under stock-based compensation plans, net | 73,571 | 1 | 564 | — | — | 565 |
| **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, net of tax | — | — | — | — | (160) | (160) |
| **Balance at June 25, 2023** | 59,463,950 | $ 594 | $ 626,216 | $ (80,813) | $ (160) | $ 545,837 |
| Net income | — | — | — | 5,418 | — | 5,418 |
| Stock-based compensation | — | — | 1,764 | — | — | 1,764 |
| Common stock issued under stock-based compensation plans, net | 331,049 | 3 | 3,084 | — | — | 3,087 |
| Other comprehensive income, net of tax | — | — | — | — | 985 | 985 |
| **Balance at September 24, 2023** | 59,794,999 | $ 597 | $ 631,064 | $ (75,395) | $ 825 | $ 557,091 |

| | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Total Equity |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| **Balance at December 31, 2023** | 59,891,705 | $ 599 | $ 634,099 | $ (72,747) | $ (667) | $ 561,284 |
| Net income | — | — | — | 7,214 | — | 7,214 |
| Stock-based compensation | — | — | 1,866 | — | — | 1,866 |
| Common stock issued under stock-based compensation plans, net | 480,826 | 5 | 3,142 | — | — | 3,147 |
| Other comprehensive income, net of tax | — | — | — | — | 929 | 929 |
| **Balance at March 31, 2024** | 60,372,531 | $ 604 | $ 639,107 | $ (65,533) | $ 262 | $ 574,440 |
| Net income | — | — | — | 8,900 | — | 8,900 |
| Stock-based compensation | — | — | 2,452 | — | — | 2,452 |
| Common stock issued under stock-based compensation plans, net | 30,307 | — | 66 | — | — | 66 |
| Other comprehensive loss, net of tax | — | — | — | — | (74) | (74) |
| **Balance at June 30, 2024** | 60,402,838 | $ 604 | $ 641,625 | $ (56,633) | $ 188 | $ 585,784 |
| Net income | — | — | — | 2,112 | — | 2,112 |
| Stock-based compensation | — | — | 2,076 | — | — | 2,076 |
| Common stock issued under stock-based compensation plans, net | 149,255 | 2 | 1,829 | — | — | 1,831 |
| Other comprehensive loss, net of tax | — | — | — | — | (2,672) | (2,672) |
| **Balance at September 29, 2024** | 60,552,093 | $ 606 | $ 645,530 | $ (54,521) | $ (2,484) | $ 589,131 |

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

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

| | THIRTY-NINE WEEKS ENDED | |
|---|---|---|
| | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 |
| **Cash flows from operating activities:** | | |
| Net income | $ 18,226 | $ 22,737 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 41,960 | 28,992 |
| Stock-based compensation | 6,394 | 5,386 |
| Non-cash operating lease costs | 19,246 | 14,132 |
| Non-cash portion of gain on lease modifications | (5) | (123) |
| Non-cash loss on extinguishments and modifications of debt | 358 | — |
| Deferred income taxes | 7,497 | 6,566 |
| Amortization of debt discount and deferred issuance costs | 412 | 332 |
| Impairments and loss on disposal of assets | 386 | 618 |
| Gain on insurance proceeds | (3) | (643) |
| Changes in assets and liabilities, net of effects of business combinations: | | |
| Accounts receivable | 600 | 1,174 |
| Inventory | 280 | 458 |
| Prepaid expenses | 78 | 1,115 |
| Other assets, current and long-term | (1,909) | (2,758) |
| Accounts payable | 550 | (2,072) |
| Accrued liabilities and other long-term liabilities | 6,567 | 4,997 |
| Accrued compensation and deferred payroll taxes | 3,486 | 359 |
| Deferred revenues, current and long-term | (3,441) | (3,322) |
| Other liabilities | (259) | — |
| Operating lease liabilities | (7,674) | (4,904) |
| Net cash provided by operating activities | 92,749 | 73,044 |
| **Cash flows from investing activities:** | | |
| Capital expenditures | (87,275) | (52,770) |
| Acquisitions, net of cash acquired | (78,547) | (30,422) |
| Purchase of intangible assets | (100) | (84) |
| Insurance proceeds | 3 | 643 |
| Net cash used in investing activities | (165,919) | (82,633) |
| **Cash flows from financing activities:** | | |
| Repayments of note payable | — | (1,376) |
| Proceeds from borrowings on revolving credit facility | 22,500 | — |
| Repayments of borrowings on revolving credit facility | (52,500) | — |
| Proceeds from long-term debt | 197,500 | — |
| Repayments of long-term debt, including finance lease liabilities | (95,401) | (3,519) |
| Payment of debt discount and deferred issuance costs | (2,430) | — |
| Proceeds from exercise of stock options, net of employee taxes paid | 5,044 | 5,008 |
| Contingent consideration payment | (375) | (198) |
| Net cash provided by (used in) financing activities | 74,338 | (85) |
| Net increase (decrease) in cash and cash equivalents and restricted cash | 1,168 | (9,674) |
| **Cash and cash equivalents and restricted cash:** | | |
| Beginning of period | 49,961 | 49,923 |
| End of period | $ 51,129 | $ 40,249 |

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

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

| | THIRTY-NINE WEEKS ENDED | |
|---|---|---|
| | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 |
| **Supplemental cash flow information:** | | |
| Cash paid for interest, net of amounts capitalized | $ 5,943 | $ 5,362 |
| Cash paid for income taxes, net of refunds | $ 2,952 | $ 1,337 |
| | | |
| **Supplemental disclosures of non-cash investing and financing activities:** | | |
| Leased assets obtained in exchange for new operating lease liabilities (1) | $ 104,433 | $ 64,660 |
| Leased assets obtained in exchange for new finance lease liabilities | $ 195 | $ 145 |
| Remeasurements and terminations of operating lease assets and lease liabilities | $ 3,084 | $ (1,453) |
| Remeasurements and terminations of finance lease assets and lease liabilities | $ (13) | $ (43) |
| Increase in liabilities from acquisition of property, fixtures and equipment | $ 3,044 | $ 6,202 |

(1) Leased assets and liabilities obtained in fiscal 2024 include $28.1 million from business acquisitions.

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

## 1. Nature of Business and Organization

First Watch Restaurant Group, Inc. (collectively with its wholly-owned subsidiaries, “the Company,” or “Management”) is a Delaware holding company. The Company operates and franchises restaurants in 29 states operating under the “First Watch” trade name, which are focused on made-to-order breakfast, brunch and lunch. The Company does not operate outside of the United States and all of its assets are located in the United States. As of September 29, 2024, the Company operated 466 company-owned restaurants and had 81 franchise-owned restaurants.

## 2. Summary of Significant Accounting Policies

### Basis of Presentation

The Company reports financial information on a 52- or 53-week fiscal year ending on the last Sunday of each calendar year. The quarters ended September 29, 2024 and September 24, 2023 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 31, 2023 (“2023 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 2023 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 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 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**

In November 2023, the Financial Accounting Standards Board ("FASB") issued ASU 2023-07, *Segment Reporting (Topic 280), Improvements to Reportable Segment Disclosures,* which requires incremental disclosures related to a public entity's reportable segments but does not change the definition of a segment, the method for determining segments, or the criteria for aggregating operating segments into reportable segments. The new guidance requires that a public entity disclose, on an annual and interim basis, disaggregated expense information that is regularly provided to the chief operating decision maker ("CODM") and included within each reported measure of segment profit or loss. The disclosures are also required for public entities that have a single reporting segment. The new guidance is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024 and should be adopted retrospectively. Early adoption is permitted. Management is currently evaluating the impact of this new standard.

In December 2023, the FASB issued ASU 2023-09, *Improvements to Income Tax Disclosures*, which establishes new income tax disclosure requirements including disaggregated information about a reporting entity's effective tax rate reconciliation as well as disaggregated information on income taxes paid. The new guidance is effective for fiscal years beginning after December 15, 2024 and should be applied on a prospective basis with the option to apply the standard retrospectively. Early adoption is permitted. Management is currently evaluating the impact of this new standard.

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

## 3. Business Acquisitions

During the first and second quarters of 2024, the Company acquired, in two separate transactions, substantially all the assets associated with 22 franchise-operated First Watch restaurants. For both transactions, the purchase price was allocated to the fair value of the assets acquired and the liabilities assumed. The allocations were based on preliminary valuations and are subject to adjustment as additional information is available. The Company expects to finalize the valuation of these assets not later than one year from the respective acquisition date. Transaction costs of $1.5 million were incurred in relation to the acquisitions and were recorded to Transaction expenses, net within the Consolidated Statement of Operations and Comprehensive Income. The details of each acquisition are as follows:

| *(in thousands, except number of acquired restaurants)* | JANUARY 22, 2024 | APRIL 15, 2024 |
|---|---|---|
| Number of acquired restaurants | 1 | 21 |
| Purchase consideration | $ 3,002 | $ 75,119 |
| Recognized amounts of identifiable assets acquired and liabilities assumed: | | |
| Cash | $ 1 | $ 32 |
| Inventory | $ 15 | $ 213 |
| Other assets | $ 1 | $ 133 |
| Property, fixtures and equipment | $ 1,391 | $ 16,511 |
| Reacquired rights | $ 498 | $ 21,459 |
| Operating right-of-use assets, net of lease positions and prepaid rent | $ 1,251 | $ 26,199 |
| Deferred revenues - gift card liabilities assumed | $ (5) | $ (160) |
| Operating lease liabilities | $ (1,247) | $ (26,853) |
| Goodwill | $ 1,097 | $ 37,585 |

Goodwill reflects the value of expected synergies and assembled workforce, and was assigned to the Company's single reporting unit. The Company will treat the transactions as asset acquisitions for income tax purposes, which allows for any goodwill recognized to be tax deductible and amortized over a 15-year statutory life.

The weighted average estimated useful life of the reacquired rights is 5.5 years.

Pro-forma financial information of the acquired restaurants for periods prior to the acquisition dates is not presented due to the immaterial impact on our consolidated financial statements.

## 4. Revenues

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

| *(in thousands)* | SEPTEMBER 29, 2024 | DECEMBER 31, 2023 |
|---|---|---|
| Deferred revenues: | | |
| Deferred gift card revenue | $ 2,141 | $ 5,224 |
| Deferred franchise fee revenue - current | 232 | 275 |
| Total current deferred revenues | $ 2,373 | $ 5,499 |
| Other long-term liabilities: | | |
| Deferred franchise fee revenue - non-current | $ 1,636 | $ 1,786 |

Changes in deferred gift card contract liabilities were as follows:

| | THIRTEEN WEEKS ENDED | | THIRTY-NINE WEEKS ENDED | |
|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 |
| Deferred gift card revenue: | | | | |
| Balance, beginning of period | $ 3,022 | $ 3,154 | $ 5,224 | $ 4,897 |
| Gift card sales | 1,271 | 1,185 | 5,518 | 5,746 |
| Gift card redemptions | (1,915) | (1,921) | (7,766) | (7,726) |
| Gift card breakage | (237) | (228) | (1,000) | (807) |
| Gift card liabilities assumed through acquisitions | — | 180 | 165 | 260 |
| Balance, end of period | $ 2,141 | $ 2,370 | $ 2,141 | $ 2,370 |

Changes in deferred franchise fee contract liabilities were as follows:

| | THIRTEEN WEEKS ENDED | | THIRTY-NINE WEEKS ENDED | |
|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 |
| Deferred franchise fee revenue: | | | | |
| Balance, beginning of period | $ 1,893 | $ 2,672 | $ 2,061 | $ 2,768 |
| Cash received | 32 | 36 | 439 | 175 |
| Franchise revenues recognized | (57) | (150) | (219) | (307) |
| Business combinations - franchise revenues recognized | — | (323) | (413) | (401) |
| Balance, end of period | $ 1,868 | $ 2,235 | $ 1,868 | $ 2,235 |

Revenues recognized disaggregated by type were as follows:

| | THIRTEEN WEEKS ENDED | | THIRTY-NINE WEEKS ENDED | |
|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 |
| Restaurant sales: | | | | |
| In-restaurant dining sales | $ 207,047 | $ 176,696 | $ 613,422 | $ 520,277 |
| Third-party delivery sales | 22,372 | 22,011 | 72,682 | 65,765 |
| Take-out sales | 19,546 | 16,788 | 57,626 | 50,008 |
| Total restaurant sales | $ 248,965 | $ 215,495 | $ 743,730 | $ 636,050 |
| | | | | |
| Franchise revenues: | | | | |
| Royalty and system fund contributions | $ 2,587 | $ 3,244 | $ 8,257 | $ 10,160 |
| Initial fees | 57 | 150 | 219 | 307 |
| Business combinations - revenues recognized | — | 323 | 413 | 401 |
| Total franchise revenues | 2,644 | 3,717 | 8,889 | 10,868 |
| Total revenues | $ 251,609 | $ 219,212 | $ 752,619 | $ 646,918 |

## 5. Accounts Receivable

Accounts receivable consisted of the following:

| *(in thousands)* | SEPTEMBER 29, 2024 | DECEMBER 31, 2023 |
|---|---|---|
| Receivable rebates from vendors | $ 1,558 | $ 873 |
| Receivables from third-party delivery providers | 1,520 | 1,559 |
| Receivables from franchisees | 986 | 1,390 |
| Receivables related to gift card sales | 343 | 1,585 |
| Other receivables | 525 | 125 |
| Total accounts receivable | $ 4,932 | $ 5,532 |

## 6. Accrued Liabilities

Accrued liabilities consisted of the following:

| *(in thousands)* | SEPTEMBER 29, 2024 | DECEMBER 31, 2023 |
|---|---|---|
| Construction liabilities | $ 16,988 | $ 13,944 |
| Sales tax | 7,110 | 6,163 |
| Interest payable | 3,926 | 401 |
| Insurance liabilities | 3,022 | 1,593 |
| Utilities | 2,202 | 1,657 |
| Credit card fees | 1,839 | 1,706 |
| Property tax | 1,663 | 922 |
| Contingent rent | 1,120 | 1,160 |
| Common area maintenance | 546 | 749 |
| Acquisition-related liabilities | 111 | 1,326 |
| Other | 5,260 | 6,009 |
| Total accrued liabilities | $ 43,787 | $ 35,630 |

## 7. Debt

Long-term debt, net consisted of the following:

| | SEPTEMBER 29, 2024 | | DECEMBER 31, 2023 | |
|---|---|---|---|---|
| *(in thousands)* | Balance | Interest Rate | Balance | Interest Rate |
| Term Facility | $ 98,750 | 7.93% | $ 92,500 | 7.70% |
| Delayed Draw Term Facility | 96,281 | 7.90% | — | |
| Revolving Credit Facility | — | | 30,000 | 7.72% |
| Finance lease liabilities | 827 | | 1,076 | |
| Financing obligation | 3,050 | | 3,050 | |
| Less: Unamortized debt discount and deferred issuance costs | (1,426) | | (1,231) | |
| Total debt, net | 197,482 | | 125,395 | |
| Less: Current portion of long-term debt | (7,830) | | (5,628) | |
| Long-term debt, net | $ 189,652 | | $ 119,767 | |

### Credit Facility

FWR Holding Corporation ("FWR"), a subsidiary of the Company, is the borrower under the credit agreement dated October 6, 2021 ("Credit Agreement"), which provided 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 Facility").

On February 24, 2023, the Company entered into Amendment No. 1 to the Credit Agreement to replace the London interbank offer rate ("LIBOR") with a secured overnight financing rate ("SOFR") pursuant to the terms and LIBOR fallback language in the Credit Agreement. All outstanding borrowings under the Credit Agreement continued to bear interest at LIBOR until March 27, 2023.

On January 5, 2024, the Company entered into Amendment No. 2 to the Credit Agreement (the "Second Amendment") with terms substantially identical to the Credit Agreement to (i) replace the $100.0 million Term Facility with a new $100.0 million term loan A facility (the "New Term Facility"), (ii) replace the $75.0 million Revolving Credit Facility with a new $75.0 million revolving credit facility (the "New Revolving Credit Facility"), (iii) increase the New Revolving Credit Facility by $50.0 million, bringing the aggregate committed amount under the New Revolving Credit Facility to $125.0 million and (iv) add a new $125.0 million incremental delayed draw term loan facility (the "New Delayed Draw Term Facility"). The New Delayed Draw Term Facility is available to FWR for a period of 18 months from the date of the Second Amendment and the proceeds may be used to fund permitted acquisitions and new restaurant capital expenditures, repay revolving loans and/or replenish balance sheet cash, in each case, used for such permitted acquisitions or capital expenditures.

Loans drawn under the New Delayed Draw Term Facility will amortize in equal quarterly installments at the same amortization rate per annum as then applicable to loans under the New Term Facility. The New Term Facility, the New Revolving Credit Facility and the New Delayed Draw Term Facility mature on January 5, 2029.

On April 12, 2024, the Company drew $97.5 million of the $125.0 million New Delayed Draw Term Facility. The proceeds were used to repay $22.5 million of borrowings under the New Revolving Credit Facility and fund the franchise acquisition on April 15, 2024 that was completed for approximately $75.1 million.

As of September 29, 2024, borrowings under the Credit Facility, as amended, bear interest at the option of FWR at either (i) the alternate base rate plus a margin of between 150 and 225 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 250 and 325 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 in June 2023 and May 2024.

**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 following table includes the carrying value and fair value of the Company's debt as of the periods indicated:

| | SEPTEMBER 29, 2024 | | DECEMBER 31, 2023 | |
|---|---|---|---|---|
| *(in thousands)* | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Term Facility | $ 98,750 | $ 98,324 | $ 92,500 | $ 92,201 |
| Delayed Draw Term Facility | $ 96,281 | $ 95,866 | $ — | $ — |
| Revolving Credit Facility | $ — | $ — | $ 30,000 | $ 29,897 |

## 8. Interest Rate Swaps

The Company utilizes interest rate swaps to hedge a portion of the cash flows of the Company's variable rate debt.

On June 23, 2023, the Company entered into two variable-to-fixed interest rate swaps. These 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.

On May 17, 2024, the Company entered into two additional variable-to-fixed interest rate swaps. These interest rate swaps have an aggregate notional amount of $60.0 million and mature on June 30, 2027. Under the terms of the interest rate swaps, the Company will pay a weighted average fixed rate of 4.42% 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 in 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. During the thirteen and thirty-nine weeks ended September 29, 2024, a total of $0.4 million and $0.9 million, respectively, was reclassified from Other comprehensive income (loss) as a reduction to Interest expense. Over the next 12 months, the Company estimates that $0.8 million will be reclassified as an increase to interest expense.

## 9. Leases

The following table includes detail of lease assets and liabilities:

| *(in thousands)* | Consolidated Balance Sheet Classification | SEPTEMBER 29, 2024 | DECEMBER 31, 2023 |
|---|---|---|---|
| Operating lease right-of-use assets | Operating lease right-of-use assets | $ 507,627 | $ 420,001 |
| Finance lease assets | Property, fixtures and equipment, net | 819 | 1,033 |
| Total lease assets | | $ 508,446 | $ 421,034 |
| | | | |
| Operating lease liabilities [(1)] - current | Current portion of operating lease liabilities | $ 47,565 | $ 40,281 |
| Operating lease liabilities - non-current | Operating lease liabilities | 533,849 | 441,290 |
| Finance lease liabilities - current | Current portion of long-term debt | 424 | 628 |
| Finance lease liabilities - non-current | Long-term debt, net | 403 | 448 |
| Total lease liabilities | | $ 582,241 | $ 482,647 |

(1) Excludes all variable lease expense.

The components of lease expense are as follows:

| *(in thousands)* | Consolidated Statements of Operations and Comprehensive Income Classification | THIRTEEN WEEKS ENDED SEPTEMBER 29, 2024 | THIRTEEN WEEKS ENDED SEPTEMBER 24, 2023 | THIRTY-NINE WEEKS ENDED SEPTEMBER 29, 2024 | THIRTY-NINE WEEKS ENDED SEPTEMBER 24, 2023 |
|---|---|---|---|---|---|
| Operating lease expense | Other restaurant operating expenses<br>Occupancy expenses<br>Pre-opening expenses<br>General and administrative expenses | $ 18,269 | $ 14,492 | $ 51,021 | $ 40,933 |
| Variable lease expense | Food and beverage costs<br>Occupancy expenses<br>General and administrative expenses | 4,816 | 4,438 | 14,242 | 12,444 |
| Finance lease expense: | | | | | |
| Amortization of leased assets | Depreciation and amortization | 134 | 126 | 395 | 380 |
| Interest on lease liabilities | Interest expense | 15 | 20 | 51 | 72 |
| Total lease expense [(1)] | | $ 23,234 | $ 19,076 | $ 65,709 | $ 53,829 |

(1) Includes contingent rent expense of $0.4 million and $0.5 million during the thirteen weeks ended September 29, 2024 and September 24, 2023, respectively, and $1.3 million and $1.4 million for the thirty-nine weeks ended September 29, 2024 and September 24, 2023, respectively.

Supplemental cash flow information related to leases was as follows:

| *(in thousands)* | THIRTY-NINE WEEKS ENDED SEPTEMBER 29, 2024 | THIRTY-NINE WEEKS ENDED SEPTEMBER 24, 2023 |
|---|---|---|
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows - operating leases | $ 39,450 | $ 31,707 |
| Operating cash flows - finance leases | $ 51 | $ 72 |
| Financing cash flows - finance leases | $ 431 | $ 394 |

Supplemental information related to leases was as follows:

| | THIRTY-NINE WEEKS ENDED SEPTEMBER 29, 2024 | THIRTY-NINE WEEKS ENDED SEPTEMBER 24, 2023 |
|---|---|---|
| Weighted-average remaining lease term (in years) | | |
| Operating leases | 13.4 | 14.0 |
| Finance leases | 3.5 | 2.7 |
| Weighted-average discount rate [(1)] | | |
| Operating leases | 7.8 % | 8.4 % |
| Finance leases | 6.4 % | 7.2 % |

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

As of September 29, 2024, future minimum lease payments for operating and finance leases consisted of the following:

| *(in thousands)* | OPERATING LEASES | FINANCE LEASES |
|---|---|---|
| Fiscal year | | |
| 2024 | $ 6,599 | $ 215 |
| 2025 | 61,194 | 300 |
| 2026 | 72,735 | 113 |
| 2027 | 72,034 | 102 |
| 2028 | 71,408 | 89 |
| Thereafter | 693,894 | 99 |
| Total future minimum lease payments [1] | 977,864 | 918 |
| Less: imputed interest | (396,450) | (91) |
| Total present value of lease liabilities | $ 581,414 | $ 827 |

(1) Excludes approximately $112.8 million of executed operating leases that have not commenced as of September 29, 2024.

## 10. Equity and Stock-Based Compensation

### Equity transactions

During the first quarter of 2024, funds managed by the Company's largest stockholder, Advent International, L.P. ("Advent") sold 6,900,000 shares of the Company's common stock through an underwritten secondary public offering, including 900,000 shares of common stock that were sold pursuant to the underwriter's option to purchase additional shares, which was exercised in full. All net proceeds from the sale of the shares of common stock were distributed to the selling stockholders. The Company incurred approximately $0.5 million of costs in connection with the offerings that were recorded within Transaction expenses, net on the Consolidated Statements of Operations and Comprehensive Income (Loss).

During the second quarter of 2023, Advent sold 3,500,000 and 3,000,000 shares of the Company's common stock through underwritten secondary public offerings that were completed on May 18, 2023 and June 13, 2023, respectively. The selling stockholders sold an additional 525,000 and 450,000 shares of common stock on May 18, 2023 and July 3, 2023, respectively, pursuant to the terms of the underwriter's option associated with each secondary 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 (Loss).

### Stock option awards

There were no stock option awards granted during the thirty-nine weeks ended September 29, 2024. A summary of stock option activity during the thirty-nine weeks ended September 29, 2024 is as follows:

| | NUMBER OF OPTIONS | WEIGHTED AVERAGE EXERCISE PRICE PER SHARE | AGGREGATE INTRINSIC VALUE (in thousands) | WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (in years) |
|---|---|---|---|---|
| Outstanding, December 31, 2023 | 4,347,186 | $ 10.22 | $ 42,965 | 5.1 |
| Forfeited | (33,286) | $ 12.84 | | |
| Exercised | (468,224) | $ 10.77 | | |
| Outstanding, September 29, 2024 | 3,845,676 | $ 10.13 | $ 21,616 | 4.4 |
| | | | | |
| Exercisable, September 29, 2024 | 3,513,980 | $ 9.89 | $ 20,571 | 4.1 |

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 of the period.

A summary of the non-vested stock option activity during the thirty-nine weeks ended September 29, 2024 is as follows:

| | NUMBER OF OPTIONS | WEIGHTED AVERAGE GRANT DATE FAIR VALUE PER SHARE |
|---|---|---|
| Nonvested, December 31, 2023 | 1,234,031 | $ 7.36 |
| Forfeited | (33,286) | $ 4.70 |
| Vested | (869,049) | $ 7.80 |
| Nonvested, September 29, 2024 | 331,696 | $ 6.46 |

**Restricted stock units**

During the thirty-nine weeks ended September 29, 2024, a total of 467,175 restricted stock units ("RSUs") were granted. Of the total RSUs granted, 353,683 will vest ratably over a period of three years from grant date, 41,896 will vest one year from the grant date, and the remaining 71,596 will vest 50% on the second anniversary of the grant date and 50% on the third anniversary of grant date. A summary of the Company's RSU activity during the thirty-nine weeks ended September 29, 2024 is as follows:

| | RESTRICTED STOCK UNITS | WEIGHTED AVERAGE GRANT DATE FAIR VALUE PER SHARE | AGGREGATE INTRINSIC VALUE (in thousands) |
|---|---|---|---|
| Outstanding, December 31, 2023 | 521,042 | $ 15.71 | $ 10,473 |
| Granted | 467,175 | $ 24.21 | |
| Forfeited | (33,393) | $ 19.46 | |
| Vested | (192,164) | $ 15.93 | |
| Outstanding, September 29, 2024 | 762,660 | $ 20.69 | $ 12,004 |

The aggregate intrinsic value is based on the closing price of the Company's common stock on Nasdaq of $15.74 and $20.10 on September 27, 2024 and December 29, 2023, the last trading days for the periods, respectively.

Stock-based compensation expense was $2.1 million and $1.8 million during the thirteen weeks ended September 29, 2024 and September 24, 2023, respectively, and $6.4 million and $5.4 million during the thirty-nine weeks ended September 29, 2024 and September 24, 2023, respectively.

The total related income tax benefit for stock-based compensation expense was $0.1 million and $0.8 million during the thirteen weeks ended September 29, 2024 and September 24, 2023, and $1.6 million and $1.3 million during the thirty-nine weeks ended September 29, 2024 and September 24, 2023, respectively.

**Unrecognized stock-based compensation expense**

The following represents unrecognized stock-based compensation expense and the remaining weighted average vesting period as of September 29, 2024:

| | UNRECOGNIZED STOCK-BASED COMPENSATION EXPENSE *(in thousands)* | REMAINING WEIGHTED AVERAGE VESTING PERIOD *(in years)* |
|---|---|---|
| Stock options | $ 1,034 | 0.5 |
| Restricted stock units | $ 12,243 | 1.9 |

## 11. Income Taxes

| | THIRTEEN WEEKS ENDED | | THIRTY-NINE WEEKS ENDED | |
|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 |
| Income before income taxes | $ 3,496 | $ 6,661 | $ 27,288 | $ 30,570 |
| Income tax expense | $ (1,384) | $ (1,243) | $ (9,062) | $ (7,833) |
| Effective income tax rate | 39.6 % | 18.7 % | 33.2 % | 25.6 % |

The effective income tax rate for the thirteen and thirty-nine weeks ended September 29, 2024 was 39.6% and 33.2%, respectively, as compared to 18.7% and 25.6% for the thirteen and thirty-nine weeks ended September 24, 2023, respectively. The change in the effective income tax rates was primarily due to (i) the change in the valuation allowance on deferred tax assets, (ii) the benefit of tax credits for FICA taxes on certain employees' tips and (iii) impact of executive stock-based compensation.

The effective income tax rates for the thirteen and thirty-nine weeks ended September 29, 2024 and September 24, 2023 were different than the blended federal and state statutory rate primarily due to (i) the change in the valuation allowance, (ii) the benefit of tax credits for FICA taxes on certain employees' tips, (iii) the impacts of executive stock-based compensation and (iv) 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 September 29, 2024. 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 assess 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 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.

**Contingent consideration liability**

Certain federal loss carryforwards, state loss carryforwards and general business credits were accumulated from operations prior to the August 2017 merger through which the Company became majority owned by Advent. Under the terms of an agreement with the previous stockholders, to the extent that these credits and carryforwards were utilized to reduce taxes payable, the Company was required to pay the previous stockholders an amount equal to tax savings. In accordance with the agreement, an initial contingent consideration liability of $1.2 million was recognized and adjusted periodically for estimated future use and the actual distributions to previous stockholders. By agreement the obligation would lapse following a change in control event.

During the first quarter of 2024, Advent sold common stock of the Company through a secondary public offering. As a result, Advent no longer controlled a majority of the Company's issued and outstanding shares of common stock. Advent's first quarter sale, therefore, represents a change of control event as defined in the agreement. Given this change in control event, the remaining $0.6 million of the contingent consideration liability was released through Transaction expenses, net. Final payment to previous stockholders was made in the second quarter of 2024.

## 12. Commitments and Contingencies

**Legal Proceedings**

The Company is subject to legal proceedings, claims and liabilities that arise in the ordinary course of business. The amount of the anticipated liability with respect to these matters was not material as of September 29, 2024. In the event any litigation losses become probable and estimable, the Company will recognize 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. In 2023, the Company recorded $0.8 million in General and administrative expenses for this matter. In the second quarter of 2024, the Company paid $0.7 million to the State of Delaware to resolve escheat matters related to unclaimed gift card balances. The Company believes any additional payments to the State of Delaware to resolve the remaining escheat matters will not be significant.

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 | | THIRTY-NINE WEEKS ENDED | |
|---|---|---|---|---|
| *(in thousands, except share and per share data)* | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 |
| Numerator: | | | | |
| Net income | $ 2,112 | $ 5,418 | $ 18,226 | $ 22,737 |
| Denominator: | | | | |
| Weighted average common shares outstanding - basic | 60,428,016 | 59,646,027 | 60,275,167 | 59,424,989 |
| Weighted average common shares outstanding - diluted | 61,851,127 | 61,562,524 | 62,343,751 | 61,016,105 |
| Net income per common share - basic | $ 0.03 | $ 0.09 | $ 0.30 | $ 0.38 |
| Net income per common share - diluted | $ 0.03 | $ 0.09 | $ 0.29 | $ 0.37 |
| Stock options outstanding not included in diluted net income per common share as their effect is anti-dilutive | 14,584 | 12,552 | 12,552 | 59,101 |
| Restricted stock units outstanding not included in diluted net income per share as their effect is anti-dilutive | 419,863 | — | 317,530 | 1,302 |

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

## 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 2023 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 2023 Form 10-K, including under "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and in "Part II, Item 1A. Risk Factors" of this Form 10-Q.*

### 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. For three consecutive years, First Watch was named a Top 100 Most Loved Workplace® by Newsweek and the Best Practice Institute, including being named the #1 Most Loved Workplace in 2024. On October 1, 2021, the Company's common stock began trading on Nasdaq under the ticker symbol "FWRG."

The Company operates and franchises restaurants in 29 states under the "First Watch" trade name and as of September 29, 2024, the Company had 466 company-owned restaurants and 81 franchise-owned restaurants.

### Recent Developments

Financial highlights for the thirteen weeks ended September 29, 2024 ("third quarter of 2024") as compared, unless otherwise indicated below, to the thirteen weeks ended September 24, 2023 ("third quarter of 2023"), reflected the continued momentum of our strong operating performance and include the following:

- Total revenues increased 14.8% to $251.6 million in the third quarter of 2024 from $219.2 million in the third quarter of 2023
- System-wide sales increased 8.0% to $291.8 million in the third quarter of 2024 from $270.3 million in the third quarter of 2023
- Same-restaurant sales growth of negative 1.9%*
- Same-restaurant traffic growth of negative 4.4%*
- Income from operations margin decreased to 2.5% during the third quarter of 2024 from 3.6% in the third quarter of 2023
- Restaurant level operating profit margin** increased to 18.9% in the third quarter of 2024 from 18.7% in the third quarter of 2023
- Net income decreased to $2.1 million, or $0.03 per diluted share, in the third quarter of 2024 from $5.4 million, or $0.09 per diluted share in the third quarter of 2023
- Adjusted EBITDA** increased to $25.6 million in the third quarter of 2024 from $21.6 million in the third quarter of 2023
- Opened 9 system-wide restaurants in 8 states, resulting in a total of 547 system-wide restaurants (466 company-owned and 81 franchise-owned) across 29 states

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*Comparing the thirteen-week periods ended September 29, 2024 and October 1, 2023 in order to compare like-for-like periods. See "Key Performance Indicators" for additional information.

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

**Business Trends**

As reported by Blackbox Financial Intelligence, the casual dining segment for US restaurants experienced another quarter of negative same-restaurant sales growth continuing a sustained business trend commencing prior to 2024. The Company's same-restaurant sales growth was negative 1.9% for the third quarter, following quarters one and two when our same-restaurant sales growth was positive 0.5% and negative 0.3%, respectively.

Commodity inflation was 3.4% in the third quarter. Management expects full year commodity inflation of approximately 3.0%.

Restaurant-level wage inflation during the third quarter was 3.8% and full year inflation is expected to be approximately 5.0%.

**Key Performance Indicators**

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

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

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

***Same-Restaurant Sales Growth***: the percentage change in year-over-year restaurant sales (excluding gift card breakage) for the comparable restaurant base, which we define as the number of company-owned First Watch branded restaurants open for 18 months or longer as of the beginning of the fiscal year ("Comparable Restaurant Base"). For the third quarter of 2024, this operating metric compares the thirteen and thirty-nine-week periods ended September 29, 2024 with the thirteen and thirty-nine-week periods ended October 1, 2023, versus the thirteen and thirty-nine-week periods ended September 24, 2023, in order to compare like-for-like periods. For the thirteen and thirty-nine weeks ended September 29, 2024 and October 1, 2023, there were 344 restaurants and 327 restaurants, respectively, 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 for the thirteen and thirty-nine-week periods ended September 29, 2024 as compared to the thirteen and thirty-nine-week periods ended October 1, 2023 using the Comparable Restaurant Base, in order to compare like-for-like periods. 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 SEPTEMBER 29, 2024 | | |
|---|---|---|---|
| | COMPANY-OWNED | FRANCHISE-OWNED | TOTAL |
| Beginning of period | 459 | 79 | 538 |
| New restaurants | 7 | 2 | 9 |
| End of period | 466 | 81 | 547 |

| | THIRTY-NINE WEEKS ENDED SEPTEMBER 29, 2024 | | |
|---|---|---|---|
| | COMPANY-OWNED | FRANCHISE-OWNED | TOTAL |
| Beginning of period | 425 | 99 | 524 |
| New restaurant openings | 20 | 5 | 25 |
| Acquisitions of franchise-owned restaurants | 22 | (22) | — |
| Closures | (1) | (1) | (2) |
| End of period | 466 | 81 | 547 |

| | THIRTEEN WEEKS ENDED | | THIRTY-NINE WEEKS ENDED | |
|---|---|---|---|---|
| | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 |
| System-wide sales (in thousands) | $ 291,806 | $ 270,291 | $ 880,364 | $ 806,556 |
| Same-restaurant sales growth (1) | (1.9)% | 4.8 % | (0.6)% | 8.5 % |
| Same-restaurant traffic growth (1) | (4.4)% | (1.9)% | (4.3)% | 0.7 % |
| Income from operations (in thousands) | $ 6,313 | $ 7,738 | $ 35,046 | $ 34,412 |
| Income from operations margin | 2.5 % | 3.6 % | 4.7 % | 5.4 % |
| Restaurant level operating profit (in thousands) (2) | $ 46,991 | $ 40,365 | $ 152,799 | $ 128,865 |
| Restaurant level operating profit margin (2) | 18.9 % | 18.7 % | 20.5 % | 20.3 % |
| Net income (in thousands) | $ 2,112 | $ 5,418 | $ 18,226 | $ 22,737 |
| Net income margin | 0.8 % | 2.5 % | 2.4 % | 3.5 % |
| Adjusted EBITDA (in thousands) (3) | $ 25,624 | $ 21,629 | $ 89,539 | $ 74,858 |
| Adjusted EBITDA margin (3) | 10.2 % | 9.9 % | 11.9 % | 11.6 % |

(1) Comparing the thirteen and thirty-nine-week periods ended September 29, 2024 with the thirteen and thirty-nine-week periods ended October 1, 2023 in order to compare like-for-like periods. See “Key Performance Indicators” for additional information.
(2) 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.
(3) 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.

## Results of Operations

The following table summarizes our results of operations and the percentages of certain items in relation to Total revenues or, where indicated, Restaurant sales for the thirteen and thirty-nine weeks ended September 29, 2024 and September 24, 2023:

| | THIRTEEN WEEKS ENDED | | | | THIRTY-NINE WEEKS ENDED | | | |
|---|---|---|---|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 29, 2024 | | SEPTEMBER 24, 2023 | | SEPTEMBER 29, 2024 | | SEPTEMBER 24, 2023 | |
| **Revenues** | | | | | | | | |
| Restaurant sales | $ 248,965 | 98.9 % | $ 215,495 | 98.3 % | $ 743,730 | 98.8 % | $ 636,050 | 98.3 % |
| Franchise revenues | 2,644 | 1.1 % | 3,717 | 1.7 % | 8,889 | 1.2 % | 10,868 | 1.7 % |
| Total revenues | $ 251,609 | 100.0 % | $ 219,212 | 100.0 % | $ 752,619 | 100.0 % | $ 646,918 | 100.0 % |
| **Operating costs and expenses** | | | | | | | | |
| Restaurant operating expenses [(1)] (exclusive of depreciation and amortization shown below): | | | | | | | | |
| Food and beverage costs | 55,865 | 22.4 % | 48,709 | 22.6 % | 163,852 | 22.0 % | 143,028 | 22.5 % |
| Labor and other related expenses | 83,756 | 33.6 % | 73,137 | 33.9 % | 247,332 | 33.3 % | 212,312 | 33.4 % |
| Other restaurant operating expenses | 38,891 | 15.6 % | 33,694 | 15.6 % | 113,232 | 15.2 % | 97,572 | 15.3 % |
| Occupancy expenses | 21,075 | 8.5 % | 17,555 | 8.1 % | 60,733 | 8.2 % | 49,950 | 7.9 % |
| Pre-opening expenses | 2,387 | 1.0 % | 2,035 | 0.9 % | 5,782 | 0.8 % | 4,323 | 0.7 % |
| General and administrative expenses | 27,680 | 11.0 % | 25,179 | 11.5 % | 82,527 | 11.0 % | 73,168 | 11.3 % |
| Depreciation and amortization | 15,153 | 6.0 % | 10,434 | 4.8 % | 41,960 | 5.6 % | 28,992 | 4.5 % |
| Impairments and loss on disposal of assets | 114 | — % | 185 | 0.1 % | 386 | 0.1 % | 618 | 0.1 % |
| Transaction expenses, net | 375 | 0.1 % | 546 | 0.2 % | 1,769 | 0.2 % | 2,543 | 0.4 % |
| Total operating costs and expenses | 245,296 | 97.5 % | 211,474 | 96.5 % | 717,573 | 95.3 % | 612,506 | 94.7 % |
| Income from operations [(1)] | 6,313 | 2.5 % | 7,738 | 3.6 % | 35,046 | 4.7 % | 34,412 | 5.4 % |
| Interest expense | (3,441) | (1.4)% | (1,848) | (0.8)% | (9,421) | (1.3)% | (5,792) | (0.9)% |
| Other income, net | 624 | 0.2 % | 771 | 0.4 % | 1,663 | 0.2 % | 1,950 | 0.3 % |
| **Income before income taxes** | 3,496 | 1.4 % | 6,661 | 3.0 % | 27,288 | 3.6 % | 30,570 | 4.7 % |
| Income tax expense | (1,384) | (0.6)% | (1,243) | (0.6)% | (9,062) | (1.2)% | (7,833) | (1.2)% |
| **Net income** | $ 2,112 | 0.8 % | $ 5,418 | 2.5 % | $ 18,226 | 2.4 % | $ 22,737 | 3.5 % |

(1) As a percentage of restaurant sales.

### *Restaurant Sales*

Restaurant sales represent the aggregate sales of food and beverages, net of discounts, at company-owned restaurants. Restaurant sales in any period are directly influenced by the number of operating weeks in the period, the number of open restaurants, customer traffic and average check. Average check growth is driven by our menu price increases and changes to our menu mix.

| | THIRTEEN WEEKS ENDED | | | THIRTY-NINE WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | Change | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | Change |
| Restaurant sales: | | | | | | |
| In-restaurant dining sales | $ 207,047 | $ 176,696 | 17.2 % | $ 613,422 | $ 520,277 | 17.9 % |
| Third-party delivery sales | 22,372 | 22,011 | 1.6 % | 72,682 | 65,765 | 10.5 % |
| Take-out sales | 19,546 | 16,788 | 16.4 % | 57,626 | 50,008 | 15.2 % |
| Total Restaurant sales | $ 248,965 | $ 215,495 | 15.5 % | $ 743,730 | $ 636,050 | 16.9 % |

The increase in total restaurant sales as compared to the same periods in the prior year was due principally to restaurant sales of (i) $18.1 million and $43.1 million for the thirteen and thirty-nine weeks ended September 29, 2024, respectively, from 37 NROs opened between September 24, 2023 and September 29, 2024, (ii) $14.9 million and $31.9 million for the thirteen and thirty-nine weeks ended September 29, 2024, respectively, from 28 restaurants acquired from franchisees between September 24, 2023 and September 29, 2024 and (iii) menu price increases.

***Franchise Revenues***

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

| | THIRTEEN WEEKS ENDED | | | THIRTY-NINE WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | Change | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | Change |
| Franchise revenues: | | | | | | |
| Royalty and system fund contributions | $ 2,587 | $ 3,244 | (20.3)% | $ 8,257 | $ 10,160 | (18.7)% |
| Initial fees | 57 | 150 | (62.0)% | 219 | 307 | (28.7)% |
| Business acquisitions - franchise revenues recognized | — | $ 323 | (100.0)% | 413 | $ 401 | 3.0 % |
| Total Franchise revenues | $ 2,644 | $ 3,717 | (28.9)% | $ 8,889 | $ 10,868 | (18.2)% |

The decrease in franchise revenues during the thirteen and thirty-nine weeks ended September 29, 2024 as compared to the same periods in the prior year was primarily driven by the Company’s acquisitions of 28 franchise-owned restaurants, partially offset by franchise revenues from the 7 franchise-owned NROs between September 24, 2023 and September 29, 2024.

***Food and Beverage Costs***

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

| | THIRTEEN WEEKS ENDED | | | THIRTY-NINE WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | Change | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | Change |
| Food and beverage costs | $ 55,865 | $ 48,709 | 14.7 % | $ 163,852 | $ 143,028 | 14.6 % |
| As a percentage of restaurant sales | 22.4 % | 22.6 % | (0.2)% | 22.0 % | 22.5 % | (0.5)% |

Food and beverage costs as a percent of restaurant sales decreased during the thirteen and thirty-nine weeks ended September 29, 2024 as compared to the same periods in the prior year primarily due to the leverage associated with menu price increases partially offset by commodity inflation.
Food and beverage costs increased during the thirteen and thirty-nine weeks ended September 29, 2024 as compared to the same periods in the prior year primarily as a result of the 37 NROs and 28 restaurants acquired from franchisees between September 24, 2023 and September 29, 2024.

***Labor and Other Related Expenses***

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

| | THIRTEEN WEEKS ENDED | | | THIRTY-NINE WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | Change | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | Change |
| Labor and other related expenses | $ 83,756 | $ 73,137 | 14.5 % | $ 247,332 | $ 212,312 | 16.5 % |
| As a percentage of restaurant sales | 33.6 % | 33.9 % | (0.3)% | 33.3 % | 33.4 % | (0.1)% |

Labor and other related expenses as a percentage of restaurant sales decreased during the thirteen weeks ended September 29, 2024 as compared to the same period in the prior year primarily as a result of (i) the leverage associated with menu price increases, and (ii) hourly labor efficiency. These decreases were partially offset by wage increases.

The increase in labor and other related expenses during the thirteen and thirty-nine weeks ended September 29, 2024 as compared to the same periods in the prior year was primarily due to (i) the increase in the number of restaurants and (ii) wage increases.

***Other Restaurant Operating Expenses***

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

| | THIRTEEN WEEKS ENDED | | | THIRTY-NINE WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | Change | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | Change |
| Other restaurant operating expenses | $ 38,891 | $ 33,694 | 15.4 % | $ 113,232 | $ 97,572 | 16.0 % |
| As a percentage of restaurant sales | 15.6 % | 15.6 % | — % | 15.2 % | 15.3 % | (0.1)% |

The increase in other restaurant operating expenses during the thirteen and thirty-nine weeks ended September 29, 2024 as compared to the same periods in the prior year was mainly due to the increase in the number of restaurants and restaurant sales.

***Occupancy Expenses***

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

| | THIRTEEN WEEKS ENDED | | | THIRTY-NINE WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | Change | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | Change |
| Occupancy expenses | $ 21,075 | $ 17,555 | 20.1 % | $ 60,733 | $ 49,950 | 21.6 % |
| As a percentage of restaurant sales | 8.5 % | 8.1 % | 0.4 % | 8.2 % | 7.9 % | 0.3 % |

As a percentage of restaurant sales, the increase in occupancy expenses for the thirteen and thirty-nine weeks ended September 29, 2024 as compared to the same periods in the prior year was primarily due to higher rent expense and the deleverage associated with negative same restaurant sales growth.

The increase in occupancy expenses during the thirteen weeks and thirty-nine weeks ended September 29, 2024 as compared to the same periods in the prior year was primarily due to the increase in the number of company-owned restaurants.

***Pre-opening Expenses***

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

| | THIRTEEN WEEKS ENDED | | | THIRTY-NINE WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | Change | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | Change |
| Pre-opening expenses | $ 2,387 | $ 2,035 | 17.3 % | $ 5,782 | $ 4,323 | 33.7 % |

The increase in pre-opening expenses during the thirteen and thirty-nine weeks ended September 29, 2024 as compared to the same periods in the prior year was primarily from (i) increases in rent and (ii) the number of restaurants opened and under construction.

***General and Administrative Expenses***

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

| | THIRTEEN WEEKS ENDED | | | THIRTY-NINE WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | Change | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | Change |
| General and administrative expenses | $ 27,680 | $ 25,179 | 9.9 % | $ 82,527 | $ 73,168 | 12.8 % |

The increase in general and administrative expenses during the thirteen weeks ended September 29, 2024 as compared to the same period in the prior year was mainly due to (i) $1.3 million increase in information technology, licenses, travel and other miscellaneous expenses (ii) $0.6 million increase in compensation expense from wage increases, stock compensation and additional employee headcount to support growth and (iii) $0.6 million increase in consulting and professional services.

The increase in general and administrative expenses during the thirty-nine weeks ended September 29, 2024 as compared to the same period in the prior year was mainly due to (i) $4.9 million increase in compensation expense from wage increases, stock compensation and additional employee headcount to support growth and (ii) $4.5 million increase in consulting and professional services, information technology, licenses, travel and other expenses.

***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.

| | THIRTEEN WEEKS ENDED | | | THIRTY-NINE WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | Change | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | Change |
| Depreciation and amortization | $ 15,153 | $ 10,434 | 45.2 % | $ 41,960 | $ 28,992 | 44.7 % |

The increase in depreciation and amortization during the thirteen and thirty-nine weeks ended September 29, 2024 as compared to the same periods in the prior year was due to additional NRO assets and restaurants acquired, including reacquired rights from franchisees.

***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 our acquisition by Advent in 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 | | | THIRTY-NINE WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | Change | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | Change |
| Transaction expenses, net | $ 375 | $ 546 | (31.3)% | $ 1,769 | $ 2,543 | (30.4)% |

The decrease in Transaction expenses, net during the thirteen-week period ended September 29, 2024 as compared to the same period in the prior year was primarily due to decrease in costs incurred in connection with the acquisition of franchise-owned restaurants.

The decrease in Transaction expenses, net during the thirty-nine weeks ended September 29, 2024 as compared to the same period in the prior year was primarily due to a contingent consideration liability reduction recognized as a reduction in transaction expenses in the first quarter of 2024.

***Income from Operations***

| *(in thousands)* | THIRTEEN WEEKS ENDED SEPTEMBER 29, 2024 | THIRTEEN WEEKS ENDED SEPTEMBER 24, 2023 | Change | THIRTY-NINE WEEKS ENDED SEPTEMBER 29, 2024 | THIRTY-NINE WEEKS ENDED SEPTEMBER 24, 2023 | Change |
|---|---|---|---|---|---|---|
| Income from operations | $ 6,313 | $ 7,738 | (18.4)% | $ 35,046 | $ 34,412 | 1.8 % |
| As a percentage of restaurant sales | 2.5 % | 3.6 % | (1.1)% | 4.7 % | 5.4 % | (0.7)% |

Income from operations margin decreased during the thirteen and thirty-nine weeks ended September 29, 2024 as compared to the same periods in the prior year primarily due to (i) deleveraging of certain expenses, including occupancy expenses, as a result of a decline in same restaurant sales and (ii) higher depreciation and amortization expense driven by our restaurant growth and acquisition of certain franchise-owned restaurants partially offset by (i) labor efficiency and (ii) food and beverage costs improving as a percent of sales.

***Interest Expense***

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

| *(in thousands)* | THIRTEEN WEEKS ENDED SEPTEMBER 29, 2024 | THIRTEEN WEEKS ENDED SEPTEMBER 24, 2023 | Change | THIRTY-NINE WEEKS ENDED SEPTEMBER 29, 2024 | THIRTY-NINE WEEKS ENDED SEPTEMBER 24, 2023 | Change |
|---|---|---|---|---|---|---|
| Interest expense | $ 3,441 | $ 1,848 | 86.2 % | $ 9,421 | $ 5,792 | 62.7 % |

The increase in interest expense during the thirteen and thirty-nine weeks ended September 29, 2024 as compared to the same periods in the prior year was due to (i) increased borrowings associated with franchise acquisitions and (ii) 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.

| *(in thousands)* | THIRTEEN WEEKS ENDED SEPTEMBER 29, 2024 | THIRTEEN WEEKS ENDED SEPTEMBER 24, 2023 | Change | THIRTY-NINE WEEKS ENDED SEPTEMBER 29, 2024 | THIRTY-NINE WEEKS ENDED SEPTEMBER 24, 2023 | Change |
|---|---|---|---|---|---|---|
| Other income, net | $ 624 | $ 771 | (19.1)% | $ 1,663 | $ 1,950 | (14.7)% |

The thirty-nine week period ended September 29, 2024 includes $0.4 million of debt refinancing charges. Differences in Other income for the comparative periods presented are related to fluctuations in insurance recoveries and interest income.

***Income Tax Expense***

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

| *(in thousands)* | THIRTEEN WEEKS ENDED SEPTEMBER 29, 2024 | THIRTEEN WEEKS ENDED SEPTEMBER 24, 2023 | Change | THIRTY-NINE WEEKS ENDED SEPTEMBER 29, 2024 | THIRTY-NINE WEEKS ENDED SEPTEMBER 24, 2023 | Change |
|---|---|---|---|---|---|---|
| Income tax expense | $ (1,384) | $ (1,243) | 11.3 % | $ (9,062) | $ (7,833) | 15.7 % |
| Effective income tax rate | 39.6 % | 18.7 % | 20.9 % | 33.2 % | 25.6 % | 7.6 % |

The change in the effective income tax rates for the thirteen and thirty-nine weeks ended September 29, 2024 as compared to the same periods in the prior year was primarily due to (i) the change in the valuation allowance on deferred tax assets, (ii) the benefit of tax credits for FICA taxes on certain employees' tips and (iii) the impacts of executive stock-based compensation.

***Net Income***

| | THIRTEEN WEEKS ENDED | | | THIRTY-NINE WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | Change | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | Change |
| Net income | $ 2,112 | $ 5,418 | (61.0)% | $ 18,226 | $ 22,737 | (19.8)% |
| As a percentage of total revenues | 0.8 % | 2.5 % | (1.7)% | 2.4 % | 3.5 % | (1.1)% |

Net income and net income margin during the thirteen and thirty-nine weeks ended September 29, 2024 decreased as compared to the same periods in the prior year primarily due to the (i) increase in interest expense associated with increased borrowings to fund acquisitions and higher interest rates, (ii) the increase in income tax expense and (iii) the decrease in income from operations margin.

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

| | THIRTEEN WEEKS ENDED | | | THIRTY-NINE WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | Change | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | Change |
| Restaurant level operating profit | $ 46,991 | $ 40,365 | 16.4 % | $ 152,799 | $ 128,865 | 18.6 % |
| Restaurant level operating profit margin | 18.9 % | 18.7 % | 0.2 % | 20.5 % | 20.3 % | 0.2 % |

Restaurant level operating profit margin during the thirteen and thirty-nine weeks ended September 29, 2024 increased as compared to the same periods in the prior year primarily due to (i) favorable labor and other related expenses as a percent of sales, (ii) favorable food and beverage costs as a percent of sales and (iii) restaurants acquired between September 24, 2023 and September 29, 2024. This was partially offset by the deleverage of occupancy expenses.

Restaurant level operating profit for the thirteen and thirty-nine week periods ended September 29, 2024 increased as compared to the same period in the prior year primarily due to (i) sales growth driven by the increase in menu prices, as well as (ii) restaurant sales contributed by 37 NROs and 28 restaurants acquired from franchisees between September 24, 2023 and September 29, 2024. This was partially offset by an increase in (i) food, labor and other restaurant operating expenses and (ii) deleverage of occupancy expenses.

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

| | THIRTEEN WEEKS ENDED | | | THIRTY-NINE WEEKS ENDED | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | Change | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | Change |
| Adjusted EBITDA | $ 25,624 | $ 21,629 | 18.5 % | $ 89,539 | $ 74,858 | 19.6 % |
| Adjusted EBITDA margin | 10.2 % | 9.9 % | 0.3 % | 11.9 % | 11.6 % | 0.3 % |

Adjusted EBITDA increased during the thirteen and thirty-nine weeks ended September 29, 2024 as compared to the same periods in the prior year primarily due to the increase in restaurant level operating profit. This was partially offset by general and administrative expenses mainly due to wage increases and additional employee headcount to support growth.

Adjusted EBITDA margin increased during the thirteen and thirty-nine weeks ended September 29, 2024 compared to the same periods in the prior year primarily due to an increase in (i) restaurant level operating profit margin and (ii) general and administrative expenses growing at a slower rate than total revenue.

**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 | | THIRTY-NINE WEEKS ENDED | |
|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 |
| Net income | $ 2,112 | $ 5,418 | $ 18,226 | $ 22,737 |
| Depreciation and amortization | 15,153 | 10,434 | 41,960 | 28,992 |
| Interest expense | 3,441 | 1,848 | 9,421 | 5,792 |
| Income taxes | 1,384 | 1,243 | 9,062 | 7,833 |
| EBITDA | 22,090 | 18,943 | 78,669 | 65,354 |
| Strategic costs (1) | 558 | 168 | 954 | 681 |
| Loss on extinguishment and modification of debt | — | — | 428 | — |
| Stock-based compensation (2) | 2,076 | 1,764 | 6,394 | 5,386 |
| Delaware Voluntary Disclosure Agreement Program (3) | 26 | 44 | 101 | 456 |
| Transaction expenses, net (4) | 375 | 546 | 1,769 | 2,543 |
| Insurance proceeds in connection with natural disasters, net (5) | — | (326) | — | (621) |
| Impairments and loss on disposal of assets (6) | 114 | 185 | 386 | 618 |
| Recruiting and relocation costs (7) | 359 | 305 | 634 | 415 |
| Severance costs (8) | 26 | — | 204 | 26 |
| Adjusted EBITDA | $ 25,624 | $ 21,629 | $ 89,539 | $ 74,858 |
| | | | | |
| Total revenues | $ 251,609 | $ 219,212 | $ 752,619 | $ 646,918 |
| Net income margin | 0.8 % | 2.5 % | 2.4 % | 3.5 % |
| Adjusted EBITDA margin | 10.2 % | 9.9 % | 11.9 % | 11.6 % |
| | | | | |
| Additional information | | | | |
| Deferred rent expense (9) | $ 327 | $ 661 | $ 1,076 | $ 1,575 |

(1) 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.
(2) Represents non-cash, stock-based compensation expense which is recorded within General and administrative expenses on the Consolidated Statements of Operations and Comprehensive Income.
(3) Represents 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.
(4) Represents costs incurred in connection with the acquisition of franchise-owned restaurants, expenses related to debt, secondary offering costs and, in 2024, an offsetting gain on release of contingent consideration liability.
(5) Represents insurance recoveries, net of costs incurred, in connection with hurricane damage, 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 | | THIRTY-NINE WEEKS ENDED | |
|---|---|---|---|---|
| *(in thousands)* | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 |
| Income from operations | $ 6,313 | $ 7,738 | $ 35,046 | $ 34,412 |
| Less: Franchise revenues | (2,644) | (3,717) | (8,889) | (10,868) |
| Add: | | | | |
| General and administrative expenses | 27,680 | 25,179 | 82,527 | 73,168 |
| Depreciation and amortization | 15,153 | 10,434 | 41,960 | 28,992 |
| Transaction expenses, net (1) | 375 | 546 | 1,769 | 2,543 |
| Impairments and loss on disposal of assets (2) | 114 | 185 | 386 | 618 |
| Restaurant level operating profit | $ 46,991 | $ 40,365 | $ 152,799 | $ 128,865 |
| | | | | |
| Restaurant sales | $ 248,965 | $ 215,495 | $ 743,730 | $ 636,050 |
| Income from operations margin | 2.5 % | 3.6 % | 4.7 % | 5.4 % |
| Restaurant level operating profit margin | 18.9 % | 18.7 % | 20.5 % | 20.3 % |
| | | | | |
| Additional information | | | | |
| Deferred rent expense (3) | $ 277 | $ 611 | $ 927 | $ 1,425 |

(1) Represents costs incurred in connection with the acquisition of franchise-owned restaurants, expenses related to debt, secondary offering costs and, in 2024, an offsetting gain on release of contingent consideration liability.
(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**

As of September 29, 2024, we had cash and cash equivalents of $51.1 million and outstanding borrowings under the Credit Facility of $195.0 million, excluding unamortized debt discount and deferred issuance costs. We had availability of $123.3 million under our revolving credit facility of $125.0 million, of which $1.7 million is reserved under letters of credit, and availability of $27.5 million under our delayed draw term loan pursuant to our credit agreement, as amended (“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 due to our restaurants storing minimal inventory and 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 combined with our availability under the Credit Facility and our cash and cash equivalents will be sufficient to meet the Company’s 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, the funds would be furnished 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 $130.0 million in 2024, not including the capital allocated to franchise acquisitions. This capital is 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 pursuant to our Credit Agreement.

***Summary of Cash Flows***

The following table presents a summary of our cash provided by (used in) operating, investing and financing activities for the thirty-nine weeks ended September 29, 2024 and September 24, 2023:

| | THIRTY-NINE WEEKS ENDED | |
|---|---|---|
| *(in thousands)* | SEPTEMBER 29, 2024 | SEPTEMBER 24, 2023 |
| Cash provided by operating activities | $ 92,749 | $ 73,044 |
| Cash used in investing activities | (165,919) | (82,633) |
| Cash provided by (used) in financing activities | 74,338 | (85) |
| Net increase (decrease) in cash and cash equivalents and restricted cash | $ 1,168 | $ (9,674) |

Cash provided by operations is our typical source of liquidity used (i) to fund capital expenditures for new restaurants, (ii) to maintain and remodel existing restaurants and (iii) for debt service. Cash provided by operations increased during the thirty-nine week period ended September 29, 2024 as compared to the thirty-nine week period ended September 24, 2023 is primarily due to the increase in the number of restaurants.

Cash used in investing activities increased during the thirty-nine weeks ended September 29, 2024 from the thirty-nine weeks ended September 24, 2023 due principally to (i) increases in the number of new restaurants and capital projects into which the Company is investing and (ii) the amount invested in acquisitions of franchise-operated restaurants compared to the same period last year.

Cash provided by (used in) financing activities reflects borrowings from the Company's Credit Facility to fund strategic acquisitions of franchise-operated restaurants.

**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 2023 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 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. On May 17, 2024, we entered into a variable-to-fixed interest rate swap agreement with two financial institutions to hedge an additional $60.0 million of the $195.0 million variable rate debt outstanding. Under the terms of the interest rate swap agreement, the Company will pay a weighted average fixed rate of 4.42% 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 2023 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 discussed below, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 29, 2024, 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 2023 Form 10-K filed with SEC on March 5, 2024 for a discussion of the material weaknesses that continue to exist as of September 29, 2024.

### Remediation Efforts

We continue to implement measures designed to improve the Company’s internal control over financial reporting to address and remediate the previously identified material weaknesses. To date, such measures include the following:

- Hired new and reassigned existing financial reporting, accounting, and information technology leadership with public company experience to enhance public company financial reporting, technical accounting, and information technology services and solutions.
- Augmented financial reporting capabilities by staffing professionals with knowledge and experience in income tax, internal audit, information technology, and legal.
- Established various policies, including a formal delegation of authority policy defining the protocols for reviewing and authorizing commitments, contracts, invoices, and transactions as well as a comprehensive set of information technology policies to govern the Company’s information technology practices.
- Formalized certain roles and reviewed responsibilities, including ensuring appropriate segregation of duties.
- Designed and implemented period-end financial reporting controls, such as controls over the preparation and review of account reconciliations, journal entries, financial statement disclosures, and the consolidated financial statements, including controls around classification of cash flows and disclosure of noncash items, as well as establishing a formal management Disclosure Committee to review the draft financial statements and disclosures prior to release, including a sub-certification process from various functional groups.
- Enhanced access restrictions for certain users over general ledger journal entries and designed new processes to further automate journal entries and segregate journal entry creation from journal entry approval authority.
- Designed and implemented controls over the accounting for income taxes to ensure the realizability and appropriate recording of deferred income taxes, income taxes and related disclosures.

While the material weaknesses previously disclosed have not yet been remediated as of September 29, 2024, management is devoting substantial resources to the ongoing remediation efforts. As we continue to evaluate and work to improve our internal control over financial reporting, we may take additional measures to address control deficiencies, or we may modify certain of the remediation measures described above. The material weaknesses will not be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are designed and operating effectively.

### Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the fiscal quarter ended September 29, 2024 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

## Part II - Other Information

### Item 1. Legal Proceedings

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

### Item 1A. Risk Factors

In addition to the other information discussed in this report, please consider the factors described in Part I, Item 1A., "Risk Factors" in our 2023 Form 10-K, updated as set forth below, which update was first included in Part II, Item 1A., "Risk Factors" in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2024 to reflect that, due to Advent's sales of our common stock on March 12, 2024, we are no longer considered a "controlled company" under Nasdaq listing rules. 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.

The following risk factor has been updated:

*If the ownership of our common stock continues to be highly concentrated, it may prevent you and other minority stockholders from influencing significant corporate decisions and may result in conflicts of interest. Although we are no longer a "controlled company" within the meaning of the rules of the Nasdaq, Advent will continue to exert substantial influence over us.*

Advent indirectly beneficially owns approximately 45% of our outstanding common stock. Although we are no longer a "controlled company" within the meaning of the Nasdaq listing rules, Advent indirectly beneficially owns shares sufficient to significantly influence all matters requiring stockholder votes, including: the election of directors; mergers, consolidations and acquisitions; the sale of all or substantially all of our assets and other decisions affecting our capital structure; amendments to our certificate of incorporation or our bylaws; and our winding up and dissolution.

This concentration of ownership may delay, deter or prevent acts that would be favored by our other stockholders. The interests of Advent may not always coincide with our interests or the interests of our other stockholders. This concentration of ownership may also have the effect of delaying, preventing or deterring a change in control of us. Also, Advent may seek to cause us to take courses of action that, in its judgment, could enhance its investment in us, but which might involve risks to our other stockholders or adversely affect us or our other stockholders. As a result, the market price of our common stock could decline or stockholders might not receive a premium over the then-current market price of our common stock upon a change in control. In addition, this concentration of share ownership may adversely affect the trading price of our common stock because investors may perceive disadvantages in owning shares in a company with significant stockholders.

### 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

**Insider Adoption or Termination of Trading Arrangements:**

During the fiscal quarter ended September 29, 2024, none of our directors or officers adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as those terms are defined in Regulation S-K, Item 408.

## Item 6. Exhibits

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

| Exhibit No. | Description | FILINGS REFERENCED FOR INCORPORATION BY REFERENCE |
|---|---|---|
| 31.1 | Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith |
| 31.2 | Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith |
| 32.1* | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | Furnished herewith |
| 101 | The financial information from First Watch Restaurant Group, Inc.'s Quarterly Report on Form 10-Q for the third fiscal quarter ended September 29, 2024, filed on November 7, 2024, formatted in Inline Extensible Business Reporting Language ("iXBRL") | Filed herewith |
| 104 | Cover Page Interactive Date File (formatted as iXBRL and contained in Exhibit 101) | Filed herewith |

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

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on November 7, 2024.

**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: November 7, 2024

/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: November 7, 2024

/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 period ended September 29, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Christopher A. Tomasso, Chief Executive Officer of the Company, and Mel Hope, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to their knowledge:

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

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

Date: November 7, 2024

/s/ Christopher A. Tomasso

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

/s/ Mel Hope

Mel Hope
Chief Financial Officer
(Principal Financial Officer)