

2023 ANNUAL REPORT

FIRST WATCH®





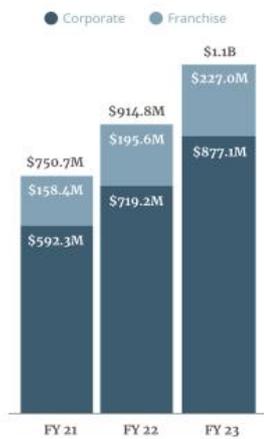
FISCAL YEAR 2023 RESULTS



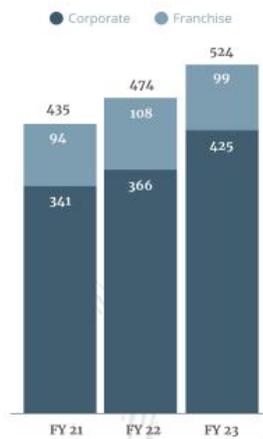
SYSTEM-WIDE SALES



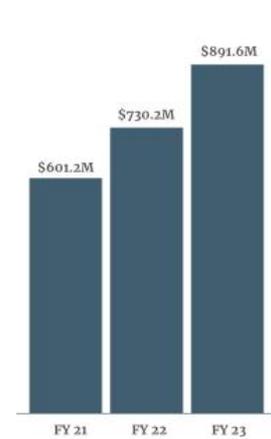
TOTAL REVENUES

ADJUSTED EBITDA⁽¹⁾
11.2% marginRLOP⁽²⁾
20.0% margin

SYSTEM-WIDE SALES



SYSTEM-WIDE RESTAURANTS



TOTAL REVENUES

**FIRST
WATCH**
**2023 NEWSWEEK MOST LOVED
WORKPLACE® AWARD WINNER**

- Adjusted EBITDA**, a non-GAAP measure, represents Net Income (loss) before depreciation and amortization, interest expense and income taxes, and items that we do not consider in our evaluation of ongoing core operating performance. **Adjusted EBITDA margin**, a non-GAAP measure, represents Adjusted EBITDA as a percentage of total revenues. Please see the reconciliation of Net Income (loss), the most directly comparable measure in accordance with accounting principles generally accepted in the United States of America ("GAAP"), to Adjusted EBITDA and Adjusted EBITDA margin, included in the Non-GAAP Financial Measure Reconciliations section beginning on page 50 of our Annual Report on Form 10-K attached hereto.
- Restaurant Level Operating Profit (RLOP)**, a non-GAAP measure, 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. RLOP excludes corporate-level expenses and other items that we do not consider in the evaluation of the ongoing core operating performance of our restaurants. **RLOP margin**, a non-GAAP measure, represents RLOP as a percentage of restaurant sales. Please see the reconciliation of Income (Loss) from operations, the most directly comparable GAAP measure, to Restaurant level operating profit and RLOP margin, included in the Non-GAAP Financial Measure Reconciliations section beginning on page 50 of our Annual Report on Form 10-K attached hereto.



DEAR VALUED STOCKHOLDERS,

2023 was another momentous year for First Watch.

We achieved several significant milestones in the year, including nearly doubling system-wide sales to more than \$1 billion since 2019, posting nearly \$100 million in Adjusted EBITDA* and opening our 500th restaurant.

Our steadfast focus on both unit, and sales and traffic growth continues to propel us forward. This past year, we opened 51 system-wide restaurants across 19 states, while delivering high-single-digit same-restaurant sales growth and positive same-restaurant traffic growth.

Select financial highlights and milestones from 2023 include:

- Total revenues of \$891.6 million (increase of 22.1% from 2022)
- System-wide sales of \$1.1 billion (increase of 20.6% from 2022)
- Average Unit Volume of \$2.3 million (10.7% increase from 2022)
- Ending the year with 524 system-wide restaurants - 42% growth compared to 2019

We continue to see significant demand for our unique offering—and we continue to double-down on the core elements of the First Watch experience: serving incredible food, with memorable service, in an inviting atmosphere.

And while the numbers are inspiring, they're only one piece of the puzzle. Our culture—and our people—are a differentiator. Even during yet another high-growth year, turnover improved sequentially throughout each quarter of 2023 for both managers and hourly team members. We are also honored to be named a Top 100 "Most Loved Workplace®" in Newsweek by the Best Practice Institute for the second year in a row.

* See footnote 1 on prior page

WHAT'S ON THE MENU IN 2024



More restaurants in more states

We continue to invest in high-quality sites and a larger number of stand-alone units. These desirable locations typically have a larger footprint, allowing us to meet even more demand. We continue to pursue new markets and bring our differentiated Breakfast, Brunch and Lunch offering to new neighborhoods in additional states.

Strategic buy-back of franchise locations

As part of our long-term growth strategy, we continue to acquire First Watch restaurants operated by select franchisees. We believe the company benefits significantly from both the company's operation of the restaurants acquired and the blue-sky development in the reacquired territories.

New technology to increase accessibility and serve more demand

Everything we do is through the lens of bettering the in-restaurant experience for both our customers and our teams, and after successfully elevating our back-of-house processes and equipment, including the full roll out of our Kitchen Display Systems (KDS) in 2023, we're focused on more technological advances. This year, we're reviewing our entire digital presence, increasing payment convenience, and further enhancing the tools our operators use to plan and forecast.

Warm, friendly service our customers know and love

Excellence in restaurant-level execution increases the visit frequency of our customers, promotes trial by new customers and ultimately, leads to loyalty. And that all starts with our people, which is why we continue to invest in benefits and programs, as we aspire to maintain employee turnover that sits below the industry average as a key competitive advantage.

Delicious, innovative food and drinks

We remain committed to our philosophy to "Follow the Sun" as we welcome each season with a menu that celebrates exceptional ingredients and flavors, paving the way for rotating seasonal menu items that are always fresh.

From where I stand today, I have never felt better about our culture, our culinary strategy, our unit growth plans, the quality of our people and the high-level of service they provide.

As I look back on 2023, I am proud of, but not surprised by, our results. Given our segment leadership and untapped market potential, the growth we see in front of us is even more exciting than what we have already achieved. It is for all these strengths, and others, that we are confident in our long-term guidance of low-double digit percent unit growth, as we continue our march toward 2,200 domestic restaurants.

The brunch revolution is just getting started!



Chris Tomasso
CEO & President
First Watch Restaurant Group

This letter contains forward-looking statements, including related to our plans to serve more demand by opening new restaurants, acquiring franchise-owned restaurants, and implementing new technology systems and equipment. Please refer to "Cautionary Note Regarding Forward-Looking Statements" on page 3 of our Annual Report on Form 10-K attached hereto.

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

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2023

OR

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

Commission file number 001-040866

FIRST WATCH

First Watch Restaurant Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

82-4271369

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

8725 Penderly Place, Suite 201, Bradenton, FL 34201

(Address of Principal Executive Offices) (Zip Code)

(941) 907-9800

Registrant's telephone number, including area code

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)**

Securities registered pursuant to Section 12(b) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Emerging growth company Non-accelerated filer Smaller reporting 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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

The aggregate market value of common stock held by non-affiliates (based on the closing price on the last business day of the registrant's most recently completed second fiscal quarter as reported on the Nasdaq Stock Market) was approximately \$389.6 million.

As of March 1, 2024, 59,909,786 shares of common stock of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement relating to the 2024 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. Such Definitive Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the end of the registrant's fiscal year ended December 31, 2023.

TABLE OF CONTENTS

	Page
Cautionary Note Regarding Forward-Looking Statements	3
PART I.	
Item 1. Business	4
Item 1A. Risk Factors	10
Item 1B. Unresolved Staff Comments	34
Item 1C. Cybersecurity	34
Item 2. Properties	35
Item 3. Legal Proceedings	35
Item 4. Mine Safety Disclosures	35
PART II	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	36
Item 6. Reserved	37
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	38
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	57
Item 8. Financial Statements and Supplementary Data	57
Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	95
Item 9A. Controls and Procedures	96
Item 9B. Other Information	98
Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections	98
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	99
Item 11. Executive Compensation	99
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	99
Item 13. Certain Relationships and Related Transactions, and Director Independence	99
Item 14. Principal Accountant Fees and Services	99
PART IV	
Item 15. Exhibits, Financial Statement Schedules	100
Item 16. Form 10-K Summary	101
Signatures	102

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (the “Annual Report on Form 10-K”) contains forward-looking statements. Forward-looking statements can be identified by words such as “anticipates,” “intends,” “plans,” “seeks,” “believes,” “estimates,” “expects” and similar references to future periods, or by the inclusion of forecasts or projections. Examples of forward-looking statements include, but are not limited to, statements we make regarding the outlook for our future business and financial performance, such as those contained in the section titled “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*.” Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, by their nature, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. As a result, our actual results may differ materially from those contemplated by the forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include regional, national or global political, economic, business, competitive, market and regulatory conditions and the following:

- our vulnerability to changes in consumer preferences and economic conditions such as inflation and recession;
- our inability to open new restaurants in new and existing markets;
- the number of visitors to areas where our restaurants are located may decline;
- our inability to generate same-restaurant sales growth;
- our marketing programs and limited-time menu offerings may fail to generate profits;
- shortages or disruptions in the supply or delivery of frequently used food items or increases in the cost of our frequently used food items;
- our inability to prevent instances of food-borne illness in our restaurants;
- our inability to compete successfully with other breakfast and lunch restaurants;
- our inability to hire, train, reward and retain employees;
- our sustainability activities, including environmental, social and governance (“ESG”) matters;
- issues with our existing franchisees, including their financial performance, our lack of control over their operations, and conflicting business interests;
- our vulnerability to adverse demographic, unemployment, economic, regulatory and weather conditions;
- damage to our reputation and negative publicity, even if unwarranted;
- our reliance on a small number of suppliers for a substantial amount of our food and coffee;
- our inability to effectively manage our internal control over financial reporting;
- our failure to adequately protect our network security;
- compliance with federal and local environmental, labor, employment and food safety laws and regulations;
- our level of indebtedness and our duty to comply with covenants under our Credit Agreement (as defined in Item 7. “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources*”);
- uncertainty regarding ongoing conflict between Russia and Ukraine and the related impact on transportation and energy costs and other macroeconomic conditions as a result of such conflict; and
- the interests of Advent International, L.P., our controlling stockholder, may differ from those of our public stockholders.

See Item 1A. “*Risk Factors*” for a further description of these and other factors. For the reasons described above, we caution you against relying on any forward-looking statements, which should also be read in conjunction with the other cautionary statements that are included elsewhere in this Annual Report on Form 10-K. Any forward-looking statement made by us in this Annual Report on Form 10-K speaks only as of the date on which we make it. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

PART I

Item 1. Business

First Watch Restaurant Group, Inc. is a Delaware holding company that was acquired by funds affiliated with or managed by Advent International L.P. (“Advent”) in August 2017 (the “Advent Acquisition”). Unless the context otherwise requires, “we,” “us,” “our,” “First Watch,” the “Company,” “Management” and other similar references refer to First Watch Restaurant Group, Inc. and, unless otherwise stated, all of its subsidiaries.

Overview

Since opening our doors in 1983, we have been a pioneer in Daytime Dining, serving made-to-order breakfast, brunch and lunch using the freshest of ingredients. We have built our brand on our commitment to operational excellence, our culinary mission centered around a fresh, continuously evolving menu, and our “You First” culture. Our focus on one daytime shift enables us to optimize restaurant operations while generating an average unit volume of \$2.3 million per restaurant in 2023 in only 7.5 hours per day. This daytime focus also provides us with a competitive advantage allowing us to attract and retain employees who are passionate about hospitality and drawn to our “No Night Shifts Ever” approach, among other attractive benefits.

As of December 31, 2023, we had a total of 524 restaurants across 29 states, 425 of which were company-owned and 99 were franchise-owned.

We “Follow the Sun”

Every morning, we arrive at the crack of dawn to slice and juice fresh fruits and vegetables, bake muffins, brew our fresh coffee and whip up our French Toast batter from scratch. Every menu item is made-to-order and prepared with care. We do not use microwave ovens, heat lamps or deep fryers in our kitchens. At First Watch, we are driven by a pursuit of freshness as is highlighted by our culinary and sourcing philosophy to “Follow the Sun.” With this philosophy our menu, which is inspired by the seasons, changes five times per year. Our rotating seasonal menu is commonly cited by our customers as a core element of the First Watch experience and has included favorites such as the Sunny Seoul Hash, Strawberry Tres Leches French Toast and the Brooklyn Breakfast Sandwich.

These seasonal items are offered alongside of our award-winning chef-driven menu including elevated executions of classic favorites for breakfast, brunch and lunch, such as our protein-packed Breakfast Quinoa, Farmstand Breakfast Tacos, and Avocado Toast. Our menu also features fresh juices, that we juice each morning, including Morning Meditation and Kale Tonic.

Our Culture: You First

For four decades, we have cultivated an organizational culture built on our foundational concept of “You First,” which puts serving others above all else. As a company, we put our employees first and empower them to do whatever it takes to put our customers first. As evidenced by our vision to “Create Amazing Opportunities for Our People,” we also work hard to provide opportunities for advancement and meaningful relationships, and we prioritize personal and professional growth so that our people can thrive. We believe our approach and operating model have enabled us to retain and attract the best and brightest employees in the industry and are key factors in our ability to meet the growing demand we are seeing across the country. As a result, we are proud of the many people-focused awards and accolades we have received over the past few decades, most recently including the following:

- Named the top restaurant brand in Yelp’s inaugural list of the top 50 most-loved brands in the U.S (2023)
- Named a Top 100 Most Loved Workplace® by Newsweek and the Best Practice Institute (2022 and 2023). In 2023 First Watch was the only restaurant brand recognized.
- Recognized with ADP’s Culture at Work Award (2022)
- Ranked # 1 in a five-year longitudinal study of employee surveys on Glassdoor published by William Blair for work/life balance and we were in the top 10 in overall employee satisfaction, among casual dining concepts (2022)

We also extend our You First culture by giving back to important organizations and causes that are meaningful to our people. Most notably, First Watch is proud of two key efforts to give back in a meaningful way:

- **Project Sunrise:** Through this initiative of passion, we source our coffee beans from women-owned farms in Colombia, and we pay an annual quality incentive bonus to farmers to further support their high-quality production. This program in turn empowers these women leaders to reinvest in their communities.
- **Pediatric Cancer Research:** Through each sale of a First Watch kid's meal, we donate a portion of proceeds to the V Foundation in order to support and advance pediatric cancer research. To date, we have donated \$1.0 million towards these important efforts.

Growth Strategies

New Restaurant Openings

As supported by a third-party study, we believe First Watch has the potential for more than 2,200 restaurants in the continental United States. In 2021, First Watch was recognized by FSR Magazine as the fastest-growing full-service restaurant company in the United States based on unit growth and in 2023, we continued to realize that potential by opening 51 new company-owned and franchisee-owned restaurants, which we collectively refer to as "system-wide" restaurants, across 19 states. Our growth strategy targets an accelerating pace of new system-wide restaurant development with a long-term goal of an annual percentage growth in the low double digits.

In selecting new locations, we evaluate specific market characteristics, demographics, traffic patterns, co-tenants and growth potential. Our development approach has proven that First Watch has tremendous portability across markets, with new restaurants boasting consistent and a strong average unit volume across all geographies. First Watch's top 10% of restaurants in terms of sales, span 10 states and 20 designated market areas. Our new restaurant performance continues to accelerate and we are confident in our ability to continue this growth by elevating both the quality of real estate as well as the introduction of new design features that allow our teams to serve the significant demand.

Acquisitions of Franchise-Owned Restaurants

Our long-term growth strategy includes the acquisitions of First Watch restaurants operated by certain of our franchisees. To that end, during 2023, we acquired 23 operating restaurants along with development and territory rights from four franchisees. In addition, shortly following the end of 2023, we announced our agreement to acquire 21 restaurants from our largest franchisee. See Note 21, *Subsequent Events*, in the accompanying notes to the consolidated financial statements included in Item 8 of Part II of this Form 10-K for additional information. We believe the Company's operation of the restaurants acquired from our franchisees as well as development in the reacquired territory provides substantial opportunity to realize new Company value. At December 31, 2023, we had 11 franchisees operating 99 restaurants with 18 total new restaurant development obligations. At December 31, 2023, 47 franchisee-owned restaurants are subject to our option to purchase.

Drive Restaurant Traffic and Build Sales

Our attractive return on invested capital starts with an intention to build sales and traffic through a focus on the core elements of the First Watch experience: serving incredible food, with memorable service, in an inviting atmosphere.

- ***Delivering an Excellent On-Premise Dining Experience.*** Excellence in restaurant-level execution, recognized by customers and reinforced by the hundreds of accolades we have received, increases the visit frequency of our customers, promotes trial by new consumers and ultimately encourages loyalty. Our single menu, throughout the day, streamlines our supply chain and restaurant operations, simplifies our employee training and provides for a consistent and superior customer dining experience.
- ***Technology and Increased Accessibility.*** We believe that technology can continue to elevate the First Watch experience for both our employees and customers. To date we have implemented technologies that have enhanced accessibility by adding the functionality for direct ordering of takeout as well as third party delivery integrations. In 2023 and 2022, our total off-premises sales accounted for 18.3% and 20.6%, respectively, of our total restaurant sales. While these sales channels have corrected from anomalous highs during 2020 and 2021 due to the COVID-19 pandemic, this still reflects a significant portion of our business and has remained elevated relative to 2019 when off-premises sales only reflected 6.7% of our total restaurant sales.

- In-restaurant dining sales continue to strengthen indicating continued customer demand for experiences and connection. In 2022 we implemented kitchen display screens in all company-owned restaurants to simplify the employee experience and improve back-of-house efficiency. Along with many other operational initiatives, processes and procedures, we continue to see opportunity to use technology to elevate the customer experience and simplify tasks for our teams. In February 2024, we completed the roll-out of pay-at-the-table technology at all company-owned restaurants. Through a QR code on our receipts, customers can now seamlessly pay using Apple Pay, Google Pay or a credit or debit card, reducing bottlenecks at host stands, particularly during peak weekend hours.
- **Continued Menu Innovation.** We constantly evolve our on-trend menu which highlights our commitment to quality and freshness and is also operationally efficient. When it comes to sourcing, we are guided by a core philosophy: “Follow the Sun.” Our five highly anticipated seasonal menus drive customer frequency. This means that we welcome each season into our menu with exceptional ingredients harvested when they are most flavorful and fresh. In addition, successful new platform introductions such as our Fresh Juice program, our Shareables, our alcohol program and our premium iced coffees add incremental revenue opportunities and capitalize on growing trends.
 - **Offer Alcohol as Only First Watch Can.** Our alcohol platform is unique and reflects our culinary innovation through combinations of fresh juices and ingredients with a variety of liquors. We have continued to expand on this strategic initiative and acquire the necessary licenses. As of December 31, 2023, our alcohol menu was offered in about 90% of our system-wide restaurants. As we have finalized the initial stage of adding alcohol to the majority of our system, our alcohol platform offers the opportunity to innovate alongside our constantly evolving culinary platforms and seasonal menus.
- **Increasing Our Brand Awareness.** For 40 years, our awareness has grown primarily through word-of-mouth as our service, menu and environment created loyal fans. While we believe that organic growth of awareness contributes to our local feel, we also recognize the potential of strategically marketing in appropriate channels to accelerate our brand awareness. We continue to build expertise in, and deploy tested strategies for, utilizing targeted digital channels to reach certain attractive customer segments and build top-of-mind awareness. By using our first party data, we have been able to identify higher frequency customers and target similar customers with digital media vehicles. These demand generation strategies have aided us to “balance out” our customer base in recent years by growing penetration with Millennial and Gen Z segments.
- **Customer Technology & Customer Data:** We accelerated the implementation of customer data acquisition systems in order to better inform the habits and behaviors of our customers. With the large increase in remote digital orders, we also sought to digitize in-restaurant orders for the purpose of creating an omnichannel view of the First Watch customer. By integrating remote waitlist, remote orders, tokenized credit card transactions and WiFi into one system, we now have the ability to better understand trial and frequency. Since implementation of these systems, we have gathered customer information for over 14.6 million unique customer profiles, 6.1 million of whom have opted for direct communication from First Watch. The advances in these foundational systems have allowed us to learn more about our customers and the behaviors that ultimately drive lifetime customer value. We see this as a long-term opportunity to drive increased visit frequency as we have the ability to build new customer technology features that elevate the customer experience.

Operations

Quality and Food Safety

First Watch emphasizes high food quality and a commitment to food safety in each restaurant through the careful training and supervision of personnel and by following rigorous quality and cleanliness standards. Food preparation and cleaning procedures are defined, monitored and maintained by our quality assurance department. We contract with third-party inspectors to regularly monitor restaurant performance through unannounced non-biased food safety assessments with program standards that meet or exceed those of local health departments. These inspections are intended to achieve active managerial control in our restaurants in an effort to reduce risk factors and maintain a strong food safety culture.

Restaurant management incentive plans provide strong motivation to meet and exceed standards. In addition, as part of our overall food quality assurance, we have a process in place to review vendors' food safety practices to ensure they meet or exceed industry standards.

Restaurant Staff

As of December 31, 2023, we had approximately 14,000 employees. None of our employees are part of a collective bargaining agreement and based upon independent surveys and our internal evaluations, we believe our "You First" organizational culture continues to foster overall favorable relations with our employees.

Each restaurant operates with a staff of approximately 20 to 30 team members led by general manager(s).

During a restaurant's 7:00 a.m. to 2:30 p.m. shift, our staff focus on gracious service, food preparation, order accuracy and "instagrammable" plating. We employ a narrow span of control, which we believe contributes to the consistency of our restaurants' performance across our system. The general managers interview each applicant and identify motivated employees who are friendly, service oriented, eager to prepare high-quality food and a fit for our "You First" culture.

Training

Our training programs share our legacy and culture of operating excellence. We have established a training facility at our corporate headquarters named the F.A.R.M. ("First Watch Academy of Restaurant Management"), to which we invite managers-in-training for a week-long brand experience where they learn everything from our history and cultural pillars to leadership and management tools. We have enhanced this training program to also focus on building a more diverse and inclusive team. In addition, managers-in-training also complete a comprehensive 10-week C.A.F.E. ("Culture and Food Experience") training program in the restaurants, alongside experienced managers. Training for all in-restaurant management positions was also enhanced to clearly define and delineate roles in order to drive both results and engagement. New hourly employees participate in at least three days of initial onboarding training and shadowing. Our general managers and directors of operations conduct in-restaurant training for our staff who also train online through our Virtual Learning Academy.

Purchasing and Distribution

Our Supply Chain department manages and negotiates directly with qualified, national suppliers and distributors with the dual goals of securing the supply of high quality, fresh products and controlling cost. Our selected vendors undergo inspections to ensure that products purchased conform to our standards. Our Quality Assurance department requires third-party supplier audits or Global Food Safety Initiative certification for all food distributors and manufacturing facilities to ensure good manufacturing practices, food safety, pest control, sanitation, training, regulatory compliance and food defense systems are in place. To ensure freshness, most of our restaurants accept produce and broadline distribution deliveries at least three times per week.

Management Information Systems

All our restaurants use digital management information systems, which we believe are scalable to support our future growth plans. These systems are designed to enable functionality, improve operating efficiencies, provide us with timely access to financial and marketing data and reduce restaurant and corporate administrative time and expense. In addition, our in-restaurant systems are used to process customer orders, credit card payments, employee time-keeping and scheduling.

Marketing and Advertising

We use a variety of marketing channels, including affiliate partnerships, social media interactions, digital marketing, direct mailers, public relations initiatives and local community sponsorships, email communications, promotions and partnerships. We focus on increasing our engagement with social media platforms in order to generate brand awareness and also to gather information we can then apply to future marketing efforts.

Franchise Program

As of December 31, 2023, we had 11 franchisees that operated 99 restaurants and our existing franchisees had 18 total new restaurant development obligations. Typically, our franchise agreements provide an initial term of 10 years with additional renewal terms that total 10 years subject to various conditions that include upgrades to the restaurant facility and brand image. All franchise agreements grant licenses to use our trademarks, trade secrets and proprietary methods, recipes and procedures. The initial franchise fee for each restaurant is \$35,000 to \$40,000. Franchisees are required to pay 4.0% of franchised restaurant sales in royalties and contribute 1.0%-3.0% of franchised restaurant sales to a system fund, which is used for advertising, marketing and public relations programs and materials on a system-wide basis.

Human Capital

“You First” Culture Elevates Employee and Customer Satisfaction

First Watch has a simple mission statement based on its “You First” culture—“Making days brighter at every opportunity.” We have been people-focused from our inception as we have always believed our employees are our greatest asset. We believe that putting our employees first, in turn, leads them to put customers first. We believe the Company’s culture plays a significant role in higher retention of all employees. This culture was also a key factor in the Company’s achievement of top 50 status in Newsweek’s 2023 Top 100 Most Loved Workplaces, a designation that was a result of an assessment of First Watch’s people practices along with an independent survey of approximately 1,000 of our employees.

At First Watch, we are committed to making days brighter by creating a culture where our teams and customers feel valued and celebrated for who they are and the differences they bring to the table. We also embrace the fact that diversity goes hand in hand with inclusion. With our core belief to “Just Be Kind,” we endeavor to provide our people with the opportunity to contribute at the highest level and we empower diverse voices to ensure everyone can belong, thrive and “follow the sun” to reach their full potential. We believe in fostering an environment where all employees feel valued and heard, and we provide employees with various channels to provide regular feedback, including surveys, meetings and direct communication. In 2023, CEO and President, Chris Tomasso, Chief People Officer, Laura Sorensen and Chief Operations Officer, Dan Jones, hosted nineteen separate 90 minute calls with hourly employees across the country for their second annual W.H.Y. Tour – their “We Hear You” listening tour. The purpose of the in-depth sessions was to learn more about the issues most meaningful to our hourly workforce. As a result of this tour, the Company was able to take swift action on the most meaningful issues. New employee benefits, practices and operational tools have been introduced as a direct result of feedback from each tour, reinforcing the Company’s culture of listening to its employees and taking action on the issues that matter the most to them.

We believe our diverse teams reflect the wide diversity of our customers across the U.S., allowing us to better anticipate market trends and address the needs of our customers. And while our work is ongoing, we’re dedicated to building on our “You First” commitment and unlocking amazing possibilities for each team member and the communities we serve. First Watch works with an outside consultant to complete an annual assessment to both build and benchmark our policies, practices and representation.

This commitment to diversity, inclusion, and fair and equal representation of underrepresented or minority groups is demonstrated throughout all levels of the organization (based on self-reported information as of February 19, 2023):

- 50% of the non-employee members of our Board of Directors are women, and our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee are each chaired by a woman;
- 25% of our non-employee directors are from an underrepresented group as it relates to race/ethnicity;
- 33% of the members of our executive leadership team are women;
- 53% of our workforce are women; and
- 57% of our workforce belong to an underrepresented or minority group as it relates to race/ethnicity.

In 2020, we developed and launched an annual campaign, branded #beabetterhuman, which has taken our people-focused approach to a new level. We turned participation in the #beabetterhuman campaign into an opportunity for employees to give back to the community. The #beabetterhuman initiative included a six-part live, interactive web series tackling sensitive topics such as unconscious bias, privilege and mental health. The #beabetterhuman campaign was designed to educate our entire workforce, raise awareness and influence change. We continue to build upon the success of the program with training on the program for new managers and an ongoing #beabetterhuman series on Facebook, Instagram and Glassdoor highlighting diverse employees within the restaurants and their unique and inspiring stories.

The R.I.S.E. (Race Inclusion and Support Exchange) Council was created to dialogue with high performing diverse leaders on how to best advance the Company's diversity efforts. As a result of ideas that the R.I.S.E. Council surfaced, The Rising 20, a new mentor program was established as an important step in the #beabetterhuman campaign to help accelerate the development and advancement of under-represented groups within First Watch. In this mentoring program, employees are partnered with a senior leader in the organization for a six-month guided mentorship journey targeting personal development and professional growth. In addition, the program includes a self-assessment and career goal setting workshops.

Experienced, Passionate Leadership Team and Deep Bench of Talent

Our team is led by passionate executives who have an extensive mix of experience in our brand and with other leading national restaurant concepts and consumer facing businesses. We have a deep bench of talent throughout the organization. Our executives and key employees average more than 15 years of industry experience and our directors of operations have an average tenure at First Watch of approximately ten years. In addition, our restaurant staff includes hundreds of fully-trained, tested, high-performing managers throughout our system who are poised to step into the general manager role as we execute our growth strategy and open new restaurants.

Government Regulation

We are subject to extensive federal, state and local government laws and regulations, including those relating to, among others, public health and safety, zoning and fire codes, alcoholic beverage control and franchising.

In addition, we are also subject to the Fair Labor Standards Act, the Immigration Reform and Control Act of 1986, the Americans with Disabilities Act and various federal and state laws governing such matters as minimum wages, exempt versus non-exempt, overtime, unemployment tax rates, workers' compensation rates, citizenship requirements and other working conditions. New laws, regulations or interpretations could impact our business or our cost of compliance.

For a discussion of the various risks we face from regulation and compliance matters, see Item 1A. "Risk Factors."

Intellectual Property

We have registered "First Watch the Daytime Cafe," "You First," "Yeah, It's Fresh!" and certain other names used by our restaurants as trademarks or service marks with the United States Patent and Trademark Office ("USPTO"). In addition, the First Watch logo, website name and address and Facebook and Twitter accounts are our intellectual property. Our policy is to pursue and maintain registration of service marks and trademarks and to oppose vigorously any infringement or dilution of the service marks or trademarks. We maintain certain recipes for our menu items, as well as certain standards, specifications and operating procedures, as trade secrets or confidential information.

Competition

The restaurant industry is highly competitive and fragmented, with restaurants competing directly and indirectly with regard to dining experience, food quality, service, price and location. We also compete with grocery store chains and meal subscription services. In addition, there is active competition for management personnel, real estate sites, supplies and restaurant employees. Competition is also influenced strongly by marketing and brand reputation.

As consumers increasingly seek higher quality breakfast, brunch and lunch experiences, we believe we are well-positioned to compete with a wide range of national, regional and local establishments that operate during our hours of operation. More directly, we do not believe there is a comparable offering within our segment that operates at the scale of First Watch

and we view our primary competition as a network of independent restaurants that also serve breakfast and lunch in neighborhoods across the United States.

Seasonality

Our quarterly results of operations are subject to seasonal fluctuations. Additionally, the timing of holidays, weather conditions and the number of new restaurant openings may affect sales volumes seasonally.

See Item 1A. “*Risk Factors*” for discussion of risks related to seasonal and periodic fluctuations.

Corporate Information

First Watch Restaurant Group, Inc. was incorporated in Delaware on August 10, 2017, under the name AI Fresh Super Holdco, Inc. We changed our name on December 20, 2019 to First Watch Restaurant Group, Inc. Our principal executive offices are located at 8725 Penderly Place, Suite 201, Bradenton, FL 34201 and our telephone number is (941) 907-9800. Our corporate website address is www.firstwatch.com. We completed our initial public offering (“IPO”) in October 2021 and our common stock is listed on the Nasdaq Global Select Market (“Nasdaq”) under the symbol “FWRG.”

Additional Information

Our consumer website is located at www.firstwatch.com, and our investor relations website is located at <https://investors.firstwatch.com>. We make available, free of charge, through our internet website, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after electronically filing such material with the Securities and Exchange Commission (“SEC”). Our reports and other materials filed with the SEC are also available at www.sec.gov. The reference to these website addresses does not constitute incorporation by reference of the information contained on the websites and should not be considered part of this Annual Report on Form 10-K.

We announce material information to the public about us, our products and services, and other matters through a variety of means, including filings with the SEC, press releases, public conference calls, webcasts and our investor relations website (<https://investors.firstwatch.com>) in order to achieve broad, non-exclusionary distribution of information to the public and for complying with our disclosure obligations under Regulation FD.

The information disclosed by the foregoing channels could be deemed to be material information. As such, we encourage investors, the media, and others to follow the channels listed above and to review the information disclosed through such channels. Any updates to the list of disclosure channels through which we will announce information will be posted on the investor relations page on our website.

Item 1A. Risk Factors

You should carefully consider the risks described below in addition to the other information set forth in this Annual Report on Form 10-K, including the sections titled “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*,” “*Quantitative and Qualitative Disclosures About Market Risk*” and our consolidated financial statements and related notes. If any of the risks and uncertainties described in the cautionary factors described below actually occur or continue to occur, our business, financial condition, results of operations, cash flow and the trading price of our common stock could be materially and adversely affected. The considerations and risks that follow are organized within relevant headings but may be relevant to other headings as well. Moreover, the risks below are not the only risks we face and additional risks not currently known to us or that we presently deem immaterial may emerge or become material at any time and may adversely impact our business, reputation, financial condition, results of operations, cash flow or the trading price of our common stock.

Risk Factors Summary

Our business is subject to numerous risks and uncertainties, including those outside of our control, that could cause our actual results to be harmed. These risks include the following:

Risks Related to Our Business and Industry

- our vulnerability to changes in economic conditions and other factors, many of which are largely outside of our control
- our inability to open new restaurants in new and existing markets or to operate them as profitably as we have experienced in the past
- our inability to effectively manage our growth
- opening new restaurants may adversely impact sales at our and our franchisees' existing restaurants
- the number of visitors to areas where our restaurants are located may decline
- our inability to generate same-restaurant sales growth
- our marketing programs and limited-time menu offerings may fail to generate profits
- shortages or disruptions in the supply or delivery of frequently used food items or increases in the cost of our frequently used food items
- our inability to compete successfully with other breakfast and lunch restaurants
- our vulnerability to food safety and food-borne illness concerns
- issues with our existing franchisees, including their financial performance, our lack of control over their operations and conflicting business interests
- our reliance on a small number of suppliers for a substantial amount of our food and coffee
- geographic concentration
- damage to our reputation and negative publicity, even if unwarranted
- our inability to effectively manage the accelerated impact of social media

Risks Related to Information Technology and Intellectual Property

- our failure to adequately protect our network security
- compliance with federal and state laws and regulations relating to privacy, data protection, advertising and consumer protection
- potential state property law liability with our gift cards
- our failure to enforce and maintain our trademarks and other intellectual property
- adverse litigation outcomes with respect to our intellectual property rights

Risks Related to Employees and the Workforce

- our inability to identify qualified individuals for our workforce
- our failure to maintain our corporate culture
- potential unionization activities
- our sustainability activities, including ESG matters

Legal and Regulatory Risks

- compliance with federal and local environmental, labor, employment, food safety, franchise, zoning and other applicable laws and regulations
- the distraction and expense of litigation
- risks associated with leasing properties subject to long-term and non-cancelable leases
- compliance with the laws and regulations applicable to public companies
- volatility in our results of operations caused by fluctuations in our tax obligations and effective tax rate and realization of our deferred tax assets
- risks related to our sale of alcoholic beverages

Risks Related to Accounting and Financial Reporting Matters

- impairment in the carrying value of our goodwill or indefinite-lived intangible assets
- our inability to effectively manage our internal control over financial reporting

Risks Related to Our Indebtedness

- our level of indebtedness and our duty to comply with covenants under our Credit Agreement

Risks Related to Our Company and Organizational Structure

- the interests of Advent may differ from those of our public stockholders
- our reliance on our operating subsidiaries
- our lack of significant experience managing a public company
- risks associated with our status as an emerging growth company and a Delaware corporation

Risks Related to Ownership of Our Common Stock

- the market price of our common stock could be reduced by future offerings of debt or equity securities
- risks associated with our status as a controlled company with highly concentrated ownership of common stock
- possible significant fluctuations in our quarterly results of operations that could fall below the expectations of securities analysts and investors
- dilutive impact from grants under our equity incentive plans

General Risk Factors

- the loss of our executive officers or other key employees
- lack of access to additional capital to support business growth
- changes in accounting principles or estimates
- inadequate levels of insurance coverage against claims

Risks Related to Our Business and Industry

We are vulnerable to changes in economic conditions and consumer preferences that could have a material adverse effect on our business, financial condition and results of operations.

Food service businesses depend on consumer discretionary spending and are often affected by changes in consumer tastes, national, regional and local economic conditions and demographic trends. For example, due in large part to trends related to increased work-from-home accommodations by employers, we experienced and continue to experience changes in our breakfast and lunch business as it relates to customers who visit us before starting the workday, on their way to work or during corporate lunch breaks. Factors such as traffic patterns, weather, fuel prices, local demographics and the type, number and locations of competing restaurants may adversely affect the performances of individual locations. In addition, economic downturns, geopolitical tensions, inflation or increased food or energy costs have harmed and could continue to harm the restaurant industry in general and our restaurants in particular. Adverse changes in any of these factors could reduce consumer traffic or impose practical limits on pricing that could have a material adverse effect on our business, financial condition and results of operations. It is possible that consumers may no longer regard our menu offerings favorably, that we will no longer be able to develop new menu items that appeal to consumer preferences or that there will be a drop in consumer demands for restaurant dining during breakfast and lunch dayparts. Restaurant traffic and our resulting sales depend in part on our ability to anticipate, identify and respond to changing consumer preferences and economic conditions. The rising popularity of certain weight loss drugs, which suppress a person's appetite, may impact sales or traffic in our restaurants. In addition, the restaurant industry is subject to scrutiny due to the perception that restaurant company practices have contributed to poor nutrition, high caloric intake, obesity or other health concerns of their customers. If we are unable to adapt to changes in consumer preferences and trends, we may lose customers, which could have a material adverse effect on our business, financial condition and results of operations.

Additionally, government regulation may impact our business as a result of changes in attitudes regarding diet and health or new information regarding the adverse health effects of consuming certain menu offerings. These changes have resulted in, and may continue to result in, laws and regulations requiring us to disclose the nutritional content of our food offerings and laws and regulations affecting permissible ingredients and menu items. A number of counties, cities and states have enacted menu labeling laws requiring multi-unit restaurant operators to disclose to consumers certain nutritional information, or have enacted legislation restricting the use of certain types of ingredients in restaurants. An unfavorable report on, or reaction to, our menu ingredients, the size of our portions or the nutritional content of our menu items could adversely influence the demand for our menu offerings.

Compliance with current and future laws and regulations regarding the ingredients and nutritional content of our menu items may be costly and time-consuming. If we fail to comply with existing or future laws and regulations, we may be subject to governmental or judicial fines or sanctions. The risks and costs associated with nutritional disclosures on our menus could also impact our operations, particularly given differences among applicable legal requirements and practices within the restaurant industry with respect to testing and disclosure, ordinary variations in food preparation among our own restaurants and the need to rely on the accuracy and completeness of nutritional information obtained from third-party suppliers. We may not be able to effectively respond to changes in consumer health perceptions, comply with further nutrient content disclosure requirements or adapt our menu offerings to trends in eating habits, which could have a material adverse effect on our business, financial condition and results of operations.

Our financial condition and results of operations are subject to, and may be adversely affected by, a number of other factors, many of which are also largely outside of our control.

Our operating results have been in the past and will continue to be subject to a number of other factors, many of which are largely outside our control. Any one or more of the factors listed below or described elsewhere in this Risk Factors section could have a material adverse impact on our business, financial condition and/or results of operations:

- increases in real estate costs in certain markets;
- inflationary pressures;
- disruptions to our supply chain;
- changes in governmental rules and approaches to taxation;
- adverse outcomes of litigation;
- severe weather or other natural or man-made disasters affecting a large market or several closely located markets that may temporarily but significantly impact our restaurant operations in such markets;
- changes in climate, including changes to the frequency of severe weather events, that impact the cost and availability of goods and services, energy and other materials throughout our supply chain; and
- labor discord or disruption, geopolitical events, war, terrorism, political instability, acts of public violence, boycotts, hostilities and social unrest and health pandemics or other outbreaks of infectious disease that lead to avoidance of public places or restrictions on public gatherings such as in our restaurants.

An important aspect of our growth strategy involves opening new restaurants in existing and new markets. We may be unsuccessful in opening new restaurants or establishing new markets and our new restaurants may not perform as well as anticipated which could have a material adverse effect on our business, financial condition and results of operations.

A key part of our growth strategy includes opening new restaurants in existing and new markets and operating those restaurants on a profitable basis. We must identify target markets where we can enter or expand. We may not be able to open our planned new restaurants within budget or on a timely basis, and our new restaurants may not perform as well as anticipated. Our and our franchisees' ability to successfully open new restaurants is affected by a number of factors, many of which are beyond our control, including our and our franchisees' ability to:

- identify a sufficient number of available and suitable restaurant sites;
- compete for restaurant sites;
- reach acceptable agreements regarding the lease or purchase of restaurant sites;
- obtain or have available the financing required to develop and operate new restaurants, including construction and opening costs, which includes access to leases and equipment leases at favorable interest and capitalization rates;
- respond to unforeseen engineering or environmental problems with our selected restaurant sites;
- mitigate the impact of inclement weather, natural disasters and other calamities on the development of restaurant sites;
- hire, train and retain the skilled management and other employees necessary to meet staffing needs of new restaurants;
- obtain, in a timely manner and for an acceptable cost, required licenses, permits and regulatory approvals and respond effectively to any changes in local, state or federal law and regulations that adversely affect our and our franchisees' costs or ability to open new restaurants; and
- respond to construction and equipment cost increases for new restaurants.

If we are unable to open new restaurants, or if planned restaurant openings are significantly delayed, it could have a material adverse effect on our business, financial condition and results of operations.

Our system-wide restaurants are geographically concentrated in the southeast portion of the United States and we may encounter new challenges as we enter new markets. The challenges of entering new markets include: difficulties in hiring experienced personnel; increased labor costs; unfamiliarity with local real estate markets and demographics; consumer unfamiliarity with our brand; and different competitive and economic conditions, consumer tastes and discretionary spending patterns that are more difficult to predict or satisfy than in our existing markets. Consumer recognition of our brand has been important in the success of company-owned and franchisee-owned restaurants in our existing markets, and we may find that our concept has limited appeal in new markets. Restaurants we open in new markets may take longer to reach expected sales and profit levels on a consistent basis and may have higher construction, occupancy and operating costs than existing restaurants. Any failure on our part to recognize or respond to these challenges may adversely affect the success of any new restaurants and could have a material adverse effect on our business, financial condition and results of operations.

Our failure to manage our growth effectively could harm our business and results of operations.

Our growth plan includes opening new restaurants. Our existing restaurant management systems, financial and management controls and information systems may be inadequate to support our planned expansion. Managing our growth effectively will require us to continue to enhance these systems, procedures and controls and to recruit, hire, train and retain managers and team members. We may not respond quickly enough to the changing demands that our expansion will impose on our management, restaurant teams and existing infrastructure which could have a material adverse effect on our business, financial condition and results of operations.

Opening new restaurants in existing markets may adversely impact sales at our and our franchisees' existing restaurants.

The consumer target area of our and our franchisees' restaurants varies by location, depending on a number of factors, including population density, other local retail and business attractions, area demographics and geography. As a result, if we open new restaurants in or near markets in which we or our franchisees' already have restaurants, it could have a material adverse effect on the results of operations and same-restaurant sales growth for our restaurants in such markets due to the close proximity with our other restaurants and market saturation. Existing restaurants could also make it more difficult to build our and our franchisees' consumer base for a new restaurant in the same market. Sales cannibalization between our restaurants may become significant in the future as we continue to open new restaurants and could affect our sales growth, which could, in turn, have a material adverse effect on our business, financial condition and results of operations.

A decline in visitors to any of the retail centers, lifestyle centers, or entertainment centers where our restaurants are located could adversely affect our restaurant sales.

Our restaurants are primarily located in high-activity trade areas that often contain retail centers, lifestyle centers, and entertainment centers. We depend on high visitor rates in these trade areas to attract customers to our restaurants. Factors that may result in declining visitor rates at these locations include economic or political conditions, anchor tenants closing in retail centers in which we operate, changes in consumer preferences or shopping patterns, changes in discretionary consumer spending, increasing petroleum prices, mobility restrictions and fear of contracting infectious diseases. A decline in traffic at these locations for a sustained period could have a material adverse effect on our business, financial condition and results of operations.

Our same-restaurant sales growth may be lower than we expect in future periods.

Same-restaurant sales growth will continue to be a critical factor affecting our ability to generate profits because the profit margin on same-restaurant sales growth is generally higher than the profit margin on new restaurant sales. Our ability to increase same-restaurant sales growth depends in part on our ability to successfully implement our initiatives to build sales. It is possible such initiatives will not be successful, that we will not achieve our target same-restaurant sales growth or that the change in same-restaurant sales growth could be negative, which may cause a decrease in sales growth and ability to achieve profitability. This could have a material adverse effect on our business, financial condition and results of operations.

Our marketing programs and our limited time new offerings may not be successful and could fail to meet expectations, and our new menu items, advertising campaigns and restaurant designs and remodels may not generate increased sales or profits.

We incur costs and expend other resources in our marketing efforts on new and seasonal menu items, advertising campaigns and restaurant designs and remodels to raise brand awareness and attract and retain customers. In addition, as the number of our restaurants increases, and as we expand into new markets, we expect to increase our investment in advertising and consider additional promotional activities. Accordingly, in the future, we will incur greater marketing expenditures, resulting in greater financial risk. Additionally, our limited time menu offerings, which are a key part of our promotional activities from time to time, may not perform as anticipated, which could have an adverse impact on our results of operations for the related period. If these initiatives are not successful, we could incur expenses without the benefit of higher revenues, which could have a material adverse effect on our business, financial condition and results of operations.

Changes in the cost of food could have a material adverse effect on our business, financial condition and results of operations.

Our profitability depends in part on our ability to anticipate and react to changes in food and beverage costs, including, among other things, our costs for pork, coffee, eggs, avocados, potatoes, bread, cheese, fresh fruit and produce items. We are susceptible to increases in the cost of food due to factors beyond our control, such as freight and delivery charges, general economic conditions, seasonal economic fluctuations, weather conditions, global demand, food safety concerns, infectious diseases, fluctuations in the U.S. dollar, tariffs and import taxes, product recalls and government regulations. In 2022-2023, for example, we experienced significant increases in the cost of eggs, primarily due to an outbreak of avian influenza. Dependence on frequent deliveries of fresh produce and other food products subjects our business to the risk that shortages or interruptions in supply could adversely affect the availability, quality or cost of ingredients or require us to incur additional costs to obtain adequate supplies. Further, increases in fuel prices could result in increased distribution costs. In 2022, for example, we experienced significant increases in distribution costs as a result of material increases in fuel prices.

Changes in the price or availability of certain food products could affect our profitability and reputation. While some commodities we purchase are subject to contract pricing, as our contracts expire, we may not be able to successfully re-negotiate terms that protect us from price inflation in the future. International commodities we purchase are also subject to supply shortages or interruptions.

In the event of cost increases with respect to one or more of our raw ingredients, we may choose to temporarily suspend or permanently discontinue serving menu items rather than pay the increased cost for the ingredients. Any such changes to our available menu could adversely impact our restaurant traffic, business and same-restaurant sales growth. While future cost increases can be partially offset by increasing menu prices, such price increases may adversely affect our customers' visit frequencies and purchasing patterns. Competitive conditions may limit our menu pricing flexibility and if we or our franchisees implement menu price increases to protect our margins, restaurant traffic could be materially adversely affected, at both company-owned and franchisee-owned restaurants.

New restaurants may not be profitable or may close, and the performance of our restaurants that we have experienced in the past may not be indicative of future results.

Some of our restaurants open with an initial start-up period of higher or lower than normal sales volumes. Our restaurant level operating profit margins are generally lower through the first 12 months of operation. In new markets, the length of time before average sales for new restaurants stabilize is less predictable as a result of our limited knowledge of these markets and consumers' limited awareness of our brand. In addition, our average unit volume and same-restaurant sales growth may not increase at the rates our existing restaurants have achieved over the past several years. Our ability to operate new restaurants profitably and increase our average unit volume and same-restaurant sales growth will depend on many factors, some of which are beyond our control, including:

- consumer awareness and understanding of our brand;
- general economic conditions, which can affect restaurant traffic, local labor costs and prices we pay for the food products and other supplies we use;
- consumption patterns and food preferences that may differ from region to region;
- changes in consumer preferences and discretionary spending;

- difficulties obtaining or maintaining adequate relationships with distributors or suppliers in new markets;
- increases in prices for commodities;
- inefficiency in our labor costs as the staff gains experience;
- competition, either from our competitors in the restaurant industry or our own restaurants;
- temporary and permanent site characteristics of new restaurants;
- changes in government regulation; and
- other unanticipated increases in costs, any of which could give rise to delays or cost overruns.

Although we target specified operating and financial metrics, new restaurants may not meet these targets or may take longer than anticipated to do so. If our new restaurants do not perform as planned or close, or if we are unable to achieve our expected restaurant sales, it could have a material adverse effect on our business, financial condition and results of operations.

We face significant competition for customers, and our inability to compete effectively may affect our traffic, our sales and our operating profit margins, which could have a material adverse effect on our business, financial condition and results of operations.

The restaurant industry is intensely competitive with many companies that compete directly and indirectly with us with respect to food quality, brand recognition, service, price and value, convenience, design and location. We compete in the restaurant industry with national, regional and locally-owned and/or operated limited-service restaurants and full-service restaurants. We compete with fast casual restaurants, quick service restaurants and casual dining restaurants. Some of our competitors have significantly greater financial, marketing, personnel and other resources than we do, and many of our competitors are well-established in markets in which we have existing restaurants or intend to locate new restaurants. In addition, many of our competitors have greater name recognition nationally or in some of the local markets in which we have or plan to have restaurants. We also compete with a number of non-traditional market participants, such as convenience stores, grocery stores, coffee shops, meal kit delivery services, and “ghost” or dark kitchens, where meals are prepared at separate takeaway premises rather than a restaurant. Competition from food delivery services companies has also increased in recent years. Any inability to successfully compete with the restaurants in our existing or new markets will place downward pressure on our customer traffic and could have a material adverse effect on our business, financial condition and results of operations.

Our continued success also depends in part on the continued popularity of our menu and the experience we offer customers at our restaurants. Consumer tastes, nutritional and dietary trends, traffic patterns and the type, number, and location of competing restaurants often affect the restaurant business, and our competitors may react more efficiently and effectively to changes in those conditions. In addition, some of our competitors in the past have implemented promotional programs that provide price discounts on certain menu offerings, and they may continue to do so in the future. If we are unable to continue to compete effectively, our traffic, restaurant sales and restaurant operating profit margins could decline, which could have a material adverse effect on our business, financial condition and results of operations.

Food safety and food-borne illness concerns may have an adverse effect on our business by decreasing sales and increasing costs.

Food safety and quality concerns may adversely impact our business and profitability, our internal operational controls and standards may not always be met and our employees may not always act professionally, responsibly and in our and our customers’ best interests. Any possible instances of food-borne illness could reduce our restaurant sales.

Food safety is a top priority, and we dedicate substantial resources to help ensure that our customers enjoy safe, quality food products. However, food-borne illnesses and other food safety issues have occurred in the food industry in the past, and could occur in the future. Incidents or reports of food-borne or water-borne illness or other food safety issues, food contamination or tampering, employee hygiene and cleanliness failures or improper employee conduct, customers entering our restaurants while ill and contaminating food ingredients or surfaces at our restaurants could lead to product liability or other claims. Such incidents or reports could adversely affect our brand and reputation and could have a material adverse effect on our business, financial condition and results of operations. Similar incidents or reports occurring at competitors in our industry unrelated to us could likewise create negative publicity, which could adversely impact consumer behavior towards us.

Our food safety controls, procedures and training may not be fully effective in preventing all food safety and public health issues at our restaurants, including any occurrences of pathogens, bacteria, parasites or other toxins infecting our food

supply. These potential public health issues, in addition to food tampering, could adversely affect food prices and availability of certain food products, generate negative publicity, and lead to closure of restaurants resulting in a decline in our sales or profitability. In addition, there is no guarantee that our restaurant locations will maintain the high levels of internal controls and training we require at our restaurants. Furthermore, our reliance on third-party food processors makes it difficult to monitor food safety compliance and may increase the risk that food-borne illness would affect multiple locations rather than single restaurants. Some food-borne illness incidents could be caused by third-party food suppliers and transporters outside of our control, and may affect multiple restaurant locations as a result. We cannot assure that all food items will be properly maintained during transport throughout the supply chain or that our employees will identify all products that may be spoiled and should not be used in our restaurants. The risk of food-borne illness may also increase whenever our menu items are served outside of our control, such as by third-party food delivery services companies, customer take out or at catered events. We do not have direct control over our third-party suppliers, transporters or delivery services, and may not have visibility into their practices. New illnesses resistant to our current precautions may develop in the future, or diseases with long incubation periods could arise, that could give rise to claims or allegations on a retroactive basis. One or more instances of food-borne illness in one of our company-owned or franchised restaurants could adversely affect sales at all our restaurants if highly publicized, such as on national media outlets or through social media, especially due to the geographic concentration of many of our restaurants. This risk exists even if it were later determined that the illness was wrongly attributed to one of our restaurants. Potential food safety incidents, whether at our restaurants or involving our business partners, could lead to wide public exposure and negative publicity, which could materially harm our business. A number of other restaurant chains have experienced incidents related to food-borne illnesses that have had material adverse impacts on their operations, and we could experience a similar impact upon the occurrence of a similar incident at one of our restaurants. Additionally, even if food-borne illnesses were not identified at our restaurants, our restaurant sales could be adversely affected if instances of food-borne illnesses at other restaurant chains were highly publicized.

Finally, although we have followed industry standard food safety protocols in the past and have endeavored to continually enhance our food safety procedures to ensure that our food is as safe as it can possibly be, we may still be at a higher risk for food-borne illness occurrences than some competitors due to our greater use of fresh, unprocessed produce and meats, our reliance on employees cooking with traditional methods rather than automation, and our avoidance of frozen ingredients.

The financial performance of our franchisees can have a material adverse effect on our business, financial condition and results of operations.

As 19% and 23% of our system-wide restaurants were franchised as of December 31, 2023 and December 25, 2022, respectively, our results of operations are dependent in part upon the operational and financial success of our franchisees. While we are responsible for ensuring the success of our system-wide restaurants and for taking a long-term view with respect to system-wide improvements, our franchisees have individual business strategies and objectives, which may conflict with our interests. Our franchisees may not be able to secure adequate financing to open or continue operating their restaurants. If they incur too much debt or if economic or sales trends deteriorate such that they are unable to repay existing debt, our franchisees could experience financial distress or even bankruptcy. If a significant number of franchisees become financially distressed or close their restaurants, it could result in reduced franchise revenues, which could have a material adverse effect on our business, financial condition and results of operations.

We have limited control with respect to the operations of our franchisees, which could have a material adverse effect on our business, financial condition and results of operations.

Franchisees are independent business operators and are not our employees, and we do not exercise control over the day-to-day operations of the franchised restaurants. We provide training and support to franchisees, and set and monitor operational standards and guidelines, however, because we do not have day-to-day control over the franchisees, our franchisees may operate restaurants in a manner that is not consistent with our standards, guidelines and requirements, or hire and train qualified managers and other restaurant personnel. If franchisees do not operate to our expectations, our image and reputation, and the image and reputation of other franchisees, may suffer, which could have a material adverse effect on our business, financial condition and results of operations.

If we are unable to maintain good relationships with our franchisees due to conflicts of interest or otherwise, revenues could decrease and we may be unable to expand our presence in certain markets.

Our franchisees pay us fees pursuant to our franchise agreements. The viability of our franchise business depends on our ability to maintain good relationships with our franchisees. If we are unable to maintain good relationships with our franchisees, we may be unable to renew franchise agreements, which would result in a decrease in our franchise revenues and our presence in certain markets, which could have a material adverse effect on our business, financial condition and results of operations.

Franchisees, as independent business operators, may from time to time disagree with us on our strategies regarding the business or our interpretation of our respective rights and obligations under the franchise agreement and the terms and conditions of the franchisee/franchisor relationship. In addition, franchise agreements require us and our franchisees to comply with operational and performance conditions that are subject to interpretation and could result in disagreements. As a result, at any given time, we may be in disputes with one or more of our franchisees. Such disputes may result in legal action against us. To the extent we have such disputes, the attention, time and financial resources of our management and our franchisees will be diverted from our restaurants, which could, even if we prevail, have a material adverse effect on our business, financial condition and results of operations.

We have a limited number of suppliers and distributors for several of our frequently used ingredients. If our suppliers or distributors are unable to fulfill their obligations under our arrangements with them, we could encounter supply shortages and incur higher costs.

We contract with one distributor, which we refer to as our “broad line” distributor, to provide virtually all of our food distribution services in the United States. If our broad-line distributor does not adequately perform its obligations or is unable to scale with our business, or our distribution is disrupted for any reason, there could be an adverse effect on our business, financial condition and results of operations.

As of December 31, 2023, we purchased substantially all of our pork from two suppliers, substantially all of our eggs from one supplier and all of our coffee from one supplier. We purchase these ingredients pursuant to purchase orders at prevailing market or negotiated contract prices and are not limited by minimum purchase requirements. The cancellation of our supply arrangements with any one of these suppliers or the disruption, delay or inability of these suppliers to deliver these major products to our restaurants or distribution centers due to problems in production or distribution, inclement weather, unanticipated demand or other conditions may materially and adversely affect our results of operations while we establish alternative supplier and distribution channels. Accordingly, although we believe that alternative supply and distribution sources are available, we may not be able to identify or negotiate with such sources on terms that are commercially reasonable to us. If our existing suppliers or distributors are unable to fulfill their obligations under their contracts or we are unable to identify alternative sources, we could encounter supply shortages and incur higher costs, each of which could have a material adverse effect on our business, financial condition and results of operations.

In addition, if our suppliers or distributors fail to comply with food safety or other laws and regulations, or face allegations of non-compliance, their operations may be disrupted. We also could experience shortages of key ingredients if our suppliers need to close or restrict operations due to the impact of a pandemic or other infectious diseases. If our suppliers’ employees are unable to work or our suppliers’ operations are disrupted due to a pandemic or other infectious diseases, we and our franchisees could face shortages of food items or other supplies, and our and our franchisees’ operations and sales could be materially adversely impacted by such supply interruptions. If that were to occur, we may not be able to find replacement suppliers on commercially reasonable terms or a timely basis, if at all.

More generally, we are subject to additional risks related to the increases to energy or transportation costs. Energy prices are in turn subject to significant volatility caused by, among other things, market fluctuations, supply and demand, currency fluctuations, production and transportation disruptions, geopolitical developments, and other world events, as well as climate change related conditions discussed above. For instance, the Russia-Ukraine war and the Israel-Hamas war could adversely impact, among other things, our raw material, energy and transportation costs, as well as certain of our suppliers, global and local macroeconomic conditions, and cause further supply chain disruptions.

Our system-wide restaurant base is geographically concentrated in the southeast portion of the United States, and we could be adversely affected by conditions specific to that region.

Our restaurants in the southeast portion of the United States represented approximately 42% of our system-wide restaurants as of December 31, 2023. Our restaurants in Florida represented approximately 23% of our system-wide restaurants as of

December 31, 2023. Adverse changes in demographic, unemployment, economic, regulatory or weather conditions in the southeast portion of the United States have had, and may continue to have, material adverse effects on our business, financial condition and results of operations. As a result of our concentration in this market, we have been, and in the future may be, disproportionately affected by conditions in this geographic area compared to other chain restaurants with a national footprint.

Damage to our reputation and negative publicity could have a material adverse effect on our business, financial condition and results of operations.

Our reputation and the quality of our brand are critical to our business and success in existing markets, and will be critical to our success as we enter into new markets. Any incident that erodes consumer loyalty to our brand could significantly reduce its value and damage our business. We may be adversely affected by negative publicity relating to food quality, the safety, sanitation and welfare of our restaurant facilities, customer complaints or litigation alleging illness or injury, health inspection scores, integrity of our or our suppliers' food processing and other policies, practices and procedures, employee relationships and welfare or other matters at one or more of our restaurants. Any publicity relating to health concerns, perceived or specific outbreaks of infectious diseases attributed to one or more of our restaurants, or non-compliance with government restrictions imposed by federal, state and local governments could result in a significant decrease in customer traffic in all of our restaurants and could have a material adverse effect on our business, financial condition and results of operations. Furthermore, similar negative publicity or occurrences with respect to other restaurants or other restaurant chains could also decrease our customer traffic and have a similar material adverse effect on our business. In addition, incidents of restaurant commentary have increased dramatically with the proliferation of social media platforms. Negative publicity may adversely affect us, regardless of whether the allegations are valid or whether we are held responsible. In addition, the negative impact of adverse publicity may extend far beyond the restaurant involved, especially due to the high geographic concentration of many of our restaurants, and affect some or all our other restaurants, including our franchise-owned restaurants. The risk of negative publicity is particularly great with respect to our franchise-owned restaurants because we are limited in the manner in which we can regulate them, especially on a real-time basis and negative publicity from our franchised restaurants may also significantly impact company-owned restaurants. A similar risk exists with respect to food service businesses unrelated to us, if customers mistakenly associate such unrelated businesses with our operations. Employee claims against us based on, among other things, wage and hour violations, discrimination, harassment or wrongful termination may also create not only legal and financial liability but negative publicity that could adversely affect us and divert our financial and management resources that would otherwise be used to benefit the future performance of our operations. These types of employee claims could also be asserted against us, on a co-employer theory, by employees of our franchisees. A significant increase in the number of these claims or an increase in the number of successful claims could have a material adverse effect on our business, financial condition and results of operations.

Our inability or failure to recognize, respond to and effectively manage the accelerated impact of social media or artificial intelligence could have a material adverse effect on our business, financial condition and results of operations.

Our marketing efforts rely heavily on the use of social media. In recent years, there has been a marked increase in the use of social media platforms, including weblogs (blogs), mini-blogs, chat platforms, social media websites, and other forms of internet-based communications, which allow individuals access to a broad audience of consumers and other interested persons. Many of our competitors are expanding their use of social media, and new social media platforms are rapidly being developed, potentially making more traditional social media platforms obsolete. As a result, we need to continuously innovate and develop our marketing strategies in order to maintain broad appeal with customers and brand relevance, particularly given the rise in digital orders by customers at home due to the increased work-from-home customer base. We also continue to invest in other digital marketing initiatives that allow us to reach our customers across multiple digital channels and build their awareness of, engagement with, and loyalty to our brand. These initiatives may not be successful, resulting in expenses incurred without the benefit of higher sales or increased brand recognition. Additionally, negative commentary regarding our restaurants, our food or our service may be posted on our social media platforms and may be adverse to our reputation or business. This harm may be immediate, without affording us an opportunity for redress or correction. In addition, the rapid evolution and increased adoption of artificial intelligence technologies may affect our customers' expectations, requirements or tastes in ways we cannot adequately anticipate or adapt to, and adversely affect our business financial condition and results of operations.

Risks Related to Information Technology and Intellectual Property

Information technology system failures or breaches of our network security could interrupt our operations and have a material adverse effect on our business, financial condition and results of operations.

We and our franchisees rely heavily on our computer systems and network infrastructure across our operations, including point-of-sale processing at our restaurants, for management of our supply chain, accounting, payment of obligations, collection of cash, credit and debit card transactions and other processes and procedures. Our ability to efficiently and effectively manage our business depends significantly on the reliability and capacity of these systems. Our and our franchisees' operations depend upon our and our franchisees' ability to protect our computer equipment and systems against damage from physical theft, fire, power loss, telecommunications failure or other catastrophic events, as well as from internal and external security breaches, viruses and other disruptive problems. Any actual or perceived breach in the security of our information technology systems or those of our franchisees and third-party service providers could lead to damage or failure of our computer systems or network infrastructure that causes an interruption in our operations could have a material adverse effect on our business and a significant theft, loss, disclosure, modification or misappropriation of, or access to, guests', employees', third parties' or other proprietary data or other breach of our information technology systems could subject us or our franchisees to litigation or to actions by regulatory authorities. Furthermore, at various times we have allowed certain of our team members in our corporate headquarters to work from home. Remote working, particularly for an extended period of time, could increase certain risks to our business, including an increased risk of cybersecurity events, vulnerability of our systems and improper dissemination of confidential or personal information, if our physical and cybersecurity measures or our corporate policies are not effective. The costs to us to protect against any of the foregoing cybersecurity vulnerabilities or to address a cyber-incident could be significant and have a material adverse impact on our business, financial condition and results of operations.

Security incidents or breaches have from time to time occurred and may in the future occur involving our systems, the systems of the parties with whom we communicate or collaborate (including franchisees) or the systems of third-party providers. Certain of these technology systems contain personal, financial and other information of our customers, employees, franchisees and their employees, suppliers and other third parties, as well as financial, proprietary and other confidential information related to our business. The techniques and sophistication used to conduct cyber-attacks and breaches of information technology systems, as well as the sources and targets of these attacks, may take many forms (including phishing, social engineering, denial or degradation of service attacks, malware or ransomware), change frequently and are often not recognized until such attacks are launched or have been in place for a period of time. In addition, our employees, franchisees, contractors, or third parties with whom we do business or to whom we outsource business operations may attempt to circumvent our security measures in order to misappropriate regulated, protected, or personally identifiable information, and may purposefully or inadvertently cause a breach involving or compromising such information. Third parties may have the technology or know-how to breach the security of the information collected, stored, or transmitted by us or our franchisees, and our respective security measures, as well as those of our technology vendors, may not effectively prohibit others from obtaining improper access to this information. Advances in computer and software capabilities and encryption technology, new tools, and other developments may increase the risk of such a breach or compromise. The rapid evolution and increased adoption of artificial intelligence technologies may intensify our cybersecurity risks. Despite response procedures and measures in place in the event of an incident, a security breach could result in disruptions, shutdowns, or the theft or unauthorized disclosure of such information. The actual or alleged occurrence of any of these incidents could result in mitigation costs, reputational damage, adverse publicity, loss of consumer confidence, reduced sales and profits, complications in executing our growth initiatives and regulatory and legal risk, including criminal penalties or civil liabilities.

As data security-related threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities. We could be forced to expend significant financial and operational resources in responding to a security breach, including investigating and remediating any information security vulnerabilities, defending against and resolving legal and regulatory claims and complying with notification obligations, all of which could divert resources and the attention of our management and key personnel away from our business operations and adversely affect our business, financial condition and results of operations. In addition, our remediation efforts may not be successful and we could be unable to implement, maintain and upgrade adequate safeguards.

We are continuing to expand, upgrade and develop our information technology capabilities. If we are unable to successfully upgrade or expand our technological capabilities, we may not be able to take advantage of market opportunities, manage our costs and transactional data effectively, satisfy customer requirements, execute our business plan or respond to competitive pressures.

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, could have a material adverse effect on our business, financial condition and results of operations.

Our business requires the collection, transmission and retention of large volumes of customer and employee data, including credit and debit card numbers and other personally identifiable information, in various information technology systems that we and our franchisees maintain, and in those maintained by our third parties with whom we contract to provide services. The integrity and protection of that customer and employee data is critical to us. Further, our customers and employees have a high expectation that we and our service providers will adequately protect their personal information.

Further, the standards for systems currently used for transmission and approval of electronic payment transactions, and the technology utilized in electronic payment themselves, all of which can put electronic payment data at risk, are determined and controlled by the payment card industry, not by us. For example, we are subject to industry requirements such as the Payment Card Industry Data Security Standard, or PCI-DSS, as well as certain other industry standards. Any failure to comply with these rules and/or requirements could significantly harm our brand, reputation, business and results of operations, and in the case of PCI-DSS, could result in monetary penalties and/or the exclusion from applicable card brands. We also rely on independent service providers for payment processing, including payments made using credit and debit cards. If these independent service providers become unwilling or unable to provide these services to us or if the cost of using these providers increases, our business could be harmed.

We rely on a variety of marketing and advertising techniques, including email communications, affiliate partnerships, social media interactions, digital marketing, direct mailers, public relations initiatives and local community sponsorships, promotions and partnerships, and we are subject to various laws and regulations that govern such marketing and advertising practices. A variety of federal and state laws and regulations govern the collection, use, retention, sharing and security of consumer data, particularly in the context of digital marketing, which we rely upon to attract new customers. We are, and may increasingly become, subject to other various laws, directives, industry standards and regulations, as well as contractual obligations, relating to data privacy and security in the jurisdictions in which we operate. The information, security and privacy requirements imposed by governmental regulation are increasingly demanding and are subject to potentially differing interpretations. Laws and expectations relating to privacy continue to evolve, and we continue to adapt to changing needs. For example, the definition of “personal information” or “personal data” under newer privacy laws is much broader than the definition of “personally identifiable information” that appears in older privacy laws, and many jurisdictions have or will soon enact new privacy laws. Specifically, certain states in which we operate or may operate in the future have enacted or may soon enact comprehensive privacy laws that may be more stringent or broader in scope, or offer greater individual rights, with respect to personal information than current federal, international or other state laws, and such laws may differ from each other, all of which may complicate compliance efforts. The California Consumer Privacy Act (“CCPA”), for example, requires, among other things, covered companies to provide new disclosures to California consumers and allows such consumers new abilities to opt-out of certain sales of personal data. The CCPA also provides for civil penalties for violations as well as a private right of action for data breaches that may increase data breach litigation. Further, the California Privacy Rights Act, which became fully effective in January 2023, significantly modifies the CCPA. These modifications will require us to incur additional costs and expenses in our effort to comply. Virginia, Connecticut, Colorado and Utah have enacted similar data privacy legislation that took effect in 2023, and Delaware, Indiana, Iowa, Montana, Oregon, Tennessee and Texas have enacted similar data privacy legislation that will take effect at various points in 2024 and beyond. Several other states and countries are considering expanding or passing privacy laws in the near term. Our failure to adhere to or successfully implement appropriate processes to adhere to the requirements of evolving laws and regulations in this area could expose us and our franchisees to financial penalties and legal liability. Our and our franchisees’ systems may not be able to satisfy these changing requirements and customer and employee expectations, or may require significant additional investments or time in order to do so.

Any failure, or perceived failure, by us to comply with our posted privacy policies or with any federal or state privacy or consumer protection-related laws, regulations, industry self-regulatory principles, industry standards or codes of conduct, regulatory guidance, orders to which we may be subject or other legal obligations relating to privacy or consumer protection could adversely affect our reputation, brand and business, and may result in claims, proceedings or actions against us by governmental entities, customers, suppliers or others or other liabilities or may require us to change our operations and/or cease using certain data sets. We may also be contractually required to indemnify and hold harmless third parties from the costs or consequences of non-compliance with any laws, regulations or other legal obligations relating to privacy or consumer protection or any inadvertent or unauthorized use or disclosure of data that we store or handle as part of operating our business.

Federal and state governmental authorities continue to evaluate the privacy implications inherent in the use of third-party “cookies” and other methods of online tracking for behavioral advertising and other purposes. The U.S. government has enacted, has considered or is considering legislation or regulations that could significantly restrict the ability of companies and individuals to engage in these activities, such as by regulating the level of consumer notice and consent required before a company can employ cookies or other electronic tracking tools or the use of data gathered with such tools. Additionally, some providers of consumer devices and web browsers have implemented, or announced plans to implement, means to make it easier for Internet users to prevent the placement of cookies or to block other tracking technologies, which could, if widely adopted, result in the use of third-party cookies and other methods of online tracking becoming significantly less effective. Many applications and other devices allow consumers to avoid receiving advertisements by paying for subscriptions or other downloads. The regulation of the use of these cookies and other current online tracking and advertising practices or a loss in our ability to make effective use of services that employ such technologies could increase our costs of operations and limit our ability to acquire new customers on cost-effective terms and, consequently, have a material adverse effect on our business, financial condition and results of operations.

We face potential liability with our gift cards under the property laws of some states.

Our gift cards, which may be used to purchase food and beverages in our restaurants, may be considered stored value cards by certain states in accordance with their abandoned and unclaimed property laws. These laws could require a company to remit to the state cash in an amount equal to all or a designated portion of the unredeemed balance on the gift cards based on certain card attributes and the length of time that the cards are inactive.

We received a letter, dated February 21, 2022, from the Delaware Secretary of State inviting us 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. We intend to continue to work in good faith to complete a review of our books and records related to unclaimed or abandoned property during the periods required under the program. In the fourth quarter of 2023, the Company recorded a charge of \$0.8 million for estimated probable losses that might arise from this matter. Amounts incurred and paid to resolve past due unclaimed property obligations in Delaware could have a material adverse effect on our financial condition and results of operations.

We believe we are not currently required to remit any amounts relating to future unredeemed gift cards to states as our subsidiary that is the issuer of our gift cards was re-domiciled in Florida on December 9, 2022, a jurisdiction which exempts gift cards from the abandoned and unclaimed property laws. If this exemption was no longer available to us, our financial condition and results of operations could be adversely affected. We recognize income from unredeemed cards when we determine that the likelihood of the cards being redeemed is remote and that recognition is appropriate based on governing state statutes.

The analysis of the potential application of the abandoned and unclaimed property laws to our gift cards is complex, involving an analysis of constitutional, statutory provisions and factual issues. In the event that one or more states change their existing abandoned and unclaimed property laws or successfully challenge our position on the application of its abandoned and unclaimed property laws to our gift cards, or if the estimates that we use in projecting the likelihood of the cards being redeemed prove to be inaccurate, our liabilities with respect to unredeemed gift cards may be materially higher than the amounts shown in our consolidated financial statements. If we are required to materially increase the estimated liability recorded in our consolidated financial statements with respect to unredeemed gift cards, our financial condition and results of operations could be adversely affected.

The failure to enforce and maintain our trademarks and protect our other intellectual property could have a material adverse effect on our business, including our ability to establish and maintain brand awareness.

We have registered First Watch® and certain other names, logos and slogans used by our restaurants as trademarks or service marks with the USPTO. The First Watch® trademark is also registered in Canada. In addition, the First Watch logo, website domain name and Facebook and Instagram accounts are our intellectual property. The success of our business strategy depends on our continued ability to use our existing trademarks and service marks in order to increase brand awareness and develop our branded products. If our efforts to protect our intellectual property are not adequate, or if any third-party misappropriates or infringes on our intellectual property, whether in print, on the Internet or through other media, the value of our brands may be adversely affected, which could have a material adverse effect on our business, including the failure of our brands and branded products to achieve and maintain market acceptance.

We or our suppliers maintain the seasonings and additives for our menu items, as well as certain standards, specifications and operating procedures, as trade secrets or confidential information. We may not be able to prevent the unauthorized disclosure or use of our trade secrets or confidential information, despite the existence of confidentiality agreements and other measures. If any of our trade secrets or information were to be disclosed to or independently developed by a competitor, it could have a material adverse effect on our business, financial condition and results of operations.

Litigation with respect to intellectual property assets, if decided against us, may result in competing uses or require adoption of new, non-infringing intellectual property, which may in turn adversely affect sales and revenues.

Third parties may, from time to time, assert infringement or misappropriation claims against us, or assert claims that our rights in our trademarks, service marks, trade names and other intellectual property assets are invalid or unenforceable. Any such claims could have a material adverse effect on us or our franchisees if such claims were to be decided against us. If our rights in our intellectual property were invalidated or deemed unenforceable, we may not be able to prevent third parties from using such intellectual property or similar intellectual property to compete with us, which, in turn, could lead to a decline in our brand and the goodwill associated therewith and the results of operations. If our intellectual property became subject to third-party infringement, misappropriation or other claims, and such claims were decided against us, we may be forced to pay damages, be required to develop or adopt non-infringing intellectual property or be obligated to acquire a license to the intellectual property that is the subject of the asserted claim. There could be significant expenses associated with the defense of any infringement, misappropriation, or other third-party claims. We may also from time to time be required to institute litigation to enforce our trademarks, service marks and other intellectual property. Any such litigation could result in substantial costs and diversion of resources and could have a material adverse effect on our business, financial condition and results of operations regardless of whether we are able to successfully enforce our rights.

Risks Related to Employees and the Workforce

Our inability to identify qualified individuals for our workforce could slow our growth and adversely impact our ability to operate our restaurants.

Our success depends in part upon our ability to attract, motivate and retain a sufficient number of qualified managers and employees to meet the needs of our existing restaurants and to staff new restaurants. A sufficient number of qualified individuals to fill these positions may be in short supply in some communities. Competition in these communities for qualified staff could require us to pay higher wages and provide greater benefits. We place a heavy emphasis on the qualification and training of our personnel and spend a significant amount of time and money on training our employees. Any inability to recruit and retain qualified individuals may result in higher turnover and increased labor costs, and could compromise the quality of our service, could have a material adverse effect on our business, financial condition and results of operations. Any such inability could also delay the planned openings of new restaurants and could adversely impact our existing restaurants. The inability to retain or recruit qualified employees, increased costs of attracting qualified employees or delays in restaurant openings could have a material adverse effect on our business, financial condition and results of operations.

Since the start of the COVID-19 pandemic, the restaurant industry has experienced aggressive competition for talent, wage inflation and pressure to improve benefits and workplace conditions to remain competitive. In addition, our existing wages and benefits programs, combined with the highly competitive wage pressure resulting from the labor shortage, may be insufficient to attract and retain the best talent. Our failure to recruit and retain new restaurant employees in a timely manner or higher employee turnover levels all could affect our ability to open new restaurants and grow sales at existing restaurants, and we may experience higher than projected labor costs.

Failure to maintain our corporate culture as we grow could have a material adverse effect on our business, financial condition and results of operations.

We believe that a critical component to our success has been our corporate culture. We have invested substantial time and resources in building our team. As we continue to grow, we may find it difficult to maintain the innovation, teamwork, passion and focus on execution that we believe are important aspects of our corporate culture. Any failure to preserve our culture could adversely impact our operations, including our ability to retain and recruit personnel and to effectively focus on and pursue our corporate objectives. If we cannot maintain our corporate culture as we grow, it could have a material adverse effect on our business, financial condition and results of operations.

Unionization activities may disrupt our operations and increase our costs.

Although none of our employees are currently covered under collective bargaining agreements, our employees may elect to be represented by labor unions in the future. If a significant number of our employees were to become unionized and collective bargaining agreement terms were significantly different from our current compensation arrangements, it could have a material adverse effect on our business, financial condition and results of operations. In addition, a labor dispute involving some or all our employees may harm our reputation, disrupt our operations and reduce our revenues, and resolution of disputes could increase our costs. Further, if we enter into a new market with unionized construction companies, or the construction companies in our current markets become unionized, construction and build-out costs for new restaurants in such markets could materially increase.

Our sustainability activities, including environmental, social and governance matters, could result in reputational risks, increased costs and other risks.

Certain customers, investors, lenders, regulators and other industry stakeholders have placed increasing importance on corporate ESG practices, which could cause us to incur additional costs and changes to our operations. If our ESG practices or disclosures do not meet stakeholders' evolving expectations and standards, our customer and employee retention, our access to certain types of capital, and our brand and reputation may be adversely impacted, which could affect our business operations and financial condition. We could also incur additional costs and require additional resources to monitor, report and comply with various ESG practices, laws and regulations, which could increase our operating costs and affect our results of operations and financial condition. In addition, from time to time, we may communicate certain initiatives regarding climate change and other ESG matters. We could fail or be perceived to fail to achieve such initiatives, which may adversely affect our reputation. The future adoption of new technology or processes to achieve such initiatives could also result in the impairment of existing assets.

Legal and Regulatory Risks

Matters relating to employment and labor law could have a material adverse effect on our business, financial condition and results of operations and restaurant companies have been the target of class action lawsuits and other proceedings alleging violations of workplace and employment laws. Proceedings of this nature are costly, divert management attention and, if successful could result in our payment of substantial damages or settlement costs.

Various federal and state labor laws govern our relationships with our employees. Our operations are subject to the U.S. Occupational Safety and Health Act, which governs worker health and safety, the U.S. Fair Labor Standards Act, which governs such matters as minimum wages and overtime, and a variety of similar federal, state and local laws that govern these and other employment law matters. These laws include employee classifications as exempt or non-exempt, minimum wage requirements, employment eligibility verification requirements, workers' compensation rates, overtime, family leave, working conditions, safety standards, immigration status, unemployment tax rates, state and local payroll taxes, federal and state laws which prohibit discrimination, citizenship requirements and other wage and benefit requirements for employees classified as non-exempt. Significant additional government regulations and new laws, including mandated increases in minimum wages, changes in exempt and non-exempt status, or mandated benefits such as health insurance could have a material adverse effect on our business, financial condition and results of operations.

Our business is subject to the risk of litigation by employees or others through private actions, class actions, administrative proceedings, regulatory actions or other litigation. Moreover, employment and labor claims asserted against franchisees may at times be made against us as a franchisor. The outcome of litigation, particularly class action and regulatory actions, is difficult to assess or quantify. In recent years, restaurant companies, including us, have been subject to lawsuits, including class action lawsuits, alleging violations of federal and state laws regarding workplace and employment conditions, discrimination and similar matters. Similar lawsuits have been instituted from time to time alleging violations of various federal and state wage and hour laws regarding, among other things, employee meal deductions, overtime eligibility of managers and failure to pay for all hours worked. Regardless of whether any claims against us are valid or whether we are liable, claims may be expensive to defend and may divert time and money away from our operations and result in increases in our insurance premiums. In addition, they may generate negative publicity, which could reduce customer traffic and sales. Although we maintain what we believe to be adequate levels of insurance, insurance may not be available at all or in sufficient amounts to cover any liabilities with respect to these or other matters. A judgment or other liability in excess of our insurance coverage for any claims or any adverse publicity resulting from claims could have a material adverse effect on our business, financial condition and results of operations. Additionally, if we or our franchisees are unable to properly identify unauthorized workers, such workers will be subject to deportation and may subject us to fines or penalties. If any of our workers are found to be unauthorized, we could experience adverse publicity that may

adversely impact our brand, disrupt our operations, make it more difficult to hire and keep qualified employees, cause temporary increases in our labor costs as we train new employees and result in adverse publicity.

We could be party to litigation that could distract management, increase our expenses or subject us to material monetary damages or other remedies.

Our customers occasionally file complaints or lawsuits against us alleging we caused an illness or injury they suffered at or after a visit to our restaurants, or that we have problems with food quality or operations. We may also be subject to a variety of other claims arising in the ordinary course of our business, including personal injury claims, contract claims and claims alleging violations of federal and state law regarding workplace and employment matters, equal opportunity, harassment, discrimination and similar matters, and we could become subject to class action or other lawsuits related to these or different matters in the future. In recent years, a number of restaurant companies have been subject to such claims, and some of these lawsuits have resulted in the payment of substantial damages by the defendants. Regardless of whether any claims against us are valid, or whether we are ultimately held liable, claims may be expensive to defend and may divert time and money away from our operations and hurt our performance. A judgment in excess of our insurance coverage for any claims could have a material adverse effect on our business, financial condition and results of operations. In addition, such allegations could result in adverse publicity and adversely impact our reputation, which could have a material adverse effect on our business, financial condition and results of operations.

If we and our franchisees face labor shortages or increased labor costs or health care costs, it could have a material adverse effect on our business, financial condition and results of operations.

Labor is a primary component in the cost of operating our restaurants. If we or our franchisees face labor shortages or increased labor costs because of increased competition for employees, higher employee-turnover rates, unionization of restaurant workers, or increases in the federally-mandated or state-mandated minimum wage, change in exempt and non-exempt status, unemployment tax rates, workers' compensation rates, overtime, family leave, safety standards, payroll taxes, citizenship requirements or other employee benefits costs (including costs associated with health insurance coverage or workers' compensation insurance), our operating expenses could increase and our growth could be adversely affected.

We have a substantial number of hourly employees who are paid wage rates at or based on the applicable federal or state minimum wage and increases in the minimum wage will increase our labor costs and the labor costs of our franchisees. Additionally, we operate in states and localities where the minimum wage is significantly higher than the federal minimum wage and in such areas our staff members receive minimum compensation equal to the state's or locality's minimum wage. In other geographic areas, some of our staff members may be paid a tip credit wage that is supplemented by gratuities received from our customers. We rely on our employees to accurately disclose the full amount of their tip income, and we base our Federal Insurance Contributions Act tax reporting on the disclosures provided to us by such employees. Increases in the tip credit minimum wage in these states or localities, or under federal law, may have a material adverse effect on our labor costs, and our financial performance. Increases in federal or state minimum wage may also result in increases in the wage rates paid for non-minimum wage positions. We may be unable to increase our menu prices in order to pass future increased labor costs on to our customers, in which case our operating margins would be adversely affected. If menu prices are increased by us or our franchisees to cover increased labor costs, the higher prices could adversely affect demand for our menu items, resulting in lower sales and decreased franchise revenues.

We are exposed to risks associated with leasing property subject to long-term and non-cancelable leases and may be unable to renew leases at the end of their terms.

Many of our restaurant leases are non-cancelable and typically have initial terms of 10 years, providing for two to four renewal options of five years each as well as rent escalations. Generally, our leases are triple-net leases that require us to pay our share of the costs of real estate taxes, utilities, building operating expenses, insurance and other charges in addition to rent. We generally cannot cancel these leases, and additional sites that we lease are likely to be subject to similar long-term non-cancelable leases. Even if we close a restaurant, we are required to perform our obligations under the applicable lease, which could include, among other things, a payment of the base rent, property taxes, insurance and common area maintenance costs for the balance of the lease term, which would impact our profitability. In addition, as leases expire for restaurants that we will continue to operate, we may, at the end of the lease term and any renewal period for a restaurant, be unable to negotiate renewals, either on commercially acceptable terms or at all. As a result, we may close or relocate the restaurant, which could subject us to construction costs related to leasehold improvements and other costs and risks. Additionally, the revenues and profit, if any, generated at a relocated restaurant may not equal the revenues and profit generated at the existing restaurant.

As a public company, we incur significant costs to comply with the laws and regulations affecting public companies, which could harm our business and results of operations.

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, and the listing requirements of Nasdaq, and other applicable securities rules and regulations. These rules and regulations have increased and will continue to increase our legal, accounting and financial compliance costs and have made and will continue to make some activities more time-consuming and costly, particularly after we cease to be an emerging growth company. For example, these rules and regulations could make it more difficult and more costly for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or to incur substantial costs to maintain the same or similar coverage. These rules and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our Board or our Board committees or as executive officers. Our management and other personnel will continue to devote a substantial amount of time to these compliance initiatives. As a result, management's attention may be diverted from other business concerns, which could harm our business and results of operations. We will need to hire more employees in the future to comply with these requirements, which will increase our costs and expenses.

To comply with the requirements of being a public company, including the Sarbanes-Oxley Act, we have and will need to continue to undertake various actions, such as implementing new internal controls and procedures and hiring accounting or internal audit staff or outsourcing certain functions to third parties, which could have a material adverse effect on our business, financial condition and results of operations.

Fluctuations in our tax obligations and effective tax rate and realization of our deferred tax assets may result in volatility of our results of operations.

We are subject to income taxes in various U.S. jurisdictions. We record tax expense based on our estimates of future payments, which may in the future include reserves for uncertain tax positions in multiple tax jurisdictions, and valuation allowances related to certain net deferred tax assets. At any one time, many tax years may be subject to audit by various taxing jurisdictions. The results of these audits and negotiations with taxing authorities may affect the ultimate settlement of these issues. We expect that throughout the year there could be ongoing variability in our quarterly tax rates as events occur and exposures are evaluated.

In addition, our effective tax rate in a given financial reporting period may be materially impacted by a variety of factors including, but not limited to, changes in the mix and level of earnings, varying tax rates in the different jurisdictions in which we operate, fluctuations in the valuation allowance or by changes to existing accounting rules or regulations. Further, tax legislation may be enacted in the future, which could negatively impact our current or future tax structure and effective tax rates.

The U.S. government may enact significant changes to the taxation of business entities including, among others, an increase in the corporate income tax rate and the imposition of minimum taxes or surtaxes on certain types of income. No specific United States tax legislation has been proposed at this time and the likelihood of these changes being enacted or implemented is unclear. We are currently unable to predict whether such changes will occur. If such changes are enacted or implemented, we are currently unable to predict the ultimate impact on our business.

Our business is subject to risks related to our sale of alcoholic beverages.

We serve alcoholic beverages at our restaurants. Alcoholic beverage control regulations generally require our restaurants to apply to a state authority and, in certain locations, county or municipal authorities for a license that must be renewed annually and may be revoked or suspended for cause at any time. Alcoholic beverage control regulations relate to numerous aspects of daily operations of our restaurants, including minimum age of patrons and employees, hours of operation, advertising, trade practices, wholesale purchasing, other relationships with alcoholic beverages manufacturers, wholesalers and distributors, inventory control and handling, storage and dispensing of alcoholic beverages. Any future failure to comply with these regulations and obtain or retain licenses could have a material adverse effect on our business, financial condition and results of operations.

We are also subject in certain states to "dram shop" statutes, which generally provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. Recent litigation against restaurant chains has resulted in significant judgments and settlements under dram shop statutes. Because these cases often seek punitive damages, which may not be covered by insurance, such litigation could

have a material effect on our business, financial condition and results of operations. Regardless of whether any claims against us are valid or whether we are liable, claims may be expensive to defend and may divert time and money away from operations and hurt our financial performance. A judgment significantly in excess of our insurance coverage or not covered by insurance could have a material adverse effect on our business, financial condition and results of operations.

We are subject to many federal, state and local laws with which compliance is both costly and complex.

The restaurant industry is subject to extensive federal, state and local laws and regulations, including those relating to the environment, building and zoning requirements and those relating to the preparation and sale of food. Such laws and regulations are subject to change from time to time. The failure to comply with these laws and regulations could adversely affect our results of operations. Typically, licenses, permits and approvals under such laws and regulations must be renewed annually and may be revoked, suspended or denied renewal for cause at any time if governmental authorities determine that our conduct violates applicable regulations. Difficulties or failure to maintain or obtain the required licenses, permits and approvals could adversely affect our existing restaurants and delay or result in our decision to cancel the opening of new restaurants, which could have a material adverse effect on our business, financial condition and results of operations.

The development and operation of our restaurants depend, to a significant extent, on the selection of suitable sites, which are subject to zoning, land use, environmental, traffic and other regulations and requirements. We are also subject to licensing and regulation by state and local authorities relating to health, sanitation, safety and fire standards.

There is also a potential for increased regulation of certain food establishments in the United States, where compliance with a Hazard Analysis and Critical Control Points ("HACCP") approach would be required. HACCP refers to a management system in which food safety is addressed through the analysis and control of potential hazards from production, procurement and handling, to manufacturing, distribution and consumption of the finished product. Many states have required restaurants to develop and implement HACCP Systems, and the United States government continues to expand the sectors of the food industry that must adopt and implement HACCP programs. For example, the Food Safety Modernization Act ("FSMA"), signed into law in January 2011, granted the U.S. Food and Drug Administration new authority regarding the safety of the entire food system, including through increased inspections and mandatory food recalls. Although restaurants are specifically exempted from or not directly implicated by some of these requirements, we anticipate that the requirements may impact our industry. Additionally, due to such regulations, our suppliers may initiate or otherwise be subject to food recalls that may impact the availability of certain products, result in adverse publicity or require us to take actions that could be costly for us or otherwise impact our business. We may be required to incur additional time and resources to comply with new food safety requirements made under FSMA or other federal or state food safety regulations. Failure to comply with the laws and regulatory requirements of federal, state and local authorities could result in, among other things, revocation of required licenses, administrative enforcement actions, fines and civil and criminal liability. In addition, many applicable laws could require us to expend significant funds to make modifications to our restaurants or operations to comply with such laws. Compliance with these laws can be costly and may increase our exposure to litigation or governmental investigations or proceedings.

Our business is also subject to extensive laws and regulations relating to public company compliance, disclosure and governance matters, including accounting and tax regulations, SEC and Nasdaq disclosure requirements, as further discussed below. The impact of current laws and regulations, the effect of future changes in laws or regulations that impose additional requirements and the consequences of litigation relating to current or future laws and regulations, or our inability to respond effectively to significant regulatory or public policy issues, could increase our compliance and other costs of doing business and could have a material adverse effect on our business, financial condition and results of operations. Failure to comply with the laws and regulatory requirements of federal, state and local authorities could result in, among other things, revocation of required licenses, administrative enforcement actions, fines and civil and criminal liability. In addition, certain laws, including the Americans with Disabilities Act, which, among other things, requires our restaurants to meet federally mandated requirements for the disabled, could require us to expend significant funds to make modifications to our restaurants if we failed to comply with applicable standards. Compliance with all these laws and regulations can be costly and can increase our exposure to litigation or governmental investigations or proceedings.

Risks Related to Accounting and Financial Reporting Matters

An impairment in the carrying value of our goodwill or indefinite-lived intangible assets could have a material adverse effect on our financial condition and results of operations.

As of December 31, 2023, we had \$359.9 million of goodwill and \$139.1 million of indefinite-lived intangible assets. We test goodwill and indefinite-lived intangible assets for impairment annually on the first day of the fourth quarter of each fiscal year and whenever events or changes in circumstances indicate that impairment may have occurred. We performed a qualitative annual impairment assessment of goodwill and indefinite-lived intangible assets on the first day of the fourth quarter of 2023. Based on the results of the qualitative assessment, we did not perform a quantitative assessment and no impairment was recognized in 2023.

We cannot accurately predict the amount and timing of any impairment of assets and an impairment test in the future may indicate that an impairment has occurred. In the event that the book value of goodwill or other indefinite-lived intangible assets is impaired, any such impairment would be charged to earnings in the period of impairment and could have a material adverse effect on our financial condition and results of operations.

Changes to estimates related to our long-lived assets and definite-lived intangible assets or operating results that are lower than our current estimates at certain restaurant locations may cause us to incur impairment losses on certain long-lived assets, which may adversely affect our results of operations.

Changes to estimates related to our property, fixtures and equipment and definite-lived intangible assets or operating results that are lower than our current estimates at certain restaurant locations may cause us to incur impairment losses or accelerate the amortization on certain long-lived assets, which may adversely affect our financial condition and results of operations.

We have identified material weaknesses in our internal control over financial reporting, which could result in us failing to prevent or detect material misstatements of our consolidated financial statements due to error or fraud. If our remediation of the material weaknesses is not effective, or if we otherwise fail to maintain effective internal control over financial reporting in the future, we may not be able to accurately or timely report our financial condition or results of operations, which, in turn, could adversely impact the market value of our common stock.

As a public company, we are required to comply with Section 404 of the Sarbanes-Oxley Act ("Section 404") in accordance with the rules and regulations of the SEC, which requires management to certify financial and other information in our quarterly and annual reports and provide an annual management report on the effectiveness of our internal control over financial reporting. In addition, under Section 404 our independent registered public accounting firm will also need to attest to the effectiveness of our internal control over financial reporting in the future to the extent that we are no longer an emerging growth company, as defined in the Jumpstart Our Business Startups Act (the "JOBS Act"). To comply with the rules and regulations of the SEC, we need to continue to dedicate internal resources, engage outside consultants and continue to execute on a detailed work plan to assess and document the adequacy of our internal control over financial reporting, continue taking steps to improve control processes, as appropriate, validate through testing that controls are functioning as documented and implement a continuous reporting and improvement process for internal control over financial reporting. Despite our efforts, there is a risk that we will not be able to conclude that our internal control over financial reporting is effective.

As further described in Part II Item 9A of this Form 10-K, in connection with the preparation of our consolidated financial statements, we identified material weaknesses in our internal control over financial reporting, which could result in misstatement of the consolidated financial statements that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

We have taken certain measures to remediate the material weaknesses. See Item 9A for additional information.

Risks Related to Our Indebtedness

Our level of indebtedness could have a material adverse effect on our business, financial condition and results of operations.

Our principal amount of our term loan outstanding was \$92.5 million, excluding unamortized debt discount and deferred issuance costs, and we had drawn \$30.0 million on our revolving credit facility as of December 31, 2023. Our indebtedness could have significant effects on our business, such as:

- limiting our ability to borrow additional amounts to fund capital expenditures, acquisitions, debt service requirements, execution of our growth strategy and other purposes;
- limiting our ability to make investments, including acquisitions, loans and advances, and to sell, transfer or otherwise dispose of assets;
- requiring us to dedicate a substantial portion of our cash flow from operations to pay principal and interest on our borrowings, which would reduce availability of our cash flow to fund working capital, capital expenditures, acquisitions, execution of our growth strategy and other general corporate purposes;
- making us more vulnerable to adverse changes in general economic, industry and competitive conditions, in government regulation and in our business by limiting our ability to plan for and react to changing conditions;
- placing us at a competitive disadvantage compared with our competitors that have less debt; and
- exposing us to risks inherent in interest rate fluctuations because our borrowings are at variable rates of interest, which could result in higher interest expense in the event of increases in interest rates.

In addition, we may not be able to generate sufficient cash flow from our operations to repay our indebtedness when it becomes due and to meet our other cash needs. If we are not able to pay our borrowings as they become due, we will be required to pursue one or more alternative strategies, such as selling assets, refinancing or restructuring our indebtedness or selling additional debt or equity securities. We may not be able to refinance our debt or sell additional debt or equity securities or our assets on favorable terms, if at all, and if we must sell our assets, it may adversely affect our financial condition and results of operations.

See Note 10, *Debt*, and Note 21, *Subsequent Events*, in the accompanying notes to the consolidated financial statements included in Item 8 of Part II of this Form 10-K for additional information.

The failure to comply with the covenants under our Credit Agreement or the volatile credit and capital markets could have a material adverse effect on our financial condition.

Our ability to manage our debt is dependent on our level of positive cash flow from company-owned and franchise-owned restaurants. An economic downturn may adversely impact our cash flows. Credit and capital markets can be volatile, which could make it more difficult for us to refinance our existing debt or to obtain additional debt or equity financings in the future. Such constraints could increase our costs of borrowing and could restrict our access to other potential sources of future liquidity. Our failure to comply with the covenants under our Credit Agreement for our debt facilities or to have sufficient liquidity to make interest and other payments required by our debt could result in a default of such debt and acceleration of our borrowings, which could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Our Company and Organizational Structure

The interests of Advent may conflict with our interests or the interests of the holders of our common stock in the future.

Advent engages in a range of investing activities, including investments in restaurants and other consumer-related companies in particular. In the ordinary course of its business activities, Advent may engage in activities where its interests conflict with our interests or those of our stockholders. Our amended and restated certificate of incorporation contains provisions renouncing any interest or expectancy held by our directors affiliated with Advent in certain corporate opportunities. Accordingly, the interests of Advent may supersede ours, causing them or their affiliates to compete against us or to pursue opportunities instead of us, for which we have no recourse. Such actions on the part of Advent and inaction on our part could have a material adverse effect on our business, financial condition and results of operations. In addition, Advent may have an interest in pursuing acquisitions, divestitures and other transactions that, in its judgment, could enhance its investment in us, even though such transactions might involve risks to you, such as debt-financed acquisitions.

First Watch Restaurant Group, Inc. is a holding company with no operations and relies on its operating subsidiaries to provide it with funds necessary to meet its financial obligations and to pay dividends.

First Watch Restaurant Group, Inc. is a holding company with no material direct operations. First Watch Restaurant Group, Inc.'s principal assets are the equity interests it indirectly holds in its operating subsidiaries which own our operating assets.

As a result, First Watch Restaurant Group, Inc. is dependent on loans, dividends and other payments from its operating subsidiaries to generate the funds necessary to meet its financial obligations and to pay dividends on its common stock. Its subsidiaries are legally distinct from First Watch Restaurant Group, Inc. and may be prohibited or restricted from paying dividends, including pursuant to the restrictions contained in our Credit Agreement, or otherwise making funds available to us under certain conditions. Although First Watch Restaurant Group, Inc. does not expect to pay dividends on its common stock for the foreseeable future, if it is unable to obtain funds from its subsidiaries, it may be unable to, or its Board may exercise its discretion not to, pay dividends.

Our management does not have significant experience managing a public company and our current resources may not be sufficient to fulfill our public company obligations.

We are subject to various regulatory requirements, including those of the SEC and Nasdaq. These requirements include record keeping, financial reporting and corporate governance rules and regulations. Our management team does not have significant experience in managing a public company and, historically, has not had the resources typically found in a public company. Our internal infrastructure may not be adequate to support our increased reporting obligations and we may be unable to hire, train or retain necessary staff and may be reliant on engaging outside consultants or professionals to overcome our lack of experience or employees. If our internal infrastructure is inadequate, we are unable to engage outside consultants at a reasonable rate or attract talented employees to perform these functions or are otherwise unable to fulfill our public company obligations, it could have a material adverse effect on our business, financial condition and results of operations.

For as long as we are an emerging growth company, we will not be required to comply with certain reporting requirements, including those relating to accounting standards and disclosure about our executive compensation, that apply to other public companies.

As an emerging growth company, we are eligible to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a non-binding advisory vote on executive compensation and of stockholder approval of any golden parachute payments not previously approved. We may take advantage of some of these exemptions. If we do, we do not know if some investors will find our common stock less attractive as a result. The result may be a less-active trading market for our common stock and our stock price may be more volatile.

In addition, Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected not to avail ourselves of this exemption and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

We could remain an emerging growth company for up to five years after our IPO, which took place in September 2021, or until the earliest of (a) the last day of the first fiscal year in which our annual gross revenues exceed \$1.235 billion, (b) the date that we become a large accelerated filer as defined in Rule 12b-2 under the Exchange Act, which would occur if the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the last business day of our most recently completed second fiscal quarter, or (c) the date on which we have issued more than \$1.0 billion in non-convertible debt securities in the preceding three-year period.

Delaware law and our organizational documents, as well as our existing and future debt agreements, may impede or discourage a takeover, which could deprive our investors of the opportunity to receive a premium for their shares.

We are a Delaware corporation, and the anti-takeover provisions of Delaware law impose various impediments to the ability of a third party to acquire control of us, even if a change of control would be beneficial to our existing stockholders. In addition, provisions of our amended and restated certificate of incorporation and bylaws may make it more difficult to, or prevent a third party from, acquiring control of us without the approval of our Board. Among other things, these provisions:

- provide for a classified Board with staggered three-year terms;

- do not permit cumulative voting in the election of directors, which would otherwise allow less than a majority of stockholders to elect director candidates;
- delegate the sole power of a majority of the Board to fix the number of directors;
- provide the power of our Board to fill any vacancy on our Board, whether such vacancy occurs as a result of an increase in the number of directors or otherwise;
- authorize the issuance of “blank check” preferred stock without any need for action by stockholders;
- eliminate the ability of stockholders to call special meetings of stockholders; and
- establish advance notice requirements for nominations for election to our Board or for proposing matters that can be acted on by stockholders at stockholder meetings.

In addition, our Facilities impose, and we anticipate that documents governing our future indebtedness may impose, limitations on our ability to enter into change of control transactions. Thereunder, the occurrence of a change of control transaction could constitute an event of default permitting acceleration of the indebtedness, thereby impeding our ability to enter into certain transactions.

The foregoing factors, as well as the significant common stock ownership by Advent could impede a merger, takeover, or other business combination, or discourage a potential investor from making a tender offer for our common stock, which, under certain circumstances, could reduce the market value of our common stock.

Our amended and restated certificate of incorporation designates the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders and designates the federal district courts of the United States of America as the sole and exclusive forum for claims arising under the Securities Act of 1933, as amended, which, in each case, could limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us or our directors, officers, employees, agents or other stockholders.

Our amended and restated certificate of incorporation includes a forum selection provision. To the fullest extent permitted by law, any person or entity purchasing or otherwise acquiring or holding any interest in any shares of our capital stock shall be deemed to have notice of and consented to the forum selection. This choice of forum provision may limit a stockholder’s ability to bring a claim in a different judicial forum, including one that it may find favorable or convenient for a specified class of disputes with us or our directors, officers, other stockholders, or employees, which may discourage such lawsuits, make them more difficult or expensive to pursue, and result in outcomes that are less favorable to such stockholders than outcomes that may have been attainable in other jurisdictions. By agreeing to this provision, however, stockholders will not be deemed to have waived our compliance with the federal securities laws and the rules and regulations thereunder. The enforceability of similar choice of forum provisions in other companies’ certificates of incorporation has been challenged in legal proceedings, and it is possible that a court could find these types of provisions to be inapplicable or unenforceable. If a court were to find the choice of forum provisions in our amended and restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Ownership of Our Common Stock

Future offerings of debt or equity securities by us may have a material adverse effect on the market price of our common stock.

In the future, we may attempt to obtain financing or to further increase our capital resources by issuing additional shares of our common stock or by offering debt or other equity securities, including senior or subordinated notes, debt securities convertible into equity or shares of preferred stock.

Any future debt financing could involve restrictive covenants relating to our capital-raising activities and other financial and operational matters, which might make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. Moreover, if we issue debt securities, the debt holders would have rights to make claims on our assets senior to the rights of our holders of our common stock. The issuance of additional shares of our common stock or other equity securities or securities convertible into equity may dilute the economic and voting rights of our existing stockholders or reduce the market price of our common stock or both. Debt securities convertible into equity could be subject to adjustments in the conversion ratio pursuant to which certain events may increase the number of equity securities issuable upon conversion. Preferred shares could have a preference with respect to liquidating distributions or a preference with respect to dividend payments that could limit our ability to pay dividends to the holders of our common

stock. Our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, which may have a material adverse effect on the amount, timing, or nature of our future offerings. Thus, holders of our common stock bear the risk that our future offerings may reduce the market price of our common stock and dilute their stockholdings in us.

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.

Advent indirectly beneficially owns approximately 56.9% of our outstanding common stock. As a result, Advent beneficially owns shares sufficient for majority votes over 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.

As a controlled company, we are not subject to all of the corporate governance rules of Nasdaq.

We are considered a “controlled company” under the rules of Nasdaq. Controlled companies are exempt from the corporate governance rules requiring that listed companies have (i) a majority of the Board consist of “independent” directors under the listing standards of Nasdaq, (ii) independent director oversight of director nominations and (iii) a compensation committee composed entirely of independent directors. Although we are eligible to use some or all of these exemptions, our Board is comprised of a majority of independent directors, and our nominating and corporate governance committee and compensation committee consists entirely of independent directors. However, if we are to use some or all of these exemptions in the future, you may not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of Nasdaq.

We do not anticipate paying any dividends on our common stock in the foreseeable future.

We do not expect to declare or pay any cash or other dividends in the foreseeable future on our common stock because we intend to use cash flow generated by operations to grow our business. Our Credit Agreement for our debt facilities restricts our ability to pay cash dividends on our common stock. We may also enter into other credit agreements or other borrowing arrangements in the future that restrict or limit our ability to pay cash dividends on our common stock. As a result, you may not receive any return on an investment in our common stock unless you sell our common stock for a price greater than that which you paid for it.

Our quarterly results of operations may fluctuate significantly and could fall below the expectations of securities analysts and investors due to seasonality and other factors, some of which are beyond our control, resulting in a decline in our stock price.

Our quarterly results of operations may fluctuate due principally to seasonal factors and the timing of holidays. Accordingly, results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for any year and same-restaurant sales growth for any particular future period may decrease. In addition, as we expand our number of restaurants in cold weather climates, the seasonality of our business may be amplified. In the future, results of operations may fall below the expectations of securities analysts and investors. In that event, the price of our common stock could be adversely impacted.

The market price of our common stock could be adversely affected by sales of substantial amounts of our common stock in the public markets.

Of our issued and outstanding shares, all the common stock sold in our initial public offering is freely transferable, except for any shares held by our “affiliates,” as that term is defined in Rule 144 under the Securities Act. Approximately 56.9% of our outstanding common stock is indirectly beneficially owned by Advent, and can be resold into the public markets in the future in accordance with the requirements of Rule 144.

The market price of our common stock may decline significantly in connection with any sales by Advent of its common stock. A decline in the price of our common stock might impede our ability to raise capital through the issuance of additional common stock or other equity securities.

The future issuance of additional common stock in connection with the First Watch Restaurant Group, Inc. 2021 Equity Incentive Plan (the “2021 Equity Plan”) and the First Watch Restaurant Group, Inc. 2017 Omnibus Equity Incentive Plan (the “2017 Equity Plan”) will dilute all other stockholdings.

As of December 31, 2023, we had an aggregate of 11,356,532 shares of common stock authorized for issuance under the 2021 Equity Plan and 2017 Equity Plan. Additionally, the 2021 Equity Plan contains an “evergreen provision,” pursuant to which the aggregate number of shares available for issuance will automatically increase on the first day of each fiscal year, beginning on December 26, 2022 and continuing for each fiscal year until, and including, the fiscal year ending on (and including) December 30, 2030. While we do not intend to grant any further awards under the 2017 Equity Plan, we may issue all the shares underlying the awards granted under the 2017 Equity Plan and all of the shares authorized for issuance under the 2021 Equity Plan without any action or approval by our stockholders, subject to certain exceptions. Any common stock issued in connection with the 2021 Equity Plan or the 2017 Equity Plan would dilute the ownership percentage held by existing stockholders.

General Risk Factors

We depend on our executive officers and certain other key employees, the loss of whom could have a material adverse effect on our business, financial condition and results of operations.

We rely upon the accumulated knowledge, skills and experience of our executive officers and certain other key employees. The loss of the services of any of our executive officers could have a material adverse effect on our business, financial condition and results of operations, as we may not be able to find suitable individuals to replace such personnel on a timely basis or without incurring increased costs, or at all. If our executive officers were to leave us or become incapacitated, it might adversely impact our planning and execution of business strategy and operations. We believe that our future success will depend on our continued ability to attract and retain highly skilled and qualified executive personnel. There is a high level of competition for experienced, successful executive personnel in our industry. Our inability to meet our executive staffing requirements in the future could have a material adverse effect on our business, financial condition and results of operations.

We might require additional capital to support business growth and this capital might not be available.

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges or opportunities, including the need to open additional restaurants, develop new menu items or enhance our existing menu items, and enhance our operating infrastructure. Accordingly, we may need to engage in equity or debt financings to secure additional funds. In addition, we may not be able to obtain additional financing on terms favorable to us, if at all. Volatility in the financial markets like we are currently experiencing could affect our ability to access capital markets at a time when we desire, or need, to do so, which could have an impact on our flexibility to pursue additional expansion opportunities and maintain our desired level of revenue growth in the future. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly limited, which could have a material adverse effect on our business, financial condition and results of operations.

Changes in accounting principles applicable to us could have a material adverse effect on our financial condition and results of operations.

Generally accepted accounting principles in the U.S. are subject to interpretation by the Financial Accounting Standards Board (“FASB”), the American Institute of Certified Public Accountants, the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our financial condition and results of operations, and could affect the reporting of transactions completed before the announcement of a change.

Our insurance may not provide adequate levels of coverage against claims.

We believe that we maintain insurance customary for businesses of our size and type. However, there are types of losses we may incur that cannot be insured against or that we believe are not economically reasonable to insure. Such losses could have a material adverse effect on our business, financial condition and results of operations.

Item 1B. Unresolved Staff Comments

None

Item 1C. Cybersecurity

Risk Management and Strategy

We deploy a cybersecurity program modelled on Center for Internet Security (CIS) Critical Security Controls, commonly referred to as CIS Controls. We believe our program’s control focus provides immediate protection and scalability for our business. Our program defines our governance and management oversight, and includes (i) continual training to raise user vigilance and resistance to phishing attempts and cyber-attacks, (ii) evaluation of compliance with privacy and data security regulations and (iii) reporting obligations in the event of an incident. As part of our program, we partner with a security operations center for continuous monitoring and alerting across all of our information technology systems.

Annually, we engage external consultants to evaluate the effectiveness of our cybersecurity program and recommend improvements. We have also developed vendor scoring criteria to assess cybersecurity, incidence readiness and cyber insurance of our critical vendors and service providers.

Security incidents or breaches have from time to time occurred and may in the future occur involving our systems, the systems of the parties with whom we communicate or collaborate (including franchisees) or the systems of third-party providers. Incidents or breaches have from time to time occurred and may in the future occur involving our systems, the systems of the parties with whom we communicate or collaborate (including franchisees) or the systems of third-party providers. As of the date of this Annual Report on Form 10-K, we have not experienced cybersecurity threats or incidents that have materially affected us. However, any actual or perceived breach in the security of our information technology systems or those of our franchisees or our critical vendors and service providers could lead to damage to or failure of our computer systems or network infrastructure which could cause an interruption in our operations and could have a material adverse effect on our business. Furthermore, a significant theft, loss, disclosure, modification or misappropriation of, or access to, guests’, employees’, third parties’ or other proprietary data or other breach of our information technology systems could subject us or our franchisees to litigation or to actions by regulatory authorities. See also Item 1A. “*Risk Factors - Risks Related to Information Technology and Intellectual Property—Information technology system failures or breaches of our network security could interrupt our operations and have a material adverse effect on our business, financial condition and results of operations.*”

Governance

The Audit Committee of our Board is tasked with oversight of certain risk issues, including cybersecurity. The Audit Committee receives reports on cybersecurity at least annually from the Company’s SVP, Informational Technology, who has over 25 years of experience in the management of information technology systems and cybersecurity. The Audit Committee briefs the full Board of Directors on these matters as a part of its reports of its meetings.

Item 2. Properties

We lease all our company-owned restaurant facilities. As of December 31, 2023, we had 425 company-owned restaurants and 99 franchise-owned restaurants located in 29 states, including a large presence in Florida, Texas, Ohio and Arizona. As of December 31, 2023, company-owned and franchise-owned restaurants by jurisdiction were:

State	Company-owned	Franchise-owned	Total
Alabama	5	—	5
Arizona	31	—	31
Arkansas	—	3	3
Colorado	19	—	19
Delaware	4	—	4
Florida	123	—	123
Georgia	23	—	23
Illinois	7	—	7
Indiana	6	1	7
Kansas	10	—	10
Kentucky	2	14	16
Louisiana	—	1	1
Maryland	11	—	11
Michigan	11	—	11
Mississippi	—	1	1
Missouri	17	7	24
Nebraska	6	—	6
New Jersey	5	—	5
North Carolina	3	33	36
Ohio	40	—	40
Oklahoma	—	1	1
Pennsylvania	19	—	19
South Carolina	4	3	7
Tennessee	12	8	20
Texas	42	21	63
Utah	—	1	1
Virginia	20	4	24
West Virginia	—	1	1
Wisconsin	5	—	5
TOTAL	425	99	524

Item 3. Legal Proceedings

We are involved in various claims and legal actions that arise in the ordinary course of business. We do not believe that the ultimate resolution of any of these actions, individually or 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.

Item 4. Mine Safety Disclosures

None

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is traded on Nasdaq under the symbol "FWRG."

*Holder*s

As of March 1, 2024, there were 25 stockholders of record of our common stock. The number of record holders does not include persons who held shares of our common stock in nominee or "street name" accounts through brokers.

Dividends

We do not currently intend to pay cash dividends on our common stock in the foreseeable future. However, in the future, subject to the factors described below and our future liquidity and capitalization, we may change this policy and choose to pay dividends. Additionally, our ability to pay dividends is currently restricted by the terms of our Credit Agreement.

We are a holding company that does not conduct any business operations of our own. As a result, our ability to pay cash dividends on our common stock is dependent upon cash dividends and distributions and other transfers from our subsidiaries.

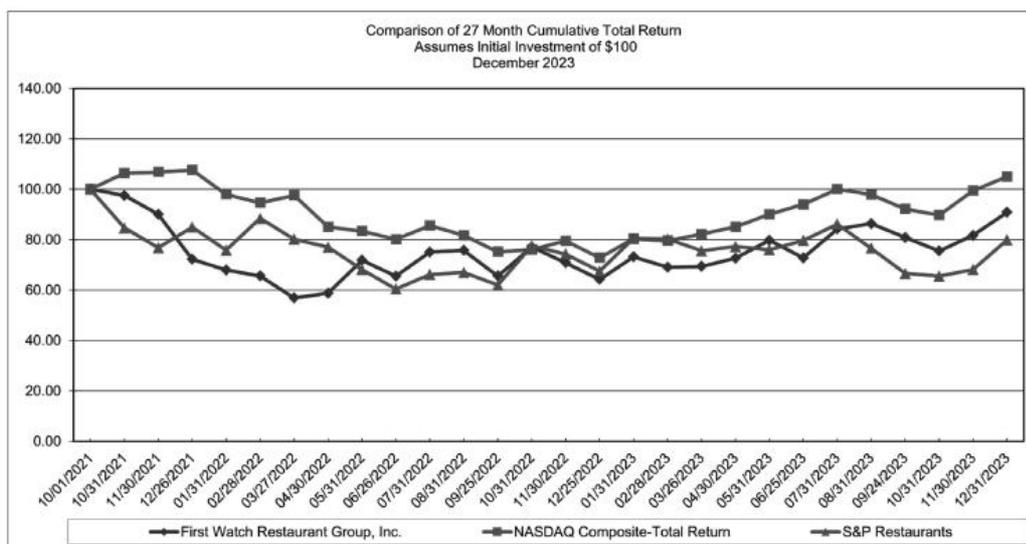
In addition, under Delaware law, our Board may declare dividends only to the extent of our surplus (which is defined as total assets at fair market value minus total liabilities, minus statutory capital) or, if there is no surplus, out of our net profits for the then current and/or immediately preceding fiscal year. Any future determination to pay dividends will be at the discretion of our Board and will take into account: (i) restrictions in our debt instruments, including our Credit Agreement; (ii) general economic business conditions; (iii) our earnings, financial condition, and results of operations; (iv) our capital requirements; (v) our prospects; (vi) legal restrictions; and (vii) such other factors as our Board may deem relevant.

Issuer Purchases of Equity Securities

None

Cumulative Stock Performance Graph

The following graph compares the cumulative annual stockholders return on our common stock from October 1, 2021, the date our common stock began trading on Nasdaq, through December 31, 2023, to that of the total return index for the Nasdaq Composite Index and the S&P Restaurants Index assuming an investment of \$100 on October 1, 2021. The graph uses the closing market price on October 1, 2021 of \$22.13 per share as the initial value of our common stock. In calculating total annual stockholder return, reinvestment of dividends, if any, is assumed. The indices are included for comparative purposes only. They do not necessarily reflect management's opinion that such indices are an appropriate measure of the relative performance of our common stock. The values shown are neither indicative nor determinative of future performance. Information used in the graph and table was obtained from Zacks Investment Research, a source believed to be reliable, but we are not responsible for any errors or omissions in such information. This graph is not "soliciting material," is not deemed filed with the SEC and is not to be incorporated by reference in any of our filings under the Securities Act or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.



	October 1, 2021	December 26, 2021	December 25, 2022	December 31, 2023
First Watch Restaurant Group, Inc.	\$ 100.00	\$ 72.16	\$ 64.20	\$ 90.80
Nasdaq Composite Index	\$ 100.00	\$ 107.62	\$ 72.77	\$ 104.97
S&P Restaurants Index	\$ 100.00	\$ 84.95	\$ 67.46	\$ 79.93

Item 6. [Reserved]

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This section and other parts of this Annual Report on Form 10-K contain 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 industry outlook, our expectations for the future of our business and our liquidity and capital resources as well as other non-historical statements. You can identify forward-looking statements by the fact that they do not relate strictly to 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. Our actual results may differ materially from those contained in or implied by these forward-looking statements.

These statements are based on current expectations and are subject to numerous risks and uncertainties. All forward-looking statements are expressly qualified in their entirety by these cautionary statements. You should evaluate all forward-looking statements made in this Annual Report on Form 10-K in the context of the risks and uncertainties disclosed in Part I, Item 1A of this Annual Report on Form 10-K under the heading "Risk Factors" and in this Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The forward-looking statements included in this Annual Report on Form 10-K are made only as of the date hereof. We undertake no obligation to publicly update any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law. If we do update one or more forward-looking statements, no inference should be made that we will make additional updates with respect to those or other forward-looking statements.

Overview

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

The Company operates and franchises restaurants in 29 states under the "First Watch" trade name and as of December 31, 2023, the Company had 425 company-owned restaurants and 99 franchise-owned restaurants. The Company does not operate outside of the United States.

The Company's 52- or 53-week fiscal years end on the last Sunday of each calendar year. Its fiscal quarters are comprised of 13 weeks each and end on the 13th Sunday of each quarter, save for 53-week years during which the fourth quarter ends on the 14th Sunday of the fourth quarter. All references to 2023 reflect the results of the 53-week fiscal year ended December 31, 2023. All references to 2022 and 2021 reflect the 52-week fiscal years ended December 25, 2022 and December 26, 2021, respectively. We report financial and operating information in one segment.

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”). There were 327 restaurants and 301 restaurants in our Comparable Restaurant Base in 2023 and in 2022, respectively. There were 205 restaurants in the four-year Comparable Restaurant Base. Measuring our same-restaurant sales growth allows management to evaluate the performance of our existing restaurant base. We believe this measure is useful for investors to provide a consistent comparison of restaurant sales results and trends across periods within our core, established restaurant base, unaffected by results of store openings, closings and other transitional changes.

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

Average Unit Volume (“AUV”): the total restaurant sales (excluding gift card breakage) recognized in the Comparable Restaurant Base, divided by the number of restaurants in the Comparable Restaurant Base during the period. This measurement allows management to assess changes in consumer spending patterns at our restaurants and the overall performance of our restaurant base.

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 (loss) 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 (loss), 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 (loss) 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 (Loss) 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 (Loss) from operations margin, the most directly comparable GAAP measure.

Financial Highlights

The financial results of 2023 reflect the continued growth of the Company. Our AUV increased 10.7% to \$2.3 million in 2023 from \$2.0 million in 2022. The Company continued to accelerate the pace of new restaurant openings with 37 NROs in 2023 and we executed on our growth strategy as we acquired 23 operating restaurants from our franchisees in 2023.

Financial highlights 2023, which was a 53-week fiscal year, include the following:

- Total revenues increased 22.1% to \$891.6 million from \$730.2 million in 2022
- System-wide sales increased 20.6% to \$1.1 billion from \$914.8 million in 2022
- Same-restaurant sales growth of 7.6%* (up 38.9% relative to 2019**)
- Same-restaurant traffic growth of 0.2%* (up 7.5% relative to 2019**)
- Income from operations increased to \$41.3 million from \$16.9 million in 2022
- Income from operations margin increased to 4.7% from 2.4% in 2022
- Restaurant level operating profit*** increased to \$175.7 million from \$128.9 million in 2022
- Restaurant level operating profit margin*** increased to 20.0% from 17.9% in 2022
- Net income increased to \$25.4 million from \$6.9 million in 2022
- Adjusted EBITDA*** increased to \$99.5 million from \$69.3 million in 2022
- Opened 51 system-wide restaurants (37 company-owned and 14 franchisee-owned) across 19 states resulting in a total of 524 system-wide restaurants (425 company-owned and 99 franchisee-owned) across 29 states

*Comparison to the 53 weeks ended January 1, 2023, is provided for enhanced comparability.

**Comparison to the 53 weeks ended January 5, 2020, is provided for enhanced comparability.

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

Business Trends

Throughout 2023 and as compared to the prior year, First Watch continued to see dining room traffic grow. The off-premises occasions, including higher-cost third-party delivery occasions declined for the Company. The Company's same-restaurant sales grew 7.6% during the year on the strength of modest 7% menu price increases and overall traffic growth.

We continued to experience a decline in the average cost across our consolidated market basket relative to the prior year. Though still high, full-year average costs were 50 basis points lower than 2022. We expect inflation to trend upward during the fiscal year ending December 29, 2024 ("2024") in the range of 2% to 4%.

In 2023, our manager and hourly team member turnover improved sequentially throughout each quarter. At year end, we were staffed with over 120 managers to lead and operate our future new company-owned restaurants. We experienced overall restaurant-level labor cost inflation of 8% and we expect 5% to 7% labor inflation in 2024.

With respect to our new restaurant openings, we have experienced more frequent delays in developers' delivery of new commercial space as well as increased availability of second-generation sites. Furthermore, our capital invested in new restaurants has increased significantly due in part to inflation, as well as to our strategy of leasing larger dining and kitchen space to serve unmet demand in selected trade areas.

In late January 2024, we increased in-restaurant menu prices approximately 2% to offset the negative effects of inflationary costs.

Development Highlights

During 2023, the Company had a total of 51 new system-wide restaurants in 19 states and we closed one company-owned restaurant. We also acquired 23 operating restaurants from our franchisees in the execution of our growth strategy. See Note 3, *Business Acquisitions*, in the accompanying notes to the consolidated financial statements for additional information. At December 31, 2023, the Company had a total of 524 system-wide restaurants.

	FISCAL YEAR 2023		
	Company-owned	Franchise-owned	Total
Beginning of period	366	108	474
New restaurants	37	14	51
Acquisitions of franchise-owned restaurants	23	(23)	—
Closures	(1)	—	(1)
End of period	425	99	524

We expect to open between 43 to 47 company-owned restaurants and 9 to 11 franchise-owned restaurants during 2024. We also plan on closing 1 company-owned restaurant, resulting in a total of 51 to 57, net new system-wide restaurants in 2024.

Selected Operating Data

	FISCAL YEAR		
	2023	2022	2021
Operating weeks in fiscal year	53	52	52
System-wide restaurants	524	474	435
Company-owned	425	366	341
Franchise-owned	99	108	94
System-wide sales (in thousands)	\$ 1,103,089	\$ 914,816	\$ 750,674
Same-restaurant sales growth	7.6 % *	14.5 %	63.0 %
Same-restaurant traffic growth	0.2 % *	7.7 %	52.6 %
AUV (in thousands)	\$ 2,250	\$ 2,032	\$ 1,786
Income from operations (in thousands)	\$ 41,267	\$ 16,913	\$ 22,243
Income from operations margin	4.7 %	2.4 %	3.8 %
Restaurant level operating profit (in thousands) ⁽¹⁾	\$ 175,658	\$ 128,936	\$ 115,404
Restaurant level operating profit margin ⁽¹⁾	20.0 %	17.9 %	19.5 %
Net income (loss) (in thousands)	\$ 25,385	\$ 6,907	\$ (2,107)
Net income (loss) margin	2.8 %	0.9 %	(0.4)%
Adjusted EBITDA (in thousands) ⁽²⁾	\$ 99,483	\$ 69,278	\$ 66,301
Adjusted EBITDA margin ⁽²⁾	11.2 %	9.5 %	11.0 %

* Comparison to the 53 weeks ended January 1, 2023, is provided for enhanced comparability.

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

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

Results of Operations

The discussion that follows includes a comparison of our results of operations for 2023 and 2022.

The following table summarizes our results of operations and the percentages of items in our Consolidated Statements of Operations and Comprehensive Income (Loss) in relation to Total revenues or, where indicated, Restaurant sales for 2023 and 2022:

<i>(in thousands)</i>	FISCAL YEAR			
	2023		2022	
Revenues				
Restaurant sales	\$ 877,092	98.4 %	\$ 719,181	98.5 %
Franchise revenues	14,459	1.6 %	10,981	1.5 %
Total revenues	891,551	100.0 %	730,162	100.0 %
Operating costs and expenses				
Restaurant operating expenses ⁽¹⁾ (exclusive of depreciation and amortization shown below):				
Food and beverage costs	197,374	22.5 %	172,561	24.0 %
Labor and other related expenses	294,010	33.5 %	238,257	33.1 %
Other restaurant operating expenses	134,477	15.3 %	114,476	15.9 %
Occupancy expenses	68,400	7.8 %	59,919	8.3 %
Pre-opening expenses	7,173	0.8 %	5,414	0.8 %
General and administrative expenses	103,121	11.6 %	84,959	11.6 %
Depreciation and amortization	41,223	4.6 %	34,230	4.7 %
Impairments and loss on disposal of assets	1,359	0.2 %	920	0.1 %
Transaction expenses, net	3,147	0.4 %	2,513	0.3 %
Total operating costs and expenses	850,284	95.4 %	713,249	97.7 %
Income from operations ⁽¹⁾	41,267	4.7 %	16,913	2.4 %
Interest expense	(8,063)	(0.9)%	(5,232)	(0.7)%
Other income, net	2,871	0.3 %	910	0.1 %
Income before income taxes	36,075	4.0 %	12,591	1.7 %
Income tax expense	(10,690)	(1.2)%	(5,684)	(0.8)%
Net income	\$ 25,385	2.8 %	\$ 6,907	0.9 %

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

Restaurant Sales

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

<i>(in thousands)</i>	FISCAL YEAR			Change
	2023	2022		
Restaurant sales:				
In-restaurant dining sales	\$ 716,960	\$ 571,048	\$ 145,912	25.6 %
Third-party delivery sales	91,433	82,049	9,384	11.4 %
Take-out sales	68,699	66,084	2,615	4.0 %
Total Restaurant sales	\$ 877,092	\$ 719,181	\$ 157,911	22.0 %

The increase in total restaurant sales during 2023 as compared to 2022 was primarily due to (i) \$53.5 million from same-restaurant sales growth of 7.6%, mainly driven by menu price increases, (ii) \$85.1 million from restaurants not in the

Comparable Restaurant Base, which included \$25.5 million from our 37 NROs and \$18.4 million from the 23 restaurants we had acquired from our franchisees and (iii) \$19.2 million of restaurant sales during the 53rd week of 2023.

Franchise Revenues

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

<i>(in thousands)</i>	FISCAL YEAR		Change	
	2023	2022		
Franchise revenues:				
Royalty and system fund contributions	\$ 13,464	\$ 10,683	\$ 2,781	26.0 %
Initial fees	388	298	90	30.2 %
Business combinations - revenues recognized	607	—	607	— %
Total Franchise revenues	\$ 14,459	\$ 10,981	\$ 3,478	31.7 %

The increase in franchise revenues during 2023 as compared to 2022 was primarily driven by (i) the increase in sales from franchise-owned restaurants, (ii) \$0.6 million from 14 franchise-owned NROs and (iii) \$0.6 million of deferred franchise revenues recognized in connection with the acquisitions of restaurants from our franchisees. The increase was partially offset by \$0.6 million lower franchise fees as a result of the acquisitions of restaurants from our franchisees during 2023.

Food and Beverage Costs

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

<i>(in thousands)</i>	FISCAL YEAR		Change	
	2023	2022		
Food and beverage costs	\$ 197,374	\$ 172,561	\$ 24,813	14.4 %
As a percentage of restaurant sales	22.5 %	24.0 %	(1.5)%	

Food and beverage costs as a percent of restaurant sales decreased during 2023 as compared to 2022 primarily due to (i) lower commodity costs across the market basket, driven mostly by decreases in pork and avocado prices, and (ii) leveraging menu price increases.

Food and beverage costs increased during 2023 as compared to 2022 primarily as a result of (i) the increase in restaurant sales, (ii) 37 NROs and (iii) 23 restaurants we had acquired from our franchisees. The increase was partially offset by lower commodity costs across the market basket, driven mostly by decreases in pork and avocado prices.

Labor and Other Related Expenses

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

<i>(in thousands)</i>	FISCAL YEAR		Change	
	2023	2022		
Labor and other related expenses	\$ 294,010	\$ 238,257	\$ 55,753	23.4 %
As a percentage of restaurant sales	33.5 %	33.1 %	0.4%	

Labor and other related expenses as a percentage of restaurant sales increased during 2023 as compared to 2022 primarily as a result of the increase in wages and staffing to serve growing dining room traffic and strategic growth. This increase was partially offset by lower health insurance costs.

The increase in labor and other related expenses during 2023 as compared to 2022 was primarily due to (i) the increase in wages and staffing levels, (ii) 37 NROs and (iii) 23 restaurants we had acquired from our franchisees. This increase was partially offset by lower health insurance costs.

Other Restaurant Operating Expenses

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

<i>(in thousands)</i>	FISCAL YEAR		Change	
	2023	2022		
Other restaurant operating expenses	\$ 134,477	\$ 114,476	\$ 20,001	17.5 %
As a percentage of restaurant sales	15.3 %	15.9 %	(0.6)%	

Other restaurant operating expenses as a percentage of restaurant sales during 2023 decreased as compared to 2022 primarily due to (i) leveraging restaurant sales, (ii) lower costs of to-go supplies, (iii) lower insurance costs and (iv) lower third-party delivery fees mainly driven from leveraging in-restaurant dining sales. This decrease was partially offset by higher repairs and maintenance expense.

The increase in other restaurant operating expenses during 2023 as compared to 2022 was driven by the increase in restaurant sales, restaurant growth and restaurant acquisitions from our franchisees resulting in an increase of (i) \$11.8 million related to credit card fees, utilities and repairs and maintenance, (ii) \$3.9 million related to operating supplies and (iii) \$2.2 million related to third-party delivery services fees. The increase was partially offset by lower insurance costs of \$0.4 million.

Occupancy Expenses

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

<i>(in thousands)</i>	FISCAL YEAR		Change	
	2023	2022		
Occupancy expenses	\$ 68,400	\$ 59,919	\$ 8,481	14.2 %
As a percentage of restaurant sales	7.8 %	8.3 %	(0.5)%	

The decrease in occupancy expenses as a percentage of restaurant sales during 2023 as compared to 2022 was primarily due to leveraging restaurant sales.

The increase in occupancy expenses during 2023 as compared to 2022 was primarily due to our NROs and the acquired restaurants from our franchisees.

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.

<i>(in thousands)</i>	FISCAL YEAR		Change	
	2023	2022		
Pre-opening expenses	\$ 7,173	\$ 5,414	\$ 1,759	32.5 %

Pre-opening expenses have continued to increase over the last few years, in part due to management's decision to gain early access to facilities during the build-out phase. Early access improves the Company's influence over the pace and timing of completion of new restaurants.

The increase in pre-opening expenses during 2023 as compared to 2022 was primarily due to (i) the higher number of restaurants opened and the increase in staffing and wages, as well as (ii) pre-opening rent expense mainly related to the increase in the number of new restaurant openings and restaurants that are expected to open, in addition to the investment in larger, stand-alone company-owned restaurants.

General and Administrative Expenses

General and administrative expenses primarily consist of costs associated with our corporate and administrative functions that support restaurant development and operations including marketing and advertising costs incurred as well as legal fees, professional fees and stock-based compensation. General and administrative expenses are impacted by changes in our employee headcount and costs related to strategic and growth initiatives. In preparation for and after the consummation of the Company's initial public offering ("IPO") in October 2021, we have incurred and we expect to incur in the future significant additional legal, accounting and other expenses associated with being a public company, including costs associated with our compliance with the Sarbanes-Oxley Act.

<i>(in thousands)</i>	FISCAL YEAR		Change	
	2023	2022		
General and administrative expenses	\$ 103,121	\$ 84,959	\$ 18,162	21.4 %

The increase in general and administrative expenses during 2023 as compared to 2022 was mainly due to (i) \$15.2 million in compensation expense from performance-based compensation and additional employee headcount to support growth, (ii) \$1.4 million of fees associated with investments in technology initiatives, (iii) \$1.0 million in marketing expense, (iv) \$0.8 million of estimated probable losses recorded in connection with the Delaware Secretary of State's Abandoned or Unclaimed Property Voluntary Disclosure Agreement Program ("VDA Program") (see Note 18, *Commitments and Contingencies*, in the accompanying notes to the consolidated financial statements for additional information), and (v) approximately \$0.4 million of costs incurred in connection with the VDA Program. This increase was partially offset by \$2.8 million lower stock-based compensation expense mainly due to the accelerated recognition method for certain stock option grants as well as forfeitures of stock option grants, net of the stock-based compensation expense recognized for stock-based awards issued during 2023.

Depreciation and Amortization

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

<i>(in thousands)</i>	FISCAL YEAR		Change	
	2023	2022		
Depreciation and amortization	\$ 41,223	\$ 34,230	\$ 6,993	20.4 %

The increase in depreciation and amortization during 2023 as compared to 2022 was primarily due to incremental depreciation of capital expenditures associated with NROs and the acquired restaurants from our franchisees.

Impairments and Loss on Disposal of Assets

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

<i>(in thousands)</i>	FISCAL YEAR		Change	
	2023	2022		
Impairments and loss on disposal of assets	\$ 1,359	\$ 920	\$ 439	47.7%

In 2023, we recorded total impairment charges of \$0.5 million, which primarily related to the long-lived assets of two company-owned restaurants for which management agreed to accelerate the expected closure dates.

In 2022, the amounts represented write-off of assets retired as a result of restaurant closures or replacements of assets.

Transaction Expenses, Net

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

<i>(in thousands)</i>	FISCAL YEAR		Change	
	2023	2022		
Transaction expenses, net	\$ 3,147	\$ 2,513	\$ 634	25.2%

Transaction expenses, net increased during 2023 as compared to 2022 primarily due to costs incurred in connection with the acquisitions of restaurants from our franchisees. This increase was partially offset by (i) lower costs incurred by us in connection with the sale of the Company's common stock by funds managed by Advent through secondary public offerings and (ii) costs incurred related to restaurant closures in 2022.

Income from Operations and Income from Operations Margin

<i>(in thousands)</i>	FISCAL YEAR		Change	
	2023	2022		
Income from operations	\$ 41,267	\$ 16,913	\$ 24,354	144.0 %
Income from operations margin	4.7 %	2.4 %	2.3%	

Income from operations margin increased during 2023 as compared to 2022 primarily due to (i) leveraging restaurant sales and (ii) lower costs for pork, avocados and to-go supplies. This was partially offset by the increase in restaurant-level staffing and wages.

Income from operations increased during 2023 as compared to 2022 primarily due to (i) the increase in restaurant sales and franchise revenues and (ii) lower costs for commodities and to-go supplies. This increase was partially offset by (i) higher restaurant-level wages and staffing, (ii) higher operating costs and depreciation expense driven by our restaurant growth and acquisitions of franchise-owned restaurants, as well as (iii) higher general and administrative expenses mainly attributable to additional employee headcount and performance-based compensation.

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.

<i>(in thousands)</i>	FISCAL YEAR		Change
	2023	2022	
Interest expense	\$ (8,063)	\$ (5,232)	\$ (2,831) 54.1 %

The increase in interest expense during 2023 as compared to 2022 was primarily due to higher interest rates and the increase in outstanding debt.

Other Income, Net

Other income (expense), 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.

<i>(in thousands)</i>	FISCAL YEAR		Change
	2023	2022	
Other income, net	\$ 2,871	\$ 910	\$ 1,961 n/m ⁽¹⁾

Not meaningful.

The increase in Other income, net in 2023 as compared to 2022 primarily related to the increase in (i) interest income and (ii) insurance recoveries, net of costs incurred, in connection with Hurricane Ian.

Income Tax Expense

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

<i>(in thousands)</i>	FISCAL YEAR		Change
	2023	2022	
Income tax expense	\$ (10,690)	\$ (5,684)	\$ (5,006) 88.1%
Effective income tax rate	29.6 %	45.1 %	(15.5)%

The change in the effective income tax rates for 2023 as compared to 2022 was mainly due to (i) the change in the valuation allowance, (ii) the benefit of tax credits for FICA taxes on certain employees' tips, (iii) impacts of executive stock-based compensation and (iv) non-deductible costs associated with underwritten secondary public offerings of the Company's common stock by entities affiliated with our majority owner, Advent International L.P., and the Registration Statement on Form S-3 filed in 2022.

Net Income and Net Income Margin

<i>(in thousands)</i>	FISCAL YEAR		Change	
	2023	2022		
Net income	\$ 25,385	\$ 6,907	\$ 18,478	n/m ⁽¹⁾
Net income margin	2.8 %	0.9 %	1.9%	

(1) Not meaningful.

The increase in net income and net income margin during 2023 as compared to 2022 was primarily due to the increase in income from operations, which was partially offset by higher (i) interest expense and (ii) income tax expense.

Restaurant Level Operating Profit and Restaurant level Operating Profit Margin

<i>(in thousands)</i>	FISCAL YEAR		Change	
	2023	2022		
Restaurant level operating profit	\$ 175,658	\$ 128,936	\$ 46,722	36.2 %
Restaurant level operating profit margin	20.0 %	17.9 %	2.1%	

Restaurant level operating profit margin during 2023 increased as compared to 2022 primarily due to (i) leveraging restaurant sales and (ii) lower commodity costs across the market basket, driven mostly by decreases in pork and avocado prices and lower costs of to-go supplies. This was partially offset by the increase in restaurant-level staffing and wages.

Restaurant level operating profit during 2023 increased as compared to 2022 primarily due to (i) same-restaurant sales growth, primarily driven by menu price increases, (ii) 37 NROs, (iii) 23 restaurants acquired from our franchisees and (iv) lower costs for commodities, driven mostly by decreases in pork and avocado prices, and lower costs of to-go supplies. This was partially offset by the increase in (i) operating costs and expenses driven by our restaurant growth and (ii) restaurant-level staffing and wages.

Adjusted EBITDA and Adjusted EBITDA Margin

<i>(in thousands)</i>	FISCAL YEAR		Change	
	2023	2022		
Adjusted EBITDA	\$ 99,483	\$ 69,278	\$ 30,205	43.6 %
Adjusted EBITDA margin	11.2 %	9.5 %	1.7%	

The increase in Adjusted EBITDA and Adjusted EBITDA margin during 2023 as compared to 2022 was primarily due to the increase in restaurant level operating profit and restaurant level operating profit margin. This was partially offset by the increase in general and administrative expenses, mainly due to the increase in compensation expense.

Non-GAAP Financial Measure Reconciliations

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

<i>(in thousands)</i>	FISCAL YEAR		
	2023	2022	2021
Net income (loss)	\$ 25,385	\$ 6,907	\$ (2,107)
Depreciation and amortization	41,223	34,230	32,379
Interest expense	8,063	5,232	20,099
Income taxes	10,690	5,684	2,477
EBITDA	85,361	52,053	52,848
Stock-based compensation ⁽¹⁾	7,604	10,374	8,596
Transaction expenses (income), net ⁽²⁾	3,147	2,513	(1,156)
Strategic transition costs ⁽³⁾	892	2,318	2,402
Impairments and loss on disposal of assets ⁽⁴⁾	1,359	920	381
Delaware Voluntary Disclosure Agreement Program ⁽⁵⁾	1,250	149	—
Recruiting and relocation costs ⁽⁶⁾	465	681	351
Severance costs ⁽⁷⁾	26	155	265
Insurance proceeds in connection with natural disasters, net ⁽⁸⁾	(621)	115	—
Loss on extinguishment of debt	—	—	2,403
COVID-19 related charges ⁽⁹⁾	—	—	211
Adjusted EBITDA	\$ 99,483	\$ 69,278	\$ 66,301
Total revenues	\$ 891,551	\$ 730,162	\$ 601,193
Net income (loss) margin	2.8 %	0.9 %	(0.4)%
Adjusted EBITDA margin	11.2 %	9.5 %	11.0 %
Additional information			
Deferred rent expense (income) ⁽¹⁰⁾	\$ 2,090	\$ 2,418	\$ (2,011)

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

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

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

(4) Represents impairment charges and costs related to the disposal of assets due to retirements, replacements, restaurant closures and natural disasters.

(5) Represents estimated probable loss and 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 (Loss).

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

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

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

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

(10) 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 (Loss).

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

<i>(in thousands)</i>	FISCAL YEAR		
	2023	2022	2021
Income from operations	\$ 41,267	\$ 16,913	\$ 22,243
Less: Franchise revenues	(14,459)	(10,981)	(8,850)
Add:			
General and administrative expenses	103,121	84,959	70,388
Depreciation and amortization	41,223	34,230	32,379
Transaction expenses (income), net ⁽¹⁾	3,147	2,513	(1,156)
Impairments and loss on disposal of assets ⁽²⁾	1,359	920	381
Costs in connection with natural disasters ⁽³⁾	—	382	—
COVID-19 related charges ⁽⁴⁾	—	—	19
Restaurant level operating profit	\$ 175,658	\$ 128,936	\$ 115,404
Restaurant sales	\$ 877,092	\$ 719,181	\$ 592,343
Income from operations margin	4.7 %	2.4 %	3.8 %
Restaurant level operating profit margin	20.0 %	17.9 %	19.5 %
Additional information			
Deferred rent expense (income) ⁽⁵⁾	\$ 1,891	\$ 2,219	\$ (2,075)

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

(2) Represents impairment charges and costs related to the disposal of assets due to retirements, replacements, restaurant closures and natural disasters.

(3) Represents costs incurred in connection with Hurricane Ian. The costs include inventory obsolescence and spoilage as well as compensation for employees, which were recorded in Food and beverage costs and Labor and other expenses on the Consolidated Statements of Operations and Comprehensive Income (Loss).

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

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

Liquidity and Capital Resources

Liquidity

As of December 31, 2023, the Company had cash and cash equivalents of \$49.6 million. The Company had \$92.5 million of principal amount outstanding of its existing \$100.0 million term loan A facility (the "Term Facility"), excluding unamortized debt discount and deferred issuance costs, and the Company had drawn \$30.0 million on its existing \$75.0 million revolving credit facility (the "Revolving Credit Facility") as of December 31, 2023. Our principal uses of cash include capital expenditures for the development, acquisition or remodeling of restaurants, lease obligations, debt service payments and strategic infrastructure investments. Our working capital requirements are low because our restaurants store very little inventory and our customers pay for their purchases at the time of the sale which frequently precedes our payment terms with suppliers.

On January 5, 2024, (the "Closing Date"), FWR Holding Corporation, a Delaware corporation ("FWR"), an indirect subsidiary of the Company, entered into that certain Amendment No. 2 to Credit Agreement (the "Amendment"), by and among FWR, as borrower, AI Fresh Parent, Inc., a Delaware corporation and indirect subsidiary of the Company ("Holdings"), the subsidiaries of FWR party thereto as guarantors, the lenders party thereto and Bank of America, N.A., as administrative agent and collateral agent (in such capacities, the "Administrative Agent"), which amended its credit agreement dated as of October 6, 2021 ((as previously amended, and as amended by the Amendment, the "Credit Agreement") by and among FWR, Holdings, the lenders from time to time party thereto and the Administrative Agent. Pursuant to the terms of the Amendment, (i) the Term Facility was replaced with a new \$100.0 million term loan A facility, (the "New Term Facility"), on terms substantially identical to the Term Facility, (ii) the Revolving Credit Facility was replaced with a new \$75.0 million revolving credit facility (the "New Revolving Credit Facility") on terms substantially identical to the Revolving Credit Facility, (iii) a new \$125.0 million incremental delayed draw term loan facility, (the "New Delayed Draw Term Facility"), was established that will be available to FWR in one or more draws of at least \$5.0 million each for a period of 18 months following the Closing Date, and (iv) the New Revolving Credit Facility was increased by \$50.0 million in new revolving credit commitments bringing the aggregate committed amount under the New Revolving Credit Facility to \$125.0 million. Commitments in respect of the New Delayed Draw Term Facility may be reduced, in whole or in part, at any time prior to 18 months following the Closing Date in the sole discretion of FWR. Loans under the New Term Facility and, once funded, the New Delayed Draw Term Facility will constitute the same class of term loans for all purposes under the amendment to the Credit Agreement.

We believe that our cash flows from operations, availability under our Credit Agreement and available cash and cash equivalents will be sufficient to meet our liquidity needs for at least the next 12 months. We anticipate that to the extent that we require additional liquidity, it will be funded first through additional indebtedness and thereafter through the issuance of equity. Although we believe that our current level of total available liquidity is sufficient to meet our short-term and long-term liquidity requirements, we regularly evaluate opportunities to improve our liquidity position in order to enhance financial flexibility. On November 7, 2022, we filed a Registration Statement on Form S-3 that allows the Company to sell up to 5,000,000 shares of common stock from time to time in one or more offerings.

We estimate that our capital expenditures, not including capital allocated to acquisitions of franchise-owned restaurants, will total approximately \$125.0 million to \$135.0 million in 2024, which will be invested primarily in new restaurant projects and planned remodels. We plan to fund the capital expenditures and our significant acquisitions primarily with cash generated from our operating activities as well as with borrowings from our facilities pursuant to our Credit Agreement.

Summary of Cash Flows

The following table presents a summary of our cash provided by (used in) operating, investing and financing activities for 2023 and 2022:

	FISCAL YEAR	
	2023	2022
<i>(in thousands)</i>		
Cash provided by operating activities	\$ 95,338	\$ 62,937
Cash used in investing activities	(123,370)	(63,111)
Cash provided by (used in) financing activities	28,070	(2,018)
Net increase (decrease) in cash and cash equivalents and restricted cash	\$ 38	\$ (2,192)

Cash provided by operating activities during 2023 was \$95.3 million as compared to \$62.9 million during 2022 primarily due to (i) the increase in net income of \$18.5 million, (ii) the impact of non-cash charges of \$10.8 million and (iii) a net change in operating assets and liabilities of \$3.2 million. The increase in the non-cash charges was primarily driven by increases in (i) deferred income taxes, (ii) depreciation and amortization and (iii) non-cash operating lease costs. This increase was partially offset by lower stock-based compensation expense. The net change in operating assets and liabilities was primarily due to (i) higher accrued compensation and (ii) the timing of operational payments.

Cash used in investing activities increased to \$123.4 million during 2023 from \$63.1 million during 2022 primarily as a result of the increase in capital expenditures to support our restaurant growth and the acquisitions of restaurants from our franchisees.

Cash provided by financing activities of \$28.1 million during 2023 compared to cash used in financing activities of \$2.0 million during 2022 was primarily due to proceeds from borrowings on our revolving credit facility, partially offset by the increase in principal repayments on the Term Facility.

Contractual Obligations

Material contractual obligations arising in the normal course of business primarily consist of operating and finance lease obligations, long-term debt, and purchase obligations. The timing and nature of these commitments are expected to have an impact on our liquidity and capital requirements in future periods. Refer to Note 10, *Debt*, in the accompanying consolidated financial statements for additional information relating to our long-term debt and Note 12, *Leases*, in the accompanying consolidated financial statements included in Item 8 of Part II of this Annual Report on Form 10-K for additional information related to our operating and financing leases.

Purchase obligations include agreements related to the construction or remodeling of restaurant facilities, the purchase of food, beverages, paper goods and other supplies, equipment purchases, marketing-related contracts, software license commitments, technology and other service contracts in the normal course of business. These obligations are generally pursuant to short-term purchase orders at prevailing market prices and are recorded as liabilities when the related goods are received or services rendered. These commitments are cancellable and there are no material financial penalties associated with these commitments in the event of early termination.

Purchase obligations also include firm minimum commitments in excess of 12 months for certain contracts. Refer to Note 18, *Commitments and Contingencies*, in the accompanying consolidated financial statements included in Item 8 of Part II of this Annual Report on Form 10-K for additional information.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K, which have been prepared in accordance with GAAP. The preparation of these 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, 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. The accounting policies and estimates that we believe to be the most critical to an understanding of our financial condition and results of operations and that require the most complex and subjective management judgments are discussed below.

Business Combinations

We account for acquisitions using the purchase method of accounting. We allocate the fair value of purchase consideration to the tangible assets acquired, liabilities assumed and intangible assets acquired based on their estimated fair values at the acquisition date. The excess of the fair value of purchase consideration over the fair values of identifiable assets and liabilities is recorded as goodwill. The fair values assigned, defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants, are based on estimates and assumptions determined by management. We determine the fair values of tangible and intangible assets acquired generally

in consultation with a third-party valuation advisor. Critical estimates in valuing certain intangible assets include but are not limited to future expected cash flows and discount rates. In addition, we have estimated the value and economic lives of certain tangible assets based on historical information, industry estimates and averages, which are used to calculate depreciation and amortization expense. If the subsequent actual results and updated projections of the underlying business activity change compared with the assumptions and projections used to develop these values, we could experience impairment charges. If our estimates of the economic lives change, depreciation or amortization expense could be accelerated or extended. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates.

If the initial accounting for a business combination is incomplete by the end of a reporting period that falls within the measurement period (not to exceed a year from the date of acquisition), we report provisional amounts in our consolidated financial statements. During the measurement period, we adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. We record these adjustments to the provisional amounts with a corresponding offset to goodwill. Any adjustments identified after the measurement period are recorded in the Consolidated Statements of Operations and Comprehensive Income (Loss).

The results of operations of acquired businesses are included in the consolidated financial statements from the acquisition date and costs that we incur to complete the business combination, such as legal and other professional fees, are expensed as they are incurred.

Goodwill and Indefinite-Lived Intangibles

Goodwill and indefinite-lived intangibles are tested for impairment annually, on the first day of the fourth quarter of the fiscal year, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Significant judgments are used to determine if an indicator of impairment has occurred. Such indicators could include negative operating performance of our restaurants, economic and restaurant industry trends, legal factors, significant competition or changes in our business strategy. Any adverse change in these factors could have a significant impact on the recoverability of our goodwill and indefinite-lived intangible assets and could have a material impact on our consolidated financial statements.

We have identified one reporting unit to which we have attributed goodwill. Management may elect to perform a qualitative assessment to determine whether it is more likely than not that the reporting unit and/or asset group is impaired. If the qualitative assessment is not performed, or if it is not more likely than not that the estimated fair value of the reporting unit and indefinite-lived intangible assets exceeds the respective carrying value, a quantitative analysis is required.

If the qualitative assessment is not performed or if we determine that it is not more likely than not that the fair value of the reporting unit exceeds the carrying value, the fair value of the reporting unit is calculated using the best information available, including market information (also referred to as the market approach) and discounted cash flow projections (also referred to as the income approach). The market approach estimates fair value by applying projected cash flow earnings multiples to the reporting unit's operating performance. The multiples are derived from comparable publicly-traded companies with similar operating and investment characteristics. The income approach uses internal future cash flow estimates, which are influenced by revenue growth rates, operating margins and new restaurant openings, that are discounted using a weighted-average cost of capital that reflects current market conditions. We recognize an impairment loss when the carrying value of the reporting unit exceeds the estimated fair value.

In performing the quantitative assessment for indefinite-lived intangibles, we estimate the fair value of trade names and trademarks using the relief-from-royalty method, which requires assumptions related to projected sales, assumed royalty rates that could be payable if we did not own the trademarks and a discount rate. We recognize an impairment loss when the carrying value of the asset exceeds the estimated fair value.

The subjective estimates associated with management's judgments and assumptions in fair value calculations at the measurement date are affected by various factors including changes in economic conditions, our operating performance and our business strategies.

During 2023 and 2022, we elected to perform a qualitative assessment for our annual impairment review of goodwill and indefinite-lived intangibles. In considering the qualitative approach related to goodwill, we considered factors including,

but not limited to, macro-economic conditions, market and industry conditions, the competitive environment, results of prior impairment tests, operational stability, the overall financial performance of the reporting unit and the impacts of the discount rates. Management also considered the specific future outlook for the reporting unit. As it relates to our trade names and trademarks, we evaluate similar factors as the goodwill assessment, in addition to impacts of potential changes to the assumed royalty rate. Based on the results of the qualitative assessment, Management concluded that impairment of goodwill and its indefinite-lived intangibles was not likely and as a result, management was not required to perform a quantitative assessment.

Long-Lived Assets and Definite-Lived Intangible Assets

Long-lived assets deployed at company-owned restaurants include (i) property, fixtures and equipment, (ii) operating lease right-of-use asset, net of the related operating lease liability and (iii) reacquired rights to the extent the restaurant had been acquired by the Company. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Recoverability is measured by a comparison of the carrying amount of an asset group to the estimated undiscounted future cash flows expected to be generated by the asset group. The comparison is performed at the lowest level of identifiable cash flows, which is primarily at the individual restaurant level. Significant judgment is used to determine the expected useful lives of long-lived assets and the estimated future cash flows, including projected sales growth, operating margins and ongoing maintenance and improvement of the assets. If the carrying amount of the asset group exceeds its estimated undiscounted future cash flows, an impairment charge is recognized.

Definite-lived intangible assets consist of franchise rights which arose from the purchase price allocation in connection with the Advent Acquisition and also include reacquired rights from the Company's acquisitions of franchised restaurants. Definite-lived intangible assets are amortized on a straight-line basis over their estimated useful lives and are reviewed for impairment when events or change in circumstances indicate that the carrying amount of such assets may not be recoverable. Significant judgments are used to determine if an indicator of impairment has occurred. Such indicators may include, among others: negative operating performance of our restaurants, economic and restaurant industry trends, legal factors, significant competition or changes in our business strategy. Adverse changes in these factors could have a significant impact on the recoverability of these assets and the resulting impairment charge could be material to our consolidated financial statements.

Recoverability of definite-lived intangible assets is measured by a comparison of the carrying amount of the asset group to the estimated undiscounted future cash flows expected to be generated by the asset group. If the total future undiscounted net cash flows are less than the carrying amount, this may be an indicator of impairment. An impairment loss is recognized when the asset's carrying value exceeds its estimated fair value, which is generally estimated using discounted future cash flows expected from future use of the asset group.

Leases

We lease our restaurant facilities and corporate offices, as well as certain restaurant equipment under various non-cancelable agreements. At the inception of each lease, we evaluate the expected term which includes reasonably certain renewal options, and the classification as either an operating lease or a finance lease. Lease liabilities represent the present value of future lease payments. To determine the present value of the lease liability, we estimate the incremental borrowing rates corresponding to the reasonably certain lease term as our leases do not provide implicit rates. Assumptions used in determining our incremental borrowing rate include a market yield implied by our outstanding secured term loans interpolated for various maturities using our synthetic credit rating, which is determined using a regression analysis of rated publicly-traded comparable companies and their financial data.

We assess the impairment of the right-of-use asset at the asset group level whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable.

Changes in management's judgments and in the assumptions being used may produce materially different amounts in the recognition of the right-of-use assets, lease liabilities and lease expense.

Income Taxes

We use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets or liabilities are recognized for the estimated future tax effects attributable to temporary differences between the carrying value and the

tax basis of assets and liabilities as well as tax credit carryforwards. The estimates we make under this method include, among other items, depreciation and amortization expense allowable for tax purposes, credits for items such as taxes paid on reported employee tip wages, effective rates for state and local income taxes and the deductibility of certain items. In addition, our annual effective income tax rate is adjusted as additional information becomes available during the reporting period.

We recognize deferred tax assets for all deductible temporary differences to the extent that it is probable that taxable income will be available against which the deductible temporary differences can be utilized. A valuation allowance for deferred tax assets is provided when it is more likely than not that a portion of the deferred tax assets will not be realized. Potential for recovery of deferred tax assets is evaluated by estimating the taxable income in any available carry back period, considering future taxable income expected, scheduling of anticipated reversal of taxable temporary differences and considering prudent and feasible tax planning strategies.

We continue to monitor and evaluate the rationale for recording a valuation allowance against deferred tax assets. As we increase earnings and utilize deferred tax assets, it is possible the valuation allowance could be reduced or eliminated. In addition, our ability to utilize net operating loss carryforwards and tax credit carryforwards could be adversely impacted by, among other things, a future “ownership change” as defined under Section 382 of the Internal Revenue Code. Changes in assumptions regarding our level and composition of earnings, tax laws or the deferred tax valuation allowance and the results of tax audits, may materially impact the effective income tax rate.

Stock-Based Compensation and Fair Value of Common Stock

Stock-based compensation expense is measured based on the award’s grant date fair value. Stock-based compensation expense related to time-based stock option awards issued under the 2017 Equity Plan is recognized on an accelerated recognition method over the requisite service period. Prior to our IPO, we had not recognized any stock-based compensation expense for our performance-based stock option awards issued under the 2017 Equity Plan as the satisfaction of the performance conditions were not considered probable. Upon consummation of the Company’s IPO in October 2021, certain performance-based stock option awards issued under the 2017 Equity Plan for which the performance and market conditions were satisfied as a result of the Company’s IPO, converted into time-based stock option awards with the related stock-based compensation expense to be recognized on an accelerated recognition method over the remaining service period. The performance-based stock option awards that did not convert into time-based stock option awards were canceled and unrecognized compensation expense for those canceled performance-based stock option awards was recognized on the date of the Company’s IPO. No awards were granted under the 2017 Equity Plan during 2023 and 2022 and the Company does not intend to grant any further awards under the 2017 Equity Plan. Stock-based compensation expense related to time-based stock option awards issued under the 2021 Equity Plan is recognized on a straight-line basis over the requisite service period. Forfeitures are recognized as they occur for all awards.

We estimate the fair value of stock option awards using the Black-Scholes valuation model, which involves several assumptions and judgments including the expected term of the stock option, expected volatility, the risk-free interest rate and the expected dividend yield. The Company does not have sufficient historical stock option exercise activity and therefore we estimated the expected term of stock options granted under the 2021 Equity Plan using the simplified method, which represents the mid-point between the vesting period and the contractual term for each grant. Prior to the IPO, the expected term of stock option awards was determined based on data from publicly traded companies. The expected volatility of stock option awards is based on the historical volatilities of a set of publicly traded peer companies in a similar industry as the Company lacks company-specific historical or implied volatility information. The risk-free interest rate is determined by reference to the U.S. Treasury yield curve for time periods approximately equal to the expected term of the stock option award. The expected dividend yield is based on the fact that the Company has never paid cash dividends and does not have intentions of paying dividends in the foreseeable future. These assumptions represented management’s best estimate, which involved inherent uncertainties and the application of management’s judgment. As a result, if we had used significantly different assumptions or estimates, our stock-based compensation expense could have been materially different.

The fair value of our common stock and our stock-based awards’ grant date fair value is determined based on the closing price on our common stock on Nasdaq. Prior to our IPO and our common stock being listed on Nasdaq, given the absence of a public trading market for our common stock, the estimated fair value had been determined with input from management exercising reasonable judgment and considering several objective and subjective factors including: (i) third-party valuations of our common stock, (ii) a combination of the income approach and the market approach and (iii) general economic outlook including economic growth, inflation and interest rates.

In 2021, prior to the IPO, we determined the Company's equity value using the probability weighted expected return method ("PWERM"), or the hybrid method. Under the hybrid method, multiple valuation approaches are used and then combined into a single probability weighted valuation using a PWERM, which considers the probability of an initial public offering and sale scenarios. The results of the valuation approaches were weighted based on a variety of factors, including: the current macroeconomic environment, current industry conditions and length of time since arms-length market transaction events. Additionally, a discount for lack of marketability was applied to account for the lack of access to an active public market. The resulting value was then allocated to outstanding equity using an option-pricing model. This process involved the use of estimates, judgments, and assumptions that are highly complex and subjective, such as those regarding our expected future revenue, expenses and future cash flows, discount rates, market multiples, the selection of comparable companies, and the probability of possible future events. The assumptions underlying these valuations represented management's best estimate, which involved inherent uncertainties and the application of management's judgment. As a result, if we had used significantly different assumptions or estimates, the fair value of our common stock and our stock-based compensation expense could have been materially different.

See Note 17, *Stock-Based Compensation*, in the accompanying notes to the consolidated financial statements included in Item 8 of Part II of this Annual Report on Form 10-K for additional information.

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 consolidated financial statements included in Item 8 of Part II of this Annual Report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Commodity and Food Price Risks

Our profitability is dependent on, among other things, our ability to anticipate and react to changes in the costs of key operating resources, including food and beverage, energy, fuel costs and other commodities. We have been able to partly offset cost increases resulting from a number of factors, including market conditions, shortages or interruptions in supply due to weather, the macroeconomic impacts of the Russia-Ukraine conflict or other conditions beyond our control, governmental regulations and inflation, by increasing our menu prices, as well as making other operational adjustments that increase productivity. However, elevated inflation in commodity markets and substantial increases in costs and expenses could impact our results of operations to the extent that such increases cannot be offset by menu price increases. Currently we do not use financial instruments to hedge our commodity risk.

The Company's market basket experienced cost deflation of 50 basis points in 2023. In 2024, we expect cost inflation for our entire market basket in the range of 2% to 4%.

In 2024, we have locked prices for approximately 32% of our market basket. Other commodities are purchased based upon negotiated price ranges established with vendors and are subject to fixed prices or fixed formulas for 30-to-90 day periods.

Interest Rate Risk

As of December 31, 2023, we had \$92.5 million in outstanding borrowings, excluding unamortized debt discount and deferred issuance costs. Our loans pursuant to our Credit Agreement incur interest at a floating rate and we also pay an unused commitment fee of between 25 and 50 basis points on the undrawn commitments under our Revolving Credit Facility, depending on the Total Rent Adjusted Net Leverage Ratio, as defined in our Credit Agreement. 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 agreements, the Company will pay a weighted average fixed rate of 4.16% on the notional amount and will receive payments from the counterparties based on the three-month secured overnight financing rate. Refer to Note 10, *Debt*, and Note 11, *Interest Rate Swaps*, in the accompanying notes to the consolidated financial statements included in Item 8 of Part II of this Annual Report on Form 10-K for more information.

Item 8. Financial Statements and Supplementary Data

INDEX TO FINANCIAL INFORMATION

Report of Independent Registered Public Accounting Firm (PCAOB ID 238)	58
Consolidated Balance Sheets - December 31, 2023 and December 25, 2022	60
Consolidated Statements of Operations and Comprehensive Income (Loss) - For Fiscal Years 2023, 2022 and 2021	61
Consolidated Statements of Equity - For Fiscal Years 2023, 2022 and 2021	62
Consolidated Statements of Cash Flows - For Fiscal Years 2023, 2022 and 2021	63
Notes to Consolidated Financial Statements	65

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of First Watch Restaurant Group, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of First Watch Restaurant Group, Inc. and its subsidiaries (the "Company") as of December 31, 2023 and December 25, 2022, and the related consolidated statements of operations and comprehensive income (loss), of equity and of cash flows for each of the three years in the period ended December 31, 2023, including the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and December 25, 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Tampa, Florida
March 5, 2024

We have served as the Company's auditor since 1999.

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

	DECEMBER 31, 2023	DECEMBER 25, 2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 49,632	\$ 49,672
Restricted cash	329	251
Accounts receivable	5,532	6,164
Inventory	5,381	5,028
Prepaid expenses	7,494	5,800
Derivative assets, current	457	—
Other current assets	2,365	373
Total current assets	71,190	67,288
Goodwill	359,883	345,219
Intangible assets, net	151,186	143,151
Operating lease right-of-use assets	420,001	352,373
Property, fixtures and equipment, net of accumulated depreciation of \$181,481 and \$145,720, respectively	263,082	195,117
Other long-term assets	1,703	1,298
Total assets	\$ 1,267,045	\$ 1,104,446
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$ 6,324	\$ 7,590
Accrued liabilities	35,630	22,729
Accrued compensation and deferred payroll taxes	21,711	17,899
Deferred revenues	5,499	5,193
Current portion of operating lease liabilities	40,281	38,936
Current portion of long-term debt	5,628	6,257
Note payable	—	1,376
Total current liabilities	115,073	99,980
Operating lease liabilities	441,290	366,113
Long-term debt, net	119,767	94,668
Deferred income taxes	25,331	17,166
Derivative liabilities	1,346	—
Other long-term liabilities	2,954	3,384
Total liabilities	705,761	581,311
Commitments and contingencies (Note 18)		
Equity:		
Preferred stock; \$0.01 par value; 10,000,000 shares authorized; none issued and outstanding	—	—
Common stock; \$0.01 par value; 300,000,000 shares authorized; 59,891,705 and 59,211,019 shares issued and outstanding at December 31, 2023 and December 25, 2022, respectively	599	592
Additional paid-in capital	634,099	620,675
Accumulated deficit	(72,747)	(98,132)
Accumulated other comprehensive loss	(667)	—
Total equity	561,284	523,135
Total liabilities and equity	\$ 1,267,045	\$ 1,104,446

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

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

	FISCAL YEAR		
	2023	2022	2021
Revenues:			
Restaurant sales	\$ 877,092	\$ 719,181	\$ 592,343
Franchise revenues	14,459	10,981	8,850
Total revenues	891,551	730,162	601,193
Operating costs and expenses:			
Restaurant operating expenses (exclusive of depreciation and amortization shown below):			
Food and beverage costs	197,374	172,561	134,201
Labor and other related expenses	294,010	238,257	189,167
Other restaurant operating expenses	134,477	114,476	94,847
Occupancy expenses	68,400	59,919	55,433
Pre-opening expenses	7,173	5,414	3,310
General and administrative expenses	103,121	84,959	70,388
Depreciation and amortization	41,223	34,230	32,379
Impairments and loss on disposal of assets	1,359	920	381
Transaction expenses (income), net	3,147	2,513	(1,156)
Total operating costs and expenses	850,284	713,249	578,950
Income from operations	41,267	16,913	22,243
Interest expense	(8,063)	(5,232)	(20,099)
Other income (expense), net	2,871	910	(1,774)
Income before income taxes	36,075	12,591	370
Income tax expense	(10,690)	(5,684)	(2,477)
Net income (loss)	\$ 25,385	\$ 6,907	\$ (2,107)
Net income (loss)	\$ 25,385	\$ 6,907	\$ (2,107)
Other comprehensive loss:			
Unrealized loss on derivatives	(889)	—	—
Income tax related to other comprehensive loss	222	—	—
Other comprehensive loss	(667)	—	—
Comprehensive income (loss)	\$ 24,718	\$ 6,907	\$ (2,107)
Net income (loss) per common share - basic	\$ 0.43	\$ 0.12	\$ (0.04)
Net income (loss) per common share - diluted	\$ 0.41	\$ 0.11	\$ (0.04)
Weighted average number of common shares outstanding - basic	59,531,404	59,097,512	48,213,995
Weighted average number of common shares outstanding - diluted	61,191,613	60,140,045	48,213,995

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)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Equity
	Shares	Amount	Shares	Amount				
Balance at December 27, 2020	266,667	\$ 3	45,013,784	\$ 450	\$ 423,345	\$ (102,932)	\$ —	\$ 320,866
Share issuance	—	—	10,877,850	109	176,965	—	—	177,074
Conversion of preferred shares	(266,667)	(3)	3,156,812	31	(28)	—	—	—
Net loss	—	—	—	—	—	(2,107)	—	(2,107)
Stock-based compensation	—	—	—	—	8,596	—	—	8,596
Balance at December 26, 2021	—	\$ —	59,048,446	\$ 590	\$ 608,878	\$ (105,039)	\$ —	\$ 504,429
Common stock issued under stock-based compensation plans, net	—	—	162,573	2	1,423	—	—	1,425
Net income	—	—	—	—	—	6,907	—	6,907
Stock-based compensation	—	—	—	—	10,374	—	—	10,374
Balance at December 25, 2022	—	\$ —	59,211,019	\$ 592	\$ 620,675	\$ (98,132)	\$ —	\$ 523,135
Common stock issued under stock-based compensation plans, net	—	—	680,686	7	5,820	—	—	5,827
Net income	—	—	—	—	—	25,385	—	25,385
Stock-based compensation	—	—	—	—	7,604	—	—	7,604
Other comprehensive loss, net of tax	—	—	—	—	—	—	(667)	(667)
Balance at December 31, 2023	—	\$ —	59,891,705	\$ 599	\$ 634,099	\$ (72,747)	\$ (667)	\$ 561,284

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

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

	FISCAL YEAR		
	2023	2022	2021
Cash flows from operating activities:			
Net income (loss)	\$ 25,385	\$ 6,907	\$ (2,107)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	41,223	34,230	32,379
Stock-based compensation	7,604	10,374	8,596
Non-cash operating lease costs	19,595	16,122	13,052
Non-cash portion of gain on lease modifications	(123)	(83)	(961)
Deferred income taxes	8,315	4,677	2,176
Amortization of debt discount and deferred issuance costs	452	445	1,088
Loss on extinguishment of debt	—	—	2,403
Impairments and loss on disposal of assets	1,359	920	381
Gain on insurance proceeds	(1,198)	(219)	—
Changes in assets and liabilities:			
Accounts receivable	632	(1,714)	(535)
Inventory	(62)	(1,005)	(1,108)
Prepaid expenses	(1,671)	(123)	(3,187)
Other assets, current and long-term	(2,342)	1,072	169
Accounts payable	(1,301)	(3,470)	6,700
Accrued liabilities and other long-term liabilities	6,082	4,739	5,335
Accrued compensation and deferred payroll taxes, current and long-term	3,812	(3,297)	7,007
Deferred revenues, current and long-term	(657)	719	648
Operating lease liabilities	(11,399)	(7,048)	(9,760)
Other liabilities	(368)	(309)	695
Net cash provided by operating activities	95,338	62,937	62,971
Cash flows from investing activities:			
Capital expenditures	(84,527)	(62,219)	(35,311)
Business acquisitions, net of cash acquired	(39,880)	—	—
Purchase of intangible assets	(161)	(1,111)	(371)
Insurance proceeds	1,198	219	—
Net cash used in investing activities	(123,370)	(63,111)	(35,682)

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)

	FISCAL YEAR		
	2023	2022	2021
Cash flows from financing activities:			
Proceeds from borrowings on revolving credit facility	\$ 30,000	\$ —	\$ —
Repayments of long-term debt, including finance lease liabilities	(6,183)	(2,389)	(291,602)
Proceeds from exercise of stock options, net of employee taxes paid	5,827	1,425	—
Repayments of note payable	(1,376)	(2,868)	(522)
Note payable borrowing	—	1,892	2,874
Proceeds from issuance of long-term debt	—	—	100,000
Proceeds from common stock issuance, net of underwriting discounts and commissions	—	—	182,095
Contingent consideration payment	(198)	(78)	(9)
Payment of initial public offering costs	—	—	(4,881)
Payment of debt discount and deferred issuance costs	—	—	(2,226)
Net cash provided by (used in) financing activities	28,070	(2,018)	(14,271)
Net increase (decrease) in cash and cash equivalents and restricted cash	38	(2,192)	13,018
Cash and cash equivalents and restricted cash:			
Beginning of period	49,923	52,115	39,097
End of period	\$ 49,961	\$ 49,923	\$ 52,115
Supplemental cash flow information:			
Cash paid for interest	\$ 8,725	\$ 3,368	\$ 16,152
Cash paid for income taxes, net of refunds	\$ 1,952	\$ 915	\$ 79
Supplemental disclosures of non-cash investing and financing activities:			
Interest converted to long-term debt	\$ —	\$ —	\$ 3,063
Leased assets obtained in exchange for new operating lease liabilities	\$ 88,819	\$ 45,979	\$ 33,857
Leased assets obtained in exchange for new finance lease liabilities	\$ 249	\$ 127	\$ 217
Remeasurements and terminations of operating lease assets and lease liabilities	\$ (898)	\$ (2,563)	\$ (3,070)
Remeasurements and terminations of finance lease assets and lease liabilities	\$ (48)	\$ (197)	\$ 6
Increase in liabilities from acquisition of property, fixtures and equipment	\$ 7,036	\$ 2,463	\$ 144

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

FIRST WATCH RESTAURANT GROUP, INC.
NOTES TO 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. The Company’s outstanding stock was purchased by funds affiliated with or managed by Advent International L.P. on August 21, 2017 (the “Advent Acquisition”).

The Company operates restaurants through its wholly owned subsidiary, First Watch Restaurants, Inc., and is a franchisor through its wholly owned subsidiary, First Watch Franchise Development Co. As of December 31, 2023 and December 25, 2022, the Company operated 425 company-owned restaurants and 366 company-owned restaurants, respectively, and had 99 franchise-owned restaurants and 108 franchise-owned restaurants, respectively.

Initial Public Offering

The Company completed its initial public offering (“IPO”) on October 5, 2021, in which the Company sold 10,877,850 shares of common stock, which included the underwriters’ full exercise of their option to purchase up to an additional 1,418,850 shares of common stock, at the initial public offering price of \$18.00 per share. The Company received aggregate net proceeds of \$182.1 million after deducting underwriting discounts and commissions of \$13.7 million.

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 fiscal years ended December 31, 2023 (“Fiscal 2023”), December 25, 2022 (“Fiscal 2022”) and December 26, 2021 (“Fiscal 2021”) contained 53 weeks, 52 weeks and 52 weeks, respectively. The accompanying consolidated financial statements of the Company have been prepared by the Company in accordance with generally accepted accounting principles in the United States of America (“GAAP”).

Out of Period Adjustment

Management identified an error relating to the deferred tax asset associated with accrued compensation in Fiscal 2021. This out-of-period adjustment resulted in an increase of approximately \$0.4 million in income tax expense on the Consolidated Statements of Operations and Comprehensive Income for Fiscal 2023. Management assessed the materiality of this error on the previously issued consolidated financial statements and concluded that the error was not material to the previously issued consolidated financial statements and the impact of correcting the error in Fiscal 2023 is not material to the consolidated financial statements as of and for the fiscal year ended December 31, 2023.

Principles of Consolidation

The Company’s consolidated financial statements include the accounts of its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

The Company does not hold ownership interests in any franchisee and does not provide financial support to franchisees. As a result, the Company’s franchise relationships are not variable interest entities and are not consolidated.

Use of Estimates

The preparation of 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 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.

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

Segment Reporting

Management determined the Company's single operating segment on the basis that the Company's Chief Operating Decision Maker (the "CODM"), the Chief Executive Officer, assesses performance and allocates resources at the Company's consolidated level. The Company does not have any customer that represents more than 10.0% of total revenues for the periods presented.

Business Combinations

The Company's business combinations are accounted for using the purchase method of accounting. The consideration transferred in a business combination, identifiable assets acquired and liabilities assumed are measured at their estimated fair value as of the date of the acquisition. Goodwill is recognized for the amount by which the purchase consideration exceeds the fair values of the net assets acquired. Costs incurred in connection with business combinations are expensed as incurred. The results of operations of the businesses that were acquired are included as of their respective dates of acquisition.

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.

Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three levels of the fair value hierarchy, of which the first two are considered observable inputs and the last is considered unobservable. The classification of a financial asset or liability within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	Observable inputs available other than quoted prices included in Level 1
Level 3	Unobservable inputs based on assumptions that cannot be determined by observable market data

The carrying amounts of the Company's financial instruments, including cash equivalents, accounts receivable, accounts payable, accrued expenses, note payable and other current liabilities, approximate their fair values due to their short-term maturities.

Interest Rate Swaps

As an element of the Company's interest rate risk management strategy, Management uses interest rate swaps. The intent of these instruments is to reduce cash flow exposure to variability in expected future interest rates on the Company's debt. Management has elected to designate and qualify the interest rate swaps as cash flow hedges. As such, the instruments are recorded on the balance sheet at fair value. Thereafter, gains or losses on the instruments are recognized in equity as changes to Other Comprehensive Income (Loss) and subsequently reclassified into earnings at the time of the Company's debt-interest payments. The Company has elected to record cash flows from interest rate swaps within operating activities, the same category as the items being hedged, in its Consolidated Statements of Cash Flows.

Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents include all cash balances and highly liquid investments with an original maturity of three months or less. Amounts receivable from credit card processors are considered cash equivalents because they are highly liquid and are typically converted to cash within three business days.

Amounts included in restricted cash represent those required to be set aside by a contractual agreement for the settlement of insurance claims.

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

Concentrations of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of market and credit risk, are cash and cash equivalents and restricted cash. At times, cash balances may be in excess of the Federal Deposit Insurance Corporation insurance limits. The Company has not experienced any losses to date as a result of these risks. Management periodically assesses the quality of the financial institutions and believes that the risk related to these deposits is minimal.

Accounts Receivable

Accounts receivable consist primarily of receivables from franchisees, receivables from third-party delivery providers, receivables from gift card sales and vendor rebates. The Company believes all amounts to be collectible based on a variety of factors it evaluates, including historical experience, current economic conditions and other factors. Accordingly, no allowance for credit losses or doubtful accounts has been recorded as of December 31, 2023 and December 25, 2022.

Inventory

Inventory consists primarily of food and beverage costs and is stated at the lower of cost (determined by the first-in, first-out method) or net realizable value. Adjustments are not deemed necessary to reduce inventory to net realizable value due to the rapid turnover and utilization of inventory.

Leases

The Company's restaurant facilities, corporate offices and certain restaurant equipment are leased under various agreements having initial terms expiring between 2024 and 2037. Restaurant facility leases generally have renewal periods of five to 20 years, exercisable at the option of the Company. At the commencement of each lease, an evaluation is performed to determine whether (i) the contract involves the use of property or equipment, (ii) the Company controls the use of the asset and (iii) the Company has the right to direct the use of the asset. Management determines the classification of lease contracts as operating or finance leases. The majority of the Company's real estate leases are classified as operating leases and the majority of the Company's equipment leases are classified as finance leases.

For operating leases with lease terms greater than twelve months, a lease liability is recognized for future fixed lease payments and a corresponding right-of-use asset is recognized representing the Company's right to use the underlying asset during the lease term. The lease liability is initially measured as the present value of the future fixed lease payments that will be made over the lease term using the Company's incremental borrowing rate as there are no implicit rates provided in the lease contracts. The Company's incremental borrowing rate is based on a market yield implied by the Company's outstanding secured term loan interpolated for various maturities using the Company's synthetic credit rating, which was determined using a regression analysis of rated publicly-traded comparable companies and their financial data. Occupancy expense, which includes the effects of free rent periods and rent escalation clauses within certain of the Company's leases, is recognized on a straight-line basis over the lease term. Tenant improvement allowances are amortized on a straight-line basis over the term of the lease as a reduction of lease expense. The lease term, which commences on the date the Company has the right to control the use of the property, includes the Company's options to extend the lease to the extent it is reasonably certain that the renewal options will be exercised.

Leases with indexed rent escalation clauses are recorded using the index that existed at lease commencement or upon the latest modification requiring remeasurement. Subsequent changes in the index are recorded as variable lease expense. Contingent rent payments, which are based on a percentage of sales for certain restaurant facilities, are recorded as variable lease expense when the Company determines that such sales levels will be achieved. In addition to fixed lease payments, certain of the Company's real estate leases also require payment of a proportionate share of property taxes, insurance and maintenance costs, which are expensed as incurred in the Consolidated Statements of Operations and Comprehensive Income (Loss) and future variable rent obligations are not included within the lease liabilities on the Consolidated Balance Sheets.

The operating lease right-of-use asset is measured at the amount of the lease liability with adjustments for (i) rent prepayments made prior to or at lease commencement, (ii) landlord incentives and (iii) favorable and unfavorable leasehold positions. The depreciable life of an operating lease right-of-use asset is limited by the lease term. The Company's leases do not contain any material residual value guarantees or material restrictive covenants.

Fixed lease and non-lease components of the Company's restaurant facility leases are accounted for as a single lease component. Leases with an initial term of 12 months or less are not recorded on the Consolidated Balance Sheets, however, they are recognized on a straight-line basis over the lease term in the Consolidated Statements of Operations and Comprehensive Income (Loss).

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

Finance lease liabilities and corresponding finance lease assets are recognized at an amount equal to the present value of the minimum lease payments over the lease term. The amortization of finance lease assets is recognized over the shorter of the lease term or useful life of the underlying asset within Depreciation and amortization. The interest expense related to finance leases, including any variable lease payments, is recognized in Interest expense. Finance lease assets are classified in Property, fixtures and equipment, net and current maturities and long-term portions of finance lease liabilities are classified within Current portion of long-term debt and Long-term debt, net, respectively.

Property, Fixtures and Equipment

Property, fixtures and equipment, including capitalized software, are stated at cost less accumulated depreciation. Refurbishments and improvements that increase the productive capacity or extend the useful life of assets are capitalized and depreciated over their estimated useful lives. Repair and maintenance costs are expensed as incurred. Leasehold improvements are depreciated over the shorter of their useful life or the lease term. The carrying amount of assets sold, replaced or retired and the related accumulated depreciation are eliminated at the time of disposal and any resulting gains and losses on disposal are recognized in the Consolidated Statements of Operations and Comprehensive Income (Loss).

Direct internal costs associated with the acquisition, development, design and construction of company-owned restaurants are capitalized as these costs have a future benefit to the Company. Once a restaurant opens, these costs are depreciated and recorded in Depreciation and amortization. Direct internal costs of \$1.0 million and \$0.7 million were capitalized in Fiscal 2023 and Fiscal 2022, respectively.

Depreciation is computed using the straight-line method over the following estimated useful lives:

Building and land improvements	30 to 40 years
Leasehold improvements	3 to 20 years
Furniture and fixtures	2 to 10 years
Equipment (including capitalized software)	2 to 15 years
Vehicles	3 to 10 years

Goodwill and Indefinite-lived Intangible Assets

Goodwill and indefinite-lived intangible assets are evaluated for impairment annually on the first day of the fourth quarter of the fiscal year, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company has one reporting unit for goodwill impairment testing purposes.

Management may elect to perform a qualitative assessment to determine whether it is more likely than not that the reporting unit and/or asset group is impaired. If the qualitative assessment is not performed, or if it is not more likely than not that the estimated fair value of the reporting unit and indefinite-lived intangible assets exceeds the respective carrying value, a quantitative analysis is required.

The fair value of the indefinite-lived intangibles is determined through a relief from royalty method using certain unobservable inputs that fall within Level 3 of the fair value hierarchy. The respective carrying values are compared to the related estimated fair values and an impairment loss is recognized in an amount equal to the excess of the carrying value over estimated fair values.

Management performed a qualitative annual impairment assessment for goodwill and indefinite-lived intangible assets as of the first day of the fourth quarter of Fiscal 2023 and Fiscal 2022 and concluded that impairment of both goodwill and indefinite-lived intangible assets was not more likely than not. As a result, a quantitative assessment was not required.

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

Definite-Lived Intangible Assets

Intangible assets with definite lives consist of franchise rights which arose from the purchase price allocation in connection with the Advent Acquisition and also include reacquired rights from the Company's acquisitions of franchised restaurants. Definite-lived intangible assets are amortized over their estimated useful lives and are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

When evaluating the carrying amount for recoverability, the total future undiscounted net cash flows expected to be generated by the asset are compared to the carrying amount. If the total future undiscounted net cash flows are less than the carrying amount, this may be an indicator of impairment. An impairment loss is recognized when the asset's carrying value exceeds its estimated fair value. Fair value is generally estimated using a discounted cash flow model using unobservable inputs that fall within Level 3 of the fair value hierarchy. No impairment loss was recorded for definite-lived intangible assets in Fiscal 2023, Fiscal 2022 and Fiscal 2021.

Impairment Assessment of Long-lived Assets

Long-lived assets deployed at company-owned restaurants include (i) property, fixtures and equipment, (ii) operating lease right-of-use asset, net of the related operating lease liability and (iii) reacquired rights to the extent the restaurant had been previously acquired by the Company.

When circumstances indicate that the carrying value may not be recoverable, an evaluation for impairment is performed at the lowest level of identifiable cash flows, which is at the individual restaurant level. If the total future undiscounted net cash flows are less than the carrying value of the long-lived assets at the individual restaurant level, the fair value is determined based on discounted future net cash flows expected to result from the use and eventual disposition of the assets, which are unobservable inputs that fall within Level 3 of the fair value hierarchy. An impairment loss is recognized in an amount equal to the excess of the carrying value over the estimated fair value.

Insurance Reserves

The Company is self-insured primarily for employee group health claims and for workers' compensation in Ohio. The Company holds stop-loss insurance which funds individual health claims in excess of \$125,000 per occurrence and workers' compensation claims in Ohio in excess of \$500,000 per occurrence annually. The Consolidated Statements of Operations and Comprehensive Income (Loss) include expenses related to the costs of claims reported and an estimate of claims incurred but not reported for health and general liability claims. In addition, the Company's insurance program includes specific retention levels or per-claim deductibles with respect to general liability.

Estimated unpaid claims and other insurance liabilities of \$2.3 million and \$1.5 million were recorded within Accrued liabilities and Other long-term liabilities as of December 31, 2023 and December 25, 2022, respectively.

Revenue Recognition

Revenues from food and beverage sales are reported, net of discounts and taxes. For in-restaurant dining and take-out sales, revenues are recognized when payment is tendered. For delivery sales made through the Company's mobile application and website, the Company controls the delivery services and recognizes revenue, including delivery fees, when the delivery partner transfers the food and beverage to the customer. With respect to sales made through the delivery partner's mobile application or website, the Company recognizes revenue, excluding delivery fees collected by the delivery partner, when control of the food and beverage is transferred to the delivery partner. Payment is received from the delivery partner subsequent to the transfer of food and beverage and the payment terms are short-term.

Franchise revenues include initial franchise fees and ongoing sales-based royalty and system fund contributions, which are used for advertising, marketing and public relations programs and materials. The license granted to develop and operate a restaurant is the distinct performance obligation that is transferred to the franchisee. Ancillary promised services, such as training, which are not considered distinct within the context of the franchise agreement, are combined with the franchise license and are considered one distinct performance obligation. Payments for initial franchise fees are received either upon execution of the franchise agreement and/or upon opening of the restaurant. These payments are deferred and recognized as revenue throughout the contractual term of the related franchise agreement. Unamortized deferred franchise fees are recognized as revenue upon the termination of franchise agreements with franchisees. The short-term and long-term unamortized portion of these liabilities are included in Deferred revenues and in Other long-term liabilities, respectively.

Royalty and system fund contributions from franchisees are based on a percentage of sales and are recognized as revenue in the period the sales occurred.

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

Gift cards are sold at restaurants and certain retail venues. Deferred revenues include liabilities established for the value of the gift cards when sold. Revenue is recognized from gift card sales upon redemption by the customer. Management estimates the amount of gift cards for which the likelihood of redemption is remote, referred to as "breakage," using historical gift card redemption patterns. The estimated breakage, less an administrative fee, is recognized over the expected period of redemption as the remaining gift card values are redeemed, which is generally over a period of two years. Utilizing this method, Management estimates both the breakage and the time period of redemption. If actual redemption patterns vary from these estimates, actual gift card breakage income may differ from the amounts recorded. Estimates of the redemption period and breakage rate applied are updated periodically. Gift card liabilities are included in Deferred revenues.

Food and Beverage Costs

The components of food and beverage costs at company-owned restaurants fluctuate directly with sales volumes and are impacted by changes in commodity prices or promotional activities.

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.

Consideration Received from Vendors

The Company receives consideration from certain vendors for volume rebates and allowances. The Company accounts for consideration from a vendor as a reduction of the purchase price of the goods or services acquired from the vendor.

Advertising Costs

Advertising costs are recognized as incurred or, in the case of advertisements, when the advertisement occurs. Advertising costs were \$7.2 million, \$6.4 million and \$4.8 million during Fiscal 2023, Fiscal 2022 and Fiscal 2021, respectively, and are included in General and administrative expenses, Other restaurant operating expenses and Pre-opening expenses.

Debt Discount and Deferred Issuance Costs

Debt discount and deferred issuance costs incurred in connection with the issuance of long-term debt are recorded as reductions of long-term debt and are amortized over the term of the related debt. Amortization expense of debt discount and deferred issuance costs is included in Interest expense.

Income Taxes

Income taxes are accounted for under the asset and liability method of accounting. Under this method, deferred tax assets or liabilities are recognized for the estimated future tax effects attributable to temporary differences between the carrying value and the tax basis of assets and liabilities as well as tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applicable in the years in which the differences are expected to be recovered or settled. Changes in deferred tax assets or liabilities are recognized in Income tax expense.

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which the deductible temporary differences can be utilized. Realization of deferred tax assets is dependent upon the availability of taxable income and a valuation allowance for deferred tax assets is provided when it is more likely than not that a portion of the deferred tax assets will not be realized. In the assessment for realization of deferred tax assets, Management considers all sources of taxable income including (i) taxable income in any available carry back period, (ii) scheduling of anticipated reversal of taxable temporary differences, (iii) tax-planning strategies and (iv) taxable income expected to be generated in the future other than from reversing temporary differences and carryforwards. Management continues to evaluate the rationale for recording a valuation allowance on its deferred tax assets and as the Company increases earnings and utilizes deferred tax assets, it is possible the valuation allowance could be reduced or eliminated.

Interest and penalties, when incurred, are recognized in Other (expense) income, net.

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

Stock-Based Compensation

Stock-based compensation expense is recognized for stock option awards granted and is based on the fair value of the stock option awards on the date of grant. The fair value of stock option awards is determined using the Black-Scholes option pricing model. The fair value of performance-based stock option awards is recognized as expense when the achievement of the performance condition is probable. Forfeitures of stock option awards are recognized as they occur. Determining the fair value of stock option awards at the grant date requires judgment, including estimating the expected term that the stock option awards will be outstanding prior to exercise, volatility, dividend yield and risk-free interest rate. Stock-based compensation expense is included in General and administrative expenses. Stock option exercises are settled with authorized but unissued shares of the Company's common stock.

Fair Value of Common Stock

In Fiscal 2021, prior to the IPO, the Company's equity value was determined using the probability weighted expected return method ("PWERM"), or the hybrid method. Under the hybrid method, multiple valuation approaches are used and then combined into a single probability weighted valuation using a PWERM, which considers the probability of an initial public offering and sale scenarios. The results of the valuation approaches were weighted based on a variety of factors, including the current macroeconomic environment, current industry conditions and length of time since arms-length market transaction events. Additionally, a discount for lack of marketability was applied to account for the lack of access to an active public market. The resulting value was then allocated to outstanding equity using an option-pricing model. This process involved the use of estimates, judgments, and assumptions that are highly complex and subjective, such as those regarding our expected future revenue, expenses and future cash flows, discount rates, market multiples, the selection of comparable companies, and the probability of possible future events. The assumptions underlying these valuations represented Management's best estimate, which involved inherent uncertainties and the application of Management's judgment. As a result, if Management had used significantly different assumptions or estimates, the fair value of our common stock and our stock-based compensation expense could have been materially different.

Summary of Recently Issued Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In the first quarter of Fiscal 2023, the Company amended its 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 and we adopted the Financial Accounting Standards Board ("FASB") ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting" ("ASU 2020-04"). The guidance provides temporary optional expedients and exceptions to the current guidance on contract modifications and hedge accounting to ease the financial reporting burden related to the expected market transition from LIBOR and other interbank offered rates to alternative reference rates. The adoption of the new guidance did not have a material impact on the Company's financial statements.

New Accounting Pronouncements

In November 2023, the 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.

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

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.

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

3. Business Acquisitions

During Fiscal 2023, the Company acquired substantially all the assets associated with 23 franchise operated First Watch restaurants. The purchase price was allocated to the fair value of assets acquired and liabilities assumed, which are based on preliminary valuations and are subject to adjustment as additional information is available. The details of each acquisition are as follows:

(dollars in thousands)

Date of acquisition	May 1, 2023	June 26, 2023	August 9, 2023	November 13, 2023
Number of acquired restaurants	6	5	6	6
Number of acquired restaurants under development	—	—	1	—
Purchase price (cash)	\$ 8,177	\$ 8,651	\$ 14,129	\$ 9,568
Transaction costs incurred	\$ 362	\$ 352	\$ 400	\$ 327
Deferred franchise fees recognized as a result of termination of pre-existing franchise agreement	\$ 78	\$ 123	\$ 200	\$ 206
Recognized amounts of identifiable assets acquired and liabilities assumed:				
Cash	\$ 9	\$ 6	\$ 16	\$ 9
Inventory	\$ 57	\$ 62	\$ 102	\$ 70
Prepaid rent and other assets	\$ 67	\$ 26	\$ 89	\$ 51
Property, fixtures and equipment	\$ 1,840	\$ 3,783	\$ 6,364	\$ 5,185
Reacquired rights	\$ 1,342	\$ 2,304	\$ 4,358	\$ 1,405
Goodwill (primarily expected synergies and assembled workforce; tax deductible)	\$ 5,272	\$ 2,667	\$ 3,888	\$ 2,837
(Unfavorable)/Favorable leasehold positions, net	\$ (330)	\$ (70)	\$ (530)	\$ 30
Accounts payable	\$ —	\$ —	\$ (35)	\$ —
Deferred tax liability	\$ —	\$ —	\$ (72)	\$ —
Deferred revenues - gift card liabilities assumed	\$ (80)	\$ (127)	\$ (51)	\$ (19)

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

4. Revenues

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

<i>(in thousands)</i>	DECEMBER 31, 2023	DECEMBER 25, 2022
Deferred revenues:		
Deferred gift card revenue	\$ 5,224	\$ 4,897
Deferred franchise fee revenue - current	275	296
Total current deferred revenues	<u>\$ 5,499</u>	<u>\$ 5,193</u>
Other long-term liabilities:		
Deferred franchise fee revenue - non-current	<u>\$ 1,786</u>	<u>\$ 2,472</u>

Changes in deferred gift card contract liabilities were as follows:

<i>(in thousands)</i>	FISCAL YEAR		
	2023	2022	2021
Deferred gift card revenue:			
Balance, beginning of period	\$ 4,897	\$ 4,410	\$ 4,024
Gift card sales	12,329	9,627	8,286
Gift card redemptions	(11,198)	(8,225)	(7,152)
Gift card breakage	(1,081)	(915)	(748)
Gift card liabilities assumed through acquisitions	277	—	—
Balance, end of period	<u>\$ 5,224</u>	<u>\$ 4,897</u>	<u>\$ 4,410</u>

Gift cards are combined in one homogeneous pool and are not separately identifiable. As such, the revenue recognized consists of gift cards that were part of the deferred revenue balance at the beginning of the period as well as gift cards that were issued during the period.

Changes in deferred franchise fee contract liabilities were as follows:

<i>(in thousands)</i>	FISCAL YEAR		
	2023	2022	2021
Deferred franchise fee revenue:			
Balance, beginning of period	\$ 2,768	\$ 2,536	\$ 2,274
Cash received	288	530	537
Franchise revenues recognized	(388)	(298)	(275)
Business combinations - franchise revenues recognized	(607)	—	—
Balance, end of period	<u>\$ 2,061</u>	<u>\$ 2,768</u>	<u>\$ 2,536</u>

Revenues recognized disaggregated by type were as follows:

<i>(in thousands)</i>	FISCAL YEAR		
	2023	2022	2021
Restaurant sales:			
In-restaurant dining sales	\$ 716,960	\$ 571,048	\$ 452,989
Third-party delivery sales	91,433	82,049	70,486
Take-out sales	68,699	66,084	68,868
Total restaurant sales	<u>\$ 877,092</u>	<u>\$ 719,181</u>	<u>\$ 592,343</u>
Franchise revenues:			
Royalty and system fund contributions	\$ 13,464	\$ 10,683	\$ 8,575
Initial fees	388	298	275
Business combinations - revenues recognized	607	—	—
Total franchise revenues	<u>\$ 14,459</u>	<u>\$ 10,981</u>	<u>\$ 8,850</u>
Total revenues	<u>\$ 891,551</u>	<u>\$ 730,162</u>	<u>\$ 601,193</u>

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

Deferred revenues as of December 31, 2023 are expected to be recognized as follows:

Fiscal year	<i>(in thousands)</i>	
2024	\$	5,499
2025	\$	321
2026	\$	298
2027	\$	279
2028	\$	243
Thereafter	\$	645

5. Accounts Receivable

Accounts receivable consisted of the following:

<i>(in thousands)</i>	DECEMBER 31, 2023	DECEMBER 25, 2022
Receivables from third-party delivery providers	\$ 1,559	\$ 974
Receivables from franchisees	1,390	1,076
Receivables from vendors	873	920
Receivables related to gift card sales	1,585	1,565
Other receivables	125	1,629
Total accounts receivable	\$ 5,532	\$ 6,164

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

6. Goodwill

The changes in the carrying value of goodwill were as follows:

(in thousands)

Balance as of December 26, 2021	\$	345,219
Additions - acquisitions		—
Balance as of December 25, 2022		345,219
Additions - acquisitions		14,664
Balance as of December 31, 2023	\$	<u>359,883</u>

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

7. Intangible Assets, Net

Intangible assets, net consisted of the following:

<i>(in thousands)</i>	Weighted Average Useful Lives	DECEMBER 31, 2023		
		Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Registered trademarks, trade names, domains, liquor licenses	Indefinite	\$ 139,103	\$ —	\$ 139,103
Franchise rights	8 years	18,813	(6,730)	12,083
		<u>\$ 157,916</u>	<u>\$ (6,730)</u>	<u>\$ 151,186</u>

<i>(in thousands)</i>	Weighted Average Useful Lives	DECEMBER 25, 2022		
		Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Registered trademarks, trade names, domains, liquor licenses	Indefinite	\$ 139,258	\$ (316)	\$ 138,942
Franchise rights	9 years	9,404	(5,195)	4,209
		<u>\$ 148,662</u>	<u>\$ (5,511)</u>	<u>\$ 143,151</u>

Total amortization expense related to definite-lived intangible assets was \$1.5 million, \$1.0 million and \$1.0 million in Fiscal 2023, Fiscal 2022 and Fiscal 2021, respectively.

Estimated future amortization of definite-lived intangible assets as of December 31, 2023 is as follows:

Fiscal year	<i>(in thousands)</i>
2024	\$ 2,452
2025	\$ 2,452
2026	\$ 2,124
2027	\$ 1,716
2028	\$ 1,124
Thereafter	\$ 2,215

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

8. Property, Plant and Equipment

<i>(in thousands)</i>	DECEMBER 31, 2023	DECEMBER 25, 2022
Building and land improvements	\$ 1,354	\$ 1,354
Leased land asset	1,190	1,190
Leasehold improvements	240,976	178,893
Furniture, fixtures and equipment (including capitalized software)	179,965	145,397
Financing lease assets	3,144	3,066
Vehicles	460	455
Total property, fixtures and equipment	427,089	330,355
Accumulated depreciation	(181,481)	(145,720)
Construction-in-progress	17,474	10,482
Total property, fixtures and equipment, net	\$ 263,082	\$ 195,117

Depreciation expense was \$39.7 million, \$33.3 million and \$31.3 million during Fiscal 2023, Fiscal 2022 and Fiscal 2021, respectively.

The Company recognized impairment losses of \$0.5 million in Fiscal 2023 which primarily related to the long-lived assets of two company-owned restaurants due to their approved closures. In Fiscal 2023, the Company also recognized \$0.8 million in loss on disposals primarily related to write-offs of assets retired as a result of replacement of assets.

In Fiscal 2022 and Fiscal 2021, there were no impairment losses recorded. Loss on disposals of assets of \$0.9 million and \$0.4 million recognized in Fiscal 2022 and Fiscal 2021, respectively, primarily related to the write-off of assets retired as a result of restaurant closures or replacements of assets.

As of December 31, 2023 and December 25, 2022, Property, fixtures and equipment, net included \$1.2 million in land related to sale and leaseback transactions accounted for as financing obligations.

9. Accrued Liabilities

Accrued liabilities consisted of the following:

<i>(in thousands)</i>	DECEMBER 31, 2023	DECEMBER 25, 2022
Construction liabilities	\$ 13,944	\$ 6,908
Sales tax	6,163	3,791
Self-insurance and general liability reserves	1,593	1,529
Utilities	1,657	1,468
Interest payable	401	1,506
Credit card fees	1,706	1,043
Property tax	922	951
Contingent rent	1,160	811
Common area maintenance	749	680
Other	7,335	4,042
Total accrued liabilities	\$ 35,630	\$ 22,729

10. Debt

Long-term debt, net consisted of the following:

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

<i>(in thousands)</i>	DECEMBER 31, 2023		DECEMBER 25, 2022	
	Balance	Interest Rate	Balance	Interest Rate
Term Facility	\$ 92,500	7.70%	\$ 98,125	5.89%
Revolving Credit Facility	30,000	7.72%	—	—%
Finance lease liabilities	1,076		1,433	
Financing obligation	3,050		3,050	
Less: Unamortized debt discount and deferred issuance costs	(1,231)		(1,683)	
Total Debt, net	125,395		100,925	
Less: Current portion of long-term debt	(5,628)		(6,257)	
Long-term debt, net	\$ 119,767		\$ 94,668	

Credit Facilities

FWR Holding Corporation, (“FWR”), an indirect subsidiary of the Company, is party to that certain Credit Agreement, dated October 6, 2021, by and among FWR, as the borrower, AI Fresh Parent, Inc., a Delaware corporation and indirect subsidiary of the Company (“Holdings”), the lenders party thereto and Bank of America, N.A., as administrative agent and collateral agent (the “Administrative Agent”) which, as of December 31, 2023, provides for (i) a \$100.0 million term loan A facility (the “Term Facility”) and (ii) a \$75.0 million revolving credit facility (the “Revolving Credit Facility”) and, together with the Term Facility, collectively, the “Credit Facilities”). As of December 31, 2023, the Credit Facilities mature on October 6, 2026.

On February 24, 2023, the Company entered into that certain Amendment No. 1 to the Credit Agreement (the “First Amendment”), by and among FWR, the lenders party thereto and the Administrative Agent, which amended the Credit Agreement in order to replace LIBOR with SOFR, and effective as of March 27, 2023, borrowings under the Credit Facilities bear interest, at the option of FWR at either (i) the alternate base rate plus a margin of between 125 and 200 basis points depending on the total rent adjusted net leverage ratio of FWR and its restricted subsidiaries on a consolidated basis (the “Total Rent Adjusted Net Leverage Ratio”) or (ii) SOFR plus a credit spread adjustment of 10 basis points plus a margin of between 225 and 300 basis points depending on the Total Rent Adjusted Net Leverage Ratio.

Prior to March 27, 2023, borrowings under the Credit Facilities bore interest at the option of FWR at either (i) the base rate plus a margin of 125 and 200 basis points depending on the Total Rent Adjusted Net Leverage Ratio or (ii) LIBOR plus a margin of between 225 and 300 basis points depending on the Total Rent Adjusted Net Leverage Ratio.

In addition, an unused commitment fee of between 25 and 50 basis points will be paid on the undrawn commitments under the Revolving Credit Facility, also depending on the Total Rent Adjusted Net Leverage Ratio.

As of December 31, 2023, the Term Facility is subject to amortization of principal, payable in quarterly installments on the last business day of each fiscal quarter, commencing on March 27, 2022, equal to (i) 2.5% of the original principal amount of the term loans in fiscal year ended December 25, 2022, (ii) 5.0% of the original principal amount of the term loans in fiscal year ended December 31, 2023, (iii) 5.0% of the original principal amount of the term loans in fiscal year ended December 29, 2024, (iv) 7.5% of the original principal amount of the term loans in fiscal year ended December 28, 2025 and (v) 10.0% of the original principal amount of the term loans in fiscal year ended December 27, 2026. The remaining aggregate principal amount outstanding (together with accrued and unpaid interest on the principal amount) under the Term Facility is payable at the maturity of the Term Facility.

Principal payments due on the outstanding debt, excluding finance lease liabilities and financing obligations, as of December 31, 2023 are as follows:

Fiscal Year	<i>(in thousands)</i>
2024	5,000
2025	7,500
2026	80,000
	\$ 92,500

Refer to Note 21, *Subsequent Events*, for information about the amendment to the Credit Agreement that was executed on January 5, 2024.

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

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:

<i>(in thousands)</i>	DECEMBER 31, 2023		DECEMBER 25, 2022	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Term Facility	\$ 92,500	\$ 92,201	\$ 98,125	\$ 97,124
Revolving Credit Facility	30,000	\$ 29,897	—	\$ —

Letter of Credit

The Company utilizes standby letters of credit to satisfy workers' compensation and general liability insurance requirements. The contract amount of the letters of credit approximates fair value. As of December 31, 2023 and December 25, 2022, the open letters of credit totaled approximately \$1.1 million and \$0.2 million, respectively, and there were no draws against the letters of credit. The Company pays participation fees for the letters of credit based on a varying percentage of the amount not drawn.

Debt Covenants

The Credit Facilities are guaranteed by all of FWR's wholly-owned domestic restricted subsidiaries, subject to customary exceptions, and by AI Fresh Parent, Inc., a Delaware corporation and the direct parent company of FWR ("Holdings"), and are secured by associated collateral agreements that pledge a lien on substantially all of FWR's and each guarantor's assets, including fixed assets and intangibles, in each case, subject to customary exceptions.

Under the Credit Agreement, FWR (and in certain circumstances, Holdings) and its restricted subsidiaries are subject to customary affirmative, negative and financial covenants, maintenance of certain ratios, restrictions on additional indebtedness and events of default for facilities of this type (with customary grace periods, as applicable, and lender remedies). FWR was in compliance with covenants under the Credit Agreement as of December 31, 2023 and December 25, 2022.

Note Payable

In October 2022, the Company entered into an agreement for the financing of insurance premiums in a total amount of approximately \$1.9 million. The note payable bore interest of 6.04% and was payable in monthly installments of \$0.2 million through September 30, 2023. The note payable was paid in full in Fiscal 2023.

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

11. Interest Rate Swaps

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

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

Amounts reported in Other comprehensive income (loss) 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 fiscal year ended December 31, 2023, a total of \$0.5 million was reclassified from Other comprehensive income (loss) as a reduction to interest expense. Over the next 12 months, the Company estimates that \$0.5 million will be reclassified as a reduction to interest expense.

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

12. Leases

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

<i>(in thousands)</i>	Consolidated Balance Sheets Classification	DECEMBER 31, 2023	DECEMBER 25, 2022
Operating lease right-of-use assets	Operating lease right-of-use assets	\$ 420,001	\$ 352,373
Finance lease assets	Property, fixtures and equipment, net	1,033	1,332
Total lease assets		\$ 421,034	\$ 353,705
Operating lease liabilities ⁽¹⁾ - current	Current portion of operating lease liabilities	40,281	38,936
Operating lease liabilities - non-current	Operating lease liabilities	441,290	366,113
Finance lease liabilities - current	Current portion of long-term debt	628	632
Finance lease liabilities - non-current	Long-term debt, net	448	801
Total lease liabilities		\$ 482,647	\$ 406,482

(1) Excludes all variable lease expense.

The components of lease expense were as follows:

<i>(in thousands)</i>	Consolidated Statements of Operations and Comprehensive Income (Loss) Classification	FISCAL YEAR		
		2023	2022	2021
Operating lease expense	Other restaurant operating expenses			
	Occupancy expenses			
	Pre-opening expenses			
	General and administrative expenses	\$ 56,129	\$ 49,620	\$ 44,906
Variable lease expense	Food and beverage costs			
	Occupancy expenses			
	General and administrative expenses	17,158	14,642	12,811
Finance lease expense:				
Amortization of leased assets	Depreciation and amortization	507	521	543
Interest on lease liabilities	Interest expense	92	130	174
Total lease expense ⁽¹⁾		\$ 73,886	\$ 64,913	\$ 58,434

(1) Includes contingent rent expense of \$2.1 million and \$1.6 million and \$1.1 million during Fiscal 2023, Fiscal 2022 and Fiscal 2021, respectively.

Supplemental cash flow information related to leases was as follows:

<i>(in thousands)</i>	FISCAL YEAR		
	2023	2022	2021
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows - operating leases	\$ 47,930	\$ 39,546	\$ 40,601
Operating cash flows - finance leases	92	130	174
Financing cash flows - finance leases	558	514	507

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

Supplemental information related to leases was as follows:

	FISCAL YEAR	
	2023	2022
Weighted-average remaining lease term (in years)		
Operating leases	13.8	14.6
Finance leases	2.8	2.8
Weighted-average discount rate ⁽¹⁾		
Operating leases	8.3 %	8.6 %
Finance leases	6.9 %	7.6 %

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

As of December 31, 2023, future minimum lease payments for operating and finance leases consisted of the following:

<i>(in thousands)</i>	OPERATING LEASES		FINANCE LEASES	
Fiscal year				
2024	\$	42,043	\$	657
2025		60,891		271
2026		60,532		84
2027		59,834		72
2028		59,392		60
Thereafter		563,874		40
Total future minimum lease payments ⁽¹⁾		846,566		1,184
Less: imputed interest		(364,995)		(108)
Total present value of lease liabilities	\$	481,571	\$	1,076

(1) Excludes approximately \$109.5 million of executed operating leases that have not commenced as of December 31, 2023.

Sale-Leaseback Transactions

In 2015, Management entered into an agreement relating to the sale and leaseback of the land for use in restaurant operations and received cash proceeds of \$3.1 million. As the Company had continuing involvement with the property, the sale of the land did not qualify for sale accounting. As a result, the cash proceeds were recorded as a financing obligation. The balance of the financing obligation was \$3.1 million as of December 31, 2023 and December 25, 2022.

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

13. Transaction Expenses (Income), Net

Transaction expenses (income), net consisted of the following:

<i>(in thousands)</i>	FISCAL YEAR		
	2023	2022	2021
Acquisition-related costs	2,062	\$ —	\$ —
Secondary offering costs	\$ 1,031	1,957	—
Gain on lease modifications	—	—	(1,961)
Credit Agreement modification	127	—	—
Contingent consideration liability revaluation	—	165	801
Conversion costs	—	—	2
(Gain) Loss, net on restaurant closures/relocations	(73)	391	2
Total transaction expenses (income), net	\$ 3,147	\$ 2,513	\$ (1,156)

During Fiscal 2023, \$2.1 million of costs were incurred in connection with the acquisition of certain franchise-owned restaurants, which was partially offset by the gain recognized from the lease modification of one company-owned restaurant.

During Fiscal 2023, \$1.0 million of costs were incurred by the Company in connection with underwritten secondary public offerings of the Company's common stock by entities affiliated with our majority owner, Advent International L.P., ("Secondary Offerings"). During Fiscal 2022, total costs of \$2.0 million were incurred by the Company in connection with Secondary Offerings as well as for the Registration Statement on Form S-3 that allows the Company to sell up to 5,000,000 shares of common stock from time to time in one or more offerings.

The Company revalued the contingent consideration liability initially recognized in connection with the Advent Acquisition (see Note 14, *Income Taxes*, for additional information) and recorded losses of \$0.2 million and \$0.8 million in Fiscal 2022 and Fiscal 2021, respectively. There was no revaluation adjustment recorded for the contingent liability in Fiscal 2023.

A gain on lease modification of \$2.0 million was recognized in Fiscal 2021 in connection with a lease termination for the redevelopment of a restaurant facility by a landlord. Pursuant to the agreement, the Company received \$1.0 million in December 2021 and received an additional \$1.0 million after vacating the leased restaurant facility in December 2022.

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

14. Income Taxes

Income tax expense consisted of the following:

<i>(in thousands)</i>	FISCAL YEAR		
	2023	2022	2021
Current provision:			
Federal	\$ (217)	\$ —	\$ —
State	(2,158)	(1,007)	(301)
Total current provision	(2,375)	(1,007)	(301)
Deferred provision:			
Federal	(8,896)	(4,562)	(1,825)
State	581	(115)	(351)
Total deferred provision	(8,315)	(4,677)	(2,176)
Income tax expense	\$ (10,690)	\$ (5,684)	\$ (2,477)

A reconciliation of the federal statutory income tax rate to the Company's effective income tax rate is as follows:

	FISCAL YEAR		
	2023	2022	2021
Income taxes at federal statutory rate	21.0 %	21.0 %	21.0 %
State income taxes, net of federal tax effect	5.8	12.5	2.4
FICA tip credit	(19.9)	(44.2)	(1,200.2)
Valuation allowance for federal and state	17.6	46.7	1,528.2
Stock-based compensation	3.4	4.2	275.9
Secondary Offerings - costs	0.6	3.2	—
Other permanent items	0.5	0.6	57.6
Rate change	0.6	1.7	(17.3)
Other	—	(0.6)	1.9
Total	29.6 %	45.1 %	669.5 %

The effective income tax rate for Fiscal 2023, Fiscal 2022 and Fiscal 2021 was different than the blended federal and state statutory rate mainly due to (i) the change in the valuation allowance, (ii) the benefit of tax credits for FICA taxes on certain employees' tips, (iii) impacts of executive stock-based compensation and (iv) non-deductible costs associated with the Secondary Offerings and the Registration Statement on Form S-3.

The effective income tax rate for Fiscal 2021 was also different than the blended federal and state statutory rate as a result of the pre-vesting forfeiture of performance-based stock option awards for which the market condition was not satisfied upon the Company's IPO (see Note 17, *Stock-Based Compensation*, for additional information).

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

The components of deferred tax assets and liabilities were as follows:

<i>(in thousands)</i>	DECEMBER 31, 2023	DECEMBER 25, 2022
Deferred income tax assets		
FICA tip credit	\$ 49,946	\$ 41,556
Net operating loss	22,964	30,672
Operating lease liabilities	123,718	101,927
Organizational costs	477	549
Interest limitation	383	797
Accrued compensation	2,758	1,750
Deferred revenues	522	682
Stock-based compensation	3,552	3,693
Interest rate swaps	221	—
Other	1,665	1,210
Valuation allowance	(48,111)	(41,754)
Total deferred income tax assets	158,095	141,082
Deferred income tax liabilities		
Operating lease right-of-use assets	(104,810)	(87,154)
Depreciation	(41,583)	(34,577)
Intangible assets	(37,033)	(36,517)
Total deferred income tax liabilities	(183,426)	(158,248)
Net deferred income tax liabilities	\$ (25,331)	\$ (17,166)

Tax Carryforwards

The amount and expiration dates of tax carryforwards as of December 31, 2023 are as follows:

<i>(in thousands)</i>	Expiration Date	Amount
Federal net operating loss carryforwards	Indefinite	\$ 103,425
General business tax credits (carried forward 20 years)	2028 - 2043	\$ 50,117

The Company also has state net operating loss carryforwards of \$26.0 million.

There were certain federal loss carryforward, state loss carryforward and general business credits that were accumulated from operations prior to the Advent Acquisition in August 2017. To the extent that these are utilized to reduce taxes payable, the Company is required to pay the previous stockholders an amount equal to tax savings. This requirement lapses with respect to any tax year, or portion thereof, beginning after December 31, 2024, or if a change in control event occurs. In connection with the Advent Acquisition, a contingent consideration liability of \$1.2 million was initially recognized for expected payments to be made to the previous stockholders. As of December 31, 2023, the contingent consideration liability was \$0.9 million, of which \$0.7 million was recorded within Accrued liabilities and \$0.2 million was recorded within Other long-term liabilities. As of December 25, 2022, the contingent consideration liability was \$1.2 million, of which \$0.6 million was recorded within Accrued liabilities and \$0.6 million was recorded within Other long-term liabilities.

Valuation Allowance

Based upon an evaluation of the Company's deferred tax assets, Management has recognized a valuation allowance of \$48.1 million and \$41.8 million as of December 31, 2023 and December 25, 2022, respectively. The valuation allowance primarily relates to the Company's federal tax credit carryforwards that are not expected to be realized prior to the statutory expiration of the carryforward.

Management continues to monitor and evaluate the rationale for recording a valuation allowance for deferred tax assets. As the Company's future taxable earnings increase and deferred tax assets are utilized, it is possible that a portion of the valuation allowance will no longer be needed. Release of any portion of the valuation allowance would result in the recognition of certain deferred tax assets and a decrease to income tax expense in the period of the release. The timing and amount of any release related to future taxable income is currently indeterminable. During the year ended December 31, 2023, a release of the valuation allowance related to certain state loss carryforwards decreased income tax expense by approximately \$1.2 million.

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

Changes in the deferred tax asset valuation allowance were as follows:

(in thousands)

Balance as of December 27, 2020	\$	(30,214)
Increase		(5,649)
Balance as of December 26, 2021		(35,863)
Increase		(5,891)
Balance as of December 25, 2022		(41,754)
Increase		(6,357)
Balance as of December 31, 2023	\$	(48,111)

The Company is subject to examination by federal, state and local jurisdictions, where applicable. As of December 31, 2023, the tax years that remain subject to examination by major tax jurisdictions under the statute of limitations are from the year 2013 and forward.

15. Stockholders' Equity

The Company is authorized to issue 300,000,000 common stock shares with a par value of \$0.01 per share and 10,000,000 preferred stock shares with a par value of \$0.01 per share pursuant to the Company's Amended and Restated Certificate of Incorporation.

Each share of common stock entitles the holder to one vote for each share of common stock held and common stockholders will not have cumulative voting rights. Common stockholders are entitled to receive dividends, as and if declared by the board of directors. In addition, all common stockholders are entitled to share equally on a share-for-share basis in any assets available for distribution to common stockholders upon liquidation, dissolution, or winding up of the Company after payment is made to the preferred stockholders.

During Fiscal 2023, funds managed by Advent International L.P. sold 3,500,000 and 3,000,000 shares through Secondary Offerings that were completed on May 18, 2023 and June 13, 2023, respectively. The selling stockholders sold an additional 525,000 and 450,000 shares of common stock on May 18, 2023 and July 3, 2023, respectively, pursuant to the terms of the underwriter's option associated with each secondary public offering. All net proceeds from the sale of the shares of common stock were distributed to the selling stockholders.

During Fiscal 2022, funds managed by Advent sold 4,500,000 shares of the Company's common stock through a Secondary Offering. The selling stockholders sold an additional 675,000 shares of common stock on October 6, 2022 pursuant to the terms of the underwriters option associated with the Secondary Offering. All net proceeds from the sale of the shares of common stock were distributed to the selling stockholders.

No cash dividends were declared or paid in Fiscal 2023, Fiscal 2022 and Fiscal 2021.

16. Defined Contribution Plan

The Company sponsors a defined contribution 401(k) savings plan ("401(k) Plan") which requires the Company to match contributions for participants.

In Fiscal 2023 and Fiscal 2022, 50% and 25%, respectively, of the first 6% of the employees' wages are contributed by the Company into the 401(k) Plan.

The 401(k) Plan also allows for additional profit-sharing contributions by the Company at the sole discretion of Management.

All Company contributions vest over a five-year period. Total expense for the Company's contributions to the 401(k) Plan was \$1.1 million, \$0.6 million and \$0.5 million in Fiscal 2023, Fiscal 2022 and Fiscal 2021, respectively.

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

17. Stock-Based Compensation

Stock Option Awards

Stock-based awards are granted to employees and non-employee directors. The Company has two compensation plans that provide for the granting of stock options and other share-based awards to key employees and non-employee members of the board of directors. The 2017 Omnibus Equity Incentive Plan (the "2017 Equity Plan") and the 2021 Equity Incentive Plan (the "2021 Equity Plan") provide for the grant of incentive stock options, non-qualified stock options, restricted stock awards, restricted stock units, stock appreciation rights and stock-based awards.

2021 Equity Plan

The number of shares of common stock reserved for issuance under the 2021 Equity Plan is 5,218,292 common shares ("Share Reserve") at December 31, 2023. The number of shares of common stock that may be issued under the 2021 Equity Plan will automatically increase on the first day of each fiscal year, beginning on December 26, 2022 and continuing for each fiscal year until, and including, the fiscal year ending on (and including) December 29, 2030, equal to the least of (i) 2.0% of the total number of shares of common stock actually issued and outstanding on the last day of the preceding fiscal year, (ii) a number of shares of common stock determined by the board of directors; and (iii) the number of shares of common stock equal to the Share Reserve. If any award granted under the 2021 Equity Plan is cancelled, expired, forfeited, or surrendered without consideration or otherwise terminated without delivery of the shares to the participant, then such unissued shares will be returned to the 2021 Equity Plan and be available for future awards under the 2021 Equity Plan. Shares that are withheld from any award in payment of the exercise, base or purchase price or taxes related to such an award, not issued or delivered as a result of the net settlement of any award, or repurchased by the Company on the open market with the proceeds of a stock option will be deemed to have been delivered under the 2021 Equity Plan and will not be available for future awards under the 2021 Equity Plan. There were no stock option awards granted under the 2021 Equity Plan during Fiscal 2023. The stock option awards granted in Fiscal 2022 vest over a three-year requisite service period from the date of grant and expire 10 years after the grant date. A total of 543,270 restricted stock units ("RSU") were granted, at a value equal to the market price of the Company's common stock on the date of grant, which will vest ratably over a period of 1 to 3 years from grant date. Stock-based compensation expense is recognized on a straight-line recognition method over the requisite service period.

2017 Equity Plan

The 2017 Equity Plan authorizes stock-based awards to be granted for up to 6,138,240 shares of common stock. The awards granted under the 2017 Equity Plan consisted of non-qualified stock options that generally vest based over a five-year requisite service period from the date of grant (the "time-based option awards"), as well as upon the occurrence of certain events and if certain market conditions were achieved, the ("performance-based option awards"). Stock-based compensation expense related to the stock option awards issued under the 2017 Plan is recognized on an accelerated recognition method over the requisite service period. All stock options have an exercisable life of no more than 10 years from the date of grant. No awards were granted under the 2017 Equity Plan during Fiscal 2023 and Fiscal 2022 and the Company does not intend to grant any further awards under the 2017 Equity Plan.

Modification of Performance-Based Option Awards - 2017 Equity Plan

On August 31, 2021, the Company's board of directors amended the 2017 Equity Plan such that the performance-based option awards that convert into time-based option awards upon an initial public offering no longer vest over a period of three years, but instead vest one-third (1/3rd) on each of the first two anniversaries of an initial public offering and one-third (1/3rd) on the 273rd day following the second anniversary of an initial public offering. This was accounted for as a modification, resulting in a new fair value for all the performance-based option awards using an option-pricing model as of the modification date.

On September 19, 2021, the Company's board of directors modified performance-based option awards that contained a market condition granted under the 2017 Equity Plan, such that the vesting terms for one such tranche were amended to waive the market condition. Accordingly, upon the Company's IPO, such tranche converted into time-based option awards and vest one-third (1/3rd) on each of the first two anniversaries of the Company's IPO and one-third (1/3rd) on the 273rd day following the second anniversary of the Company's IPO. This was accounted for as a modification resulting in a new fair value using the option-pricing model for such performance-based option awards as of the modification date.

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

On September 19, 2021, the Company's board of directors modified the terms of performance-based option awards granted under the 2017 Equity Plan to the Company's Chairman Emeritus. The modification accelerated the vesting period of the performance-based option awards that convert into time-based option awards upon an initial public offering such that they no longer vest one-third (1/3rd) on each of the first two anniversaries of an initial public offering and one-third (1/3rd) on the 273rd day following the second anniversary of an initial public offering, but instead will vest on August 1, 2022. Additionally, the exercise period of these time-based and performance-based vested option awards was modified such that any vested option may be exercised at any time prior to the 10th anniversary of the original grant date. These actions were accounted for as modifications and resulted in an increase of \$0.3 million to the fair value of these awards.

Upon the consummation of the Company's IPO in October 2021, certain performance-based option awards converted into time-based option awards and stock compensation expense of \$2.4 million was recognized in the fourth quarter of Fiscal 2021. The remaining expense is being recognized on an accelerated recognition method over the remaining service period. An immediate one-time charge of \$5.6 million was recognized upon closing of the IPO, which included (i) the expense from the date of the modifications through the IPO date and (ii) the expense related to performance-based option awards for which the market condition was not satisfied upon the IPO.

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

A summary of stock option activity during Fiscal 2023 is as follows:

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	AGGREGATE INTRINSIC VALUE <i>(in thousands)</i>	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE <i>(in years)</i>
Outstanding, December 25, 2022	5,115,674	\$ 10.12	\$ 20,981	
Granted	—	\$ —		
Forfeited	(126,113)	\$ 12.12		
Exercised	(642,375)	\$ 9.07		
Outstanding, December 31, 2023	<u>4,347,186</u>	<u>\$ 10.22</u>	\$ 42,965	
Exercisable, December 31, 2023	3,113,155	\$ 9.71	\$ 32,337	

The aggregate intrinsic value is based on the difference between the exercise price of the stock option and the closing price of the Company's common stock on the Nasdaq Global Select Market.

A summary of the non-vested stock option activity during Fiscal 2023 is as follows:

	NUMBER OF OPTIONS	WEIGHTED AVERAGE GRANT DATE FAIR VALUE
Nonvested, December 25, 2022	2,324,316	\$ 7.2
Granted	—	\$ —
Vested	(964,172)	\$ 7.2
Forfeited	(126,113)	\$ 6.4
Nonvested, December 31, 2023	<u>1,234,031</u>	<u>\$ 7.2</u>

The weighted average grant date fair value of options granted during Fiscal 2022 and Fiscal 2021 was \$6.81 and \$6.35, respectively. The total fair value of stock options vested during Fiscal 2023, Fiscal 2022 and Fiscal 2021 was \$7.1 million, \$7.4 million and \$0.9 million, respectively.

Fair value of Stock Options

The fair value of stock option awards is estimated on the date of grant using the Black-Scholes valuation model. The assumptions utilized to estimate the grant date fair value of the stock option awards granted were as follows:

	FISCAL YEAR		
	2023	2022	2021
Weighted average expected term (years)	0	6.5	4.6
Weighted average expected volatility	— %	52.4 %	50.3 %
Risk-free interest rate	— %	2.6 %	1.0 %
Expected dividend yield	—	—	—

The Company does not have sufficient historical stock option exercise activity and therefore the expected term of stock options granted in Fiscal 2022 was estimated using the simplified method, which represents the mid-point between the vesting period and the contractual term for each grant. In Fiscal 2021, the expected term of stock option awards had been determined based on data from publicly traded companies. For Fiscal 2022 and Fiscal 2021, the expected volatility of stock options is based on the historical volatilities of a set of publicly traded peer companies in a similar industry as the Company lacks company-specific historical or implied volatility information. The risk-free interest rate is determined by reference to the U.S. Treasury yield curve for time periods approximately equal to the expected term of the stock option award. The expected dividend yield is based on the fact that the Company has never paid cash dividends and does not have intentions of paying dividends in the foreseeable future.

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

Restricted Stock Units

	RESTRICTED STOCK UNITS	WEIGHTED AVERAGE GRANT DATE FAIR VALUE	AGGREGATE INTRINSIC VALUE <i>(in thousands)</i>
Outstanding, December 25, 2022	38,311	\$ 14.36	\$ 544
Granted	543,270	\$ 15.70	
Vested	(38,311)	\$ 14.36	
Forfeited	(22,228)	\$ 15.52	
Outstanding, December 31, 2023	<u>521,042</u>	\$ 15.71	\$ 10,473

Stock-Based Compensation Expense

Stock-based compensation expense was \$7.6 million, \$10.4 million and \$8.6 million during Fiscal 2023, Fiscal 2022 and Fiscal 2021, respectively.

The total related income tax benefit for stock-based compensation expense was \$0.6 million, \$2.1 million and \$0.9 million for Fiscal 2023, Fiscal 2022 and Fiscal 2021, respectively.

Cash received from stock options exercised was \$5.8 million and \$1.4 million for Fiscal 2023 and Fiscal 2022, respectively. The tax benefit realized from stock option exercises and vesting of restricted stock units was \$1.6 million and \$0.3 million in Fiscal 2023 and Fiscal 2022, respectively. The total intrinsic value of stock options exercised was \$5.7 million and \$1.1 million during Fiscal 2023 and Fiscal 2022, respectively. There were no stock option exercises in Fiscal 2021. The total intrinsic value of restricted stock units that vested in Fiscal 2023 was \$0.7 million.

Unrecognized Stock-Based Compensation Expense

The following represents unrecognized stock-based compensation expense and the remaining weighted average vesting period as of December 31, 2023:

	UNRECOGNIZED STOCK-BASED COMPENSATION EXPENSE <i>(in thousands)</i>	REMAINING WEIGHTED AVERAGE VESTING PERIOD <i>(in years)</i>
Stock options	\$ 3,512	0.9
Restricted stock units	\$ 5,823	2.1

18. Commitments and Contingencies

Purchase Commitments

We enter into various purchase obligations in the ordinary course of business, generally of a short-term nature. These purchase obligations include commitments for inventory purchases, marketing-related contracts, corporate sponsorships, software/license commitments and service contracts. We also enter into long-term, exclusive contracts with vendors to supply us with certain goods and services, however, they generally do not include firm minimum purchase commitments.

Unconditional Purchase obligations

The Company has entered into certain off-balance sheet commitments that require the future purchase of goods or services ("unconditional purchase obligations"). The Company's unconditional purchase obligations primarily consist of payments for subscriptions and marketing-related platforms. Future payments under noncancellable unconditional purchase obligations with a remaining term in excess of one year as of December 31, 2023, are as follows:

Fiscal Year	<i>(in thousands)</i>
2024	\$ 2,315
2025	2,486
	<u>\$ 4,801</u>

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

July 2022, Management entered into an agreement with a vendor to purchase product. The agreement will remain in effect through the later of (i) the purchase of 585,940 gallons of product or (ii) 5 years from the effective date of the agreement. The remaining minimum purchase commitment as of December 31, 2023 was approximately \$7.7 million.

Legal Proceedings

The Company is subject to legal proceedings, claims and liabilities that arise in the ordinary course of business. The amount of the ultimate liability with respect to these matters was not material as of December 31, 2023. In the event any litigation losses become probable and estimable, the Company will recognize any anticipated losses.

Unclaimed Property

The Company is subject to unclaimed or abandoned property (escheat) laws which require it to turn over to state governmental authorities the property of others held by the Company that has been unclaimed for specified periods of time. Property subject to escheat laws generally relates to uncashed checks, credit card accounts receivable credits and unredeemed gift card balances. During the first quarter of 2022, the Company received a letter from the Delaware Secretary of State inviting the Company to participate in the Delaware Secretary of State's Abandoned or Unclaimed Property Voluntary Disclosure Agreement Program to avoid being sent an audit notice by the Delaware Department of Finance. On August 31, 2022, the Company was accepted into Delaware's Voluntary Disclosure Agreement Program, entitling it to certain benefits and protections offered to participants in the program. The Company intends to work in good faith to complete a review of its books and records related to unclaimed or abandoned property during the periods required under the program. The Company will continue to examine its options regarding the escheat laws of Delaware including completing Delaware's Voluntary Disclosure Agreement Program or proceeding to audit. In the fourth quarter of 2023, the Company recorded \$0.8 million in General and administrative expenses on the Consolidated Statements of Operations and Comprehensive Income (Loss) for estimated probable losses that might arise from this matter. The Company may ultimately be subject to greater losses resulting from this matter.

As of the beginning of Fiscal 2023, 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.

Net Income (Loss) Per Common Share

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

<i>(in thousands, except share and per share data)</i>	FISCAL YEAR		
	2023	2022	2021
Numerator:			
Net income (loss)	\$ 25,385	\$ 6,907	\$ (2,107)
Denominator:			
Weighted average common shares outstanding - basic	59,531,404	59,097,512	48,213,995
Weighted average common shares outstanding - diluted	61,191,613	60,140,045	48,213,995
Net income (loss) per common share - basic	\$ 0.43	\$ 0.12	\$ (0.04)
Net income (loss) per common share - diluted	\$ 0.41	\$ 0.11	\$ (0.04)
Stock options outstanding not included in diluted net income (loss) per common share as their effect is anti-dilutive	13,656	1,787,517	4,409,331
Restricted stock units outstanding not included in diluted net income (loss) per common share as their effect is anti-dilutive	355	—	—

Diluted net income (loss) per common share is calculated by adjusting the weighted average shares outstanding for the theoretical effect of potential common shares that would be issued for preferred stock using the two-class method, as well as for stock options and restricted stock units outstanding and vested as of the respective periods using the treasury method.

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

All stock option awards outstanding were excluded from the calculation of diluted net loss per common share because of their anti-dilutive impact for Fiscal 2021. As a result, there was no difference between basic and diluted net loss per common share attributable to First Watch Restaurant Group, Inc. during Fiscal 2021.

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

20. Condensed Financial Information of Registrant (Parent Company Only)

FIRST WATCH RESTAURANT GROUP, INC.
(PARENT COMPANY ONLY)
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	DECEMBER 31, 2023	DECEMBER 25, 2022
Assets		
Investment in subsidiaries	\$ 561,284	\$ 523,135
Equity		
Preferred stock; \$0.01 par value; 10,000,000 shares authorized; none issued and outstanding	\$ —	\$ —
Common stock; \$0.01 par value; 300,000,000 shares authorized; 59,891,705 and 59,211,019 shares issued and outstanding at December 31, 2023 and December 25, 2022, respectively	599	592
Additional paid-in capital	634,099	620,675
Accumulated deficit	(72,747)	(98,132)
Accumulated other comprehensive loss	(667)	—
Total equity attributable to First Watch Restaurant Group, Inc.	\$ 561,284	\$ 523,135

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

	FISCAL YEAR		
	2023	2022	2021
Equity in net income (loss) of subsidiaries			
Net income (loss) and comprehensive income (loss)	\$ 24,718	\$ 6,907	\$ (2,107)
Net income (loss) per common share attributable to First Watch Restaurant Group, Inc. - basic	\$ 0.43	\$ 0.12	\$ (0.04)
Net income (loss) per common share attributable to First Watch Restaurant Group, Inc. - diluted	\$ 0.41	\$ 0.11	\$ (0.04)
Weighted average number of common shares outstanding -basic	59,531,404	59,097,512	48,213,995
Weighted average number of common shares outstanding - diluted	61,191,613	60,140,045	48,213,995

Statements of cash flows have not been presented as First Watch Restaurant Group, Inc. did not have any cash as of, or for Fiscal 2023, Fiscal 2022 and Fiscal 2021.

Basis of Presentation

The Company is a holding company without any operations of its own (the "Parent Company"). Pursuant to the terms of the Credit Agreement discussed in Note 10, *Debt*, the Company and certain subsidiaries of the Company have restrictions on their ability to, among other things, (i) incur additional indebtedness, pay dividends or make certain intercompany loans and advances, and (ii) exceed a maximum total rent adjusted net leverage ratio or fall below a minimum fixed charge coverage ratio. As a result of these restrictions, these parent company financial statements have been prepared in accordance with Rule 12-04 of Regulation S-X, as restricted net assets of the Company's subsidiaries (as defined in Rule 4-08(e)(3) of Regulation S-X) exceed 25% of the Company's consolidated net assets as of December 31, 2023 and December 25, 2022.

These condensed financial statements have been prepared on a "parent-only" basis. These condensed parent company financial statements have been prepared using the same accounting principles and policies described in the notes to the Company's consolidated financial statements, with the only exception being that the parent company accounts for its subsidiaries using the equity method. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. The accompanying financial information

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

should be read in conjunction with the accompanying Company's consolidated financial statements and related notes thereto.

21. Subsequent Events

Business Acquisitions

On January 5, 2024, the Company executed an asset purchase agreement to acquire from a franchisee 21 operating restaurants, together with other associated assets, including, but not limited to, franchise and development rights for cash of approximately \$75.0 million. The close date of the sale is subject to the satisfaction of certain customary closing conditions set forth in the asset purchase agreement.

On January 22, 2024, the Company acquired one restaurant from a franchisee, together with associated assets, pursuant to an executed purchase agreement in December 2023 for cash of approximately \$3.0 million.

Amendment to Credit Agreement

On January 5, 2024, (the "Closing Date"), FWR entered into that certain Amendment No. 2 to Credit Agreement (the "Amendment"), by and among FWR, as borrower, AI Fresh Parent, Inc., a Delaware corporation and indirect subsidiary of the Company ("Holdings"), the subsidiaries of FWR party thereto as guarantors, the lenders party thereto and Bank of America, N.A., as administrative agent and collateral agent (in such capacities, the "Administrative Agent"), which amended its credit agreement, dated as of October 6, 2021, (as previously amended, and as amended by the Amendment, the "Credit Agreement"), by and among FWR, Holdings, the lenders from time to time party thereto and the Administrative Agent.

Pursuant to the terms of the Amendment, (i) the existing \$100.0 million Term Facility was replaced with a new \$100.0 million term loan A facility, (the "New Term Facility"), on terms substantially identical to the Term Facility, (ii) the \$75.0 million Revolving Credit Facility was replaced with a new \$75.0 million revolving credit facility (the "New Revolving Credit Facility") on terms substantially identical to the Revolving Credit Facility, (iii) a new \$125.0 million incremental delayed draw term loan facility, (the "New Delayed Draw Term Facility"), was established that will be available to FWR in one or more draws of at least \$5.0 million each for a period of 18 months following the Closing Date, and (iv) the New Revolving Credit Facility was increased by \$50.0 million in new revolving credit commitments bringing the aggregate committed amount under the New Revolving Credit Facility to \$125.0 million. Commitments in respect of the New Delayed Draw Term Facility may be reduced, in whole or in part, at any time prior to 18 months following the Closing Date in the sole discretion of FWR. Loans under the New Term Facility and, once funded, under the New Delayed Draw Term Facility will constitute the same class of term loans for all purposes under the Amendment.

The New Term Facility, the New Revolving Credit Facility and the New Delayed Draw Term Facility mature on January 5, 2029. The proceeds of the New Delayed Draw Term Facility may be used by FWR to directly or indirectly finance permitted acquisitions (including working capital, earn-outs and/or purchase price adjustments) of franchisees, directly or indirectly finance new restaurant capital expenditure, repay revolving loans and/or replenish balance sheet cash, in each case, used for such permitted acquisitions or capital expenditures, and to pay related fees and expenses.

Commencing on the last day of the first fiscal quarter ending after the date on which 50.0% or more of the New Delayed Draw Term Facility has been funded (the "First DDTL Term Out Date"), loans drawn under the New Delayed Draw Term Facility on or before the First DDTL Term out Date will amortize in equal quarterly installments at the same amortization rate per annum as then applicable to loans under the New Term Facility. Commencing on the last day of the first fiscal quarter ending after the earlier of (i) the date on which 100.0% of the commitments in respect of the New Delayed Draw Term Facility have been funded and (ii) 18 months following the Closing Date (such earlier date, the "Second DDTL Term Out Date"), loans drawn under the New Delayed Draw Term Facility after the First DDTL Term Out Date and on or before the Second DDTL Term Out Date, will amortize in equal quarterly installments at the same amortization rate per annum then applicable to loans under the New Term Facility.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. 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 Annual Report on Form 10-K, 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 Annual Report on Form 10-K. 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 December 31, 2023, our disclosure controls and procedures were not effective. In light of this fact, our management has performed additional analyses, reconciliations, and other post-closing procedures and has concluded that, notwithstanding the material weaknesses in our internal control over financial reporting, the consolidated financial statements for the periods covered by and included in this Annual Report on Form 10-K fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with GAAP.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting. Management has adopted the framework in "Internal Control-Integrated Framework" (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Based on management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2023 based on the COSO framework, management has determined that the Company's internal control over financial reporting as of December 31, 2023 was not effective.

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

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

- We did not design and maintain effective controls over the period-end financial reporting process, including controls over the preparation and review of account reconciliations and journal entries, and the appropriate classification and presentation of accounts and disclosures in the consolidated financial statements. This material weakness resulted in adjustments to accruals and within the statement of cash flows in our fiscal 2018 consolidated financial statements, which were recorded prior to the issuance of our fiscal 2018 consolidated financial statements.
- We did not design and maintain effective controls over the accounting for income taxes over the recording of deferred income taxes and the assessment of the realization of deferred tax assets. This material weakness resulted in adjustments to the income tax benefit, deferred taxes, goodwill, and liabilities in our fiscal 2018 consolidated financial statements, which were recorded prior to issuance. This material weakness also resulted in immaterial adjustments to the income tax benefit and deferred taxes and related disclosures in the fiscal 2017 and 2019

consolidated financial statements, which were corrected in the fiscal 2019 and 2020 consolidated financial statements, respectively. This material weakness also resulted in adjustments to the income tax expense and deferred taxes in our fiscal 2021 consolidated financial statements, which were recorded prior to issuance and immaterial adjustments which were recorded in our fiscal 2023 consolidated financial statements.

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

Our independent registered public accounting firm will not be required to opine on the effectiveness of our internal control over financial reporting until we are no longer an "emerging growth company" as defined in the JOBS Act.

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, 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 segregate journal entry creation from journal entry approval authority.
- Designed and implemented controls over the accounting for income taxes to ensure the appropriate recording of deferred income taxes, income taxes and related disclosures.

While the material weaknesses disclosed have not yet been remediated as of December 31, 2023, management is devoting substantial resources to the ongoing remediation efforts. As we continue to evaluate and work to improve our internal control over financial reporting, we may take additional measures to address control deficiencies, or we may modify certain of the remediation measures described above. The material weaknesses will not be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are designed and operating effectively.

Remediation of Prior Material Weakness in Internal Control Over Financial Reporting

As previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 25, 2022, the following control deficiencies constituted a material weakness in our internal control over financial reporting:

- We did not design and maintain effective controls over information technology general controls for information systems and applications that are relevant to the preparation of the consolidated financial statements. Specifically, we did not design and maintain: sufficient user access controls to ensure appropriate segregation of duties and adequately restrict user and privileged access to financial applications, programs and data to appropriate Company personnel; program change management controls to ensure that information technology program and data changes affecting financial information technology applications and underlying accounting records are identified, tested, authorized and implemented appropriately; computer operations controls to ensure that critical batch jobs are monitored, privileges are appropriately granted, and data backups are authorized and monitored; and testing and approval controls for program development to ensure that new software development is aligned with business and information technology requirements. The deficiencies, when aggregated, could impact our ability to maintain effective segregation of duties, as well as the effectiveness of information technology-dependent controls (such as

automated controls that address the risk of material misstatement to one or more assertions, along with the information technology controls and underlying data that support the effectiveness of system-generated data and reports) that could result in misstatements potentially impacting all financial statement accounts and disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. Therefore, we concluded the information technology deficiencies resulted in a material weakness. However, these information technology deficiencies did not result in any misstatements to the consolidated financial statements.

The Company has designed and implemented the following measures to remediate the previously identified material weakness related to information technology general controls:

- Hired a seasoned information technology leader with public company experience to enhance information technology services and solutions.
- Designed and implemented user access controls to ensure appropriate segregation of duties and adequately restrict user and privileged access to financial applications, programs and data to appropriate Company personnel.
- Designed and implemented change management controls to ensure that information technology program and data changes affecting financial information technology applications and underlying accounting records are identified, tested, authorized, and implemented appropriately.
- Designed and implemented testing and approval controls for program development to ensure that new software is aligned with business and information technology requirements.
- Designed and implemented computer operation controls to ensure critical jobs are monitored and privileges are appropriately granted. Implemented a new backup and recovery platform to monitor data backups for all relevant systems in accordance with the applicable policy as well as manage a test recovery process.

As of December 31, 2023, the remediation measures described above have been completed, and the newly designed and enhanced controls have been implemented and operated for a sufficient time to demonstrate the material weakness has been remediated. Based on the testing performed by management, the controls have been determined to be appropriately designed and operating effectively as of December 31, 2023 and as such, the material weakness related to information technology general controls for information systems and applications that are relevant to the preparation of the consolidated financial statements has been remediated.

Changes in Internal Control over Financial Reporting

There have been no changes in internal control over financial reporting during the quarter ended December 31, 2023 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

We have adopted a Code of Ethics and Business Conduct that applies to, among others, our chief executive officer, chief financial officer (who is also our principal accounting officer), and other finance and accounting leaders, which is a “code of ethics” as defined by applicable rules of the SEC. This code is publicly available on our website. The Internet address for our website is www.firstwatch.com, and the Code of Ethics and Business Conduct may be found on our main webpage by clicking first on “Investors” and then on “Corporate Governance” and next on “Code of Ethics and Business Conduct.” If we make any amendments to this code other than technical, administrative or other non-substantive amendments, or grant any waivers, including implicit waivers, from a provision of this code to our chief executive officer, chief financial officer (who is also our principal accounting officer), or other finance and accounting leaders, we will disclose the nature of the amendment or waiver, its effective date and to whom it applies on our website as specified above or in a report on Form 8-K filed with the SEC.

The remaining information required by this item is incorporated herein by reference to the sections entitled “Proposal 1: Director Election Proposal,” “Information Regarding the board of directors and Corporate Governance,” and “Executive Officers” in our definitive Proxy Statement for the Annual Meeting of Stockholders expected to be held on May 22, 2024 (the “Proxy Statement”).

We will provide disclosure of delinquent Section 16(a) reports, if any, in our Proxy Statement, and such disclosure, if any, is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this item is incorporated by reference to the sections entitled “Executive Compensation,” “Outstanding Equity Awards at Fiscal Year-End,” and “Director Compensation” in the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated by reference to the section entitled “Security Ownership of Certain Beneficial Owners and Management” in the Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated by reference to the section entitled “Certain Relationships and Related Transactions” and “Information Regarding the board of directors and Corporate Governance” in the Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated by reference to the sections entitled “Proposal 2: Auditor Ratification Proposal,” “Auditors Fees and Services” and “Policy for Approval of Audit and Permitted Non-Audit Services” in the Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this Annual Report on Form 10-K:

1. Financial Statements

Consolidated financial statements filed as part of this report are listed under Item 8, "Financial Statements and Supplementary Data."

2. Financial Statement Schedules

No schedules are required because either the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or notes thereto.

3. Exhibits

Exhibit No.	DESCRIPTION	FILINGS REFERENCED FOR INCORPORATION BY REFERENCE
3.1	Amended and Restated Certificate of Incorporation of First Watch Restaurant Group, Inc.	October 6, 2021 Form 8-K, Exhibit 3.1
3.2	Amended and Restated Bylaws of First Watch Restaurant Group, Inc.	October 6, 2021 Form 8-K, Exhibit 3.2
4.1	Form of Certificate of Common Stock	September 7, 2021 Form S-1, Exhibit 4.1
4.2	Registration Rights Agreement by and among First Watch Restaurant Group, Inc. and the other parties thereto, dated as of October 1, 2021	March 23, 2022, Form 10-K, Exhibit 4.2
4.3	Description of First Watch Restaurant Group, Inc. Securities	March 23, 2022, Form 10-K, Exhibit 4.3
10.1(a)	Credit Agreement, dated as of October 6, 2021, by and among FWR Holding Corporation, AI Fresh Parent, Inc., the lenders party thereto, the other parties therein and Bank of America, N.A., as administrative agent	October 6, 2021, Form 8-K, Exhibit 10.1
10.1(b)	Amendment No. 1 to Credit Agreement dated as of February 24, 2023, between FWR Holding Corporation as Borrower, the lenders party thereto, the other parties therein and Bank of America N.A., as administrative agent	March 7, 2023, Form 10-K, Exhibit 10.2
10.1(c)	Amendment No. 2 to Credit Agreement dated as of January 5, 2024, by and among FWR Holding Corporation as Borrower, the lenders party thereto, the other parties thereto and Bank of America N.A., as administrative agent	January 8, 2024, Form 8-K, Exhibit 10.1
10.2(a)	Credit Agreement, dated as of August 21, 2017, between FWR Holding Corporation as Borrower, the lenders party thereto, and Golub Capital Markets LLC, as administrative agent	September 7, 2021, Form S-1, Exhibit 10.1(a)
10.2(b)	First Amendment to Credit Agreement, dated as of February 28, 2019, between FWR Holding Corporation as Borrower, the lenders party thereto, and Golub Capital Markets LLC, as administrative agent	September 7, 2021, Form S-1, Exhibit 10.1(b)
10.2(c)	Second Amendment to Credit Agreement, dated as of December 20, 2019, between FWR Holding Corporation as Borrower, the lenders party thereto, and Golub Capital Markets LLC, as administrative agent	September 7, 2021, Form S-1, Exhibit 10.1(c)
10.2(d)	Third Amendment to Credit Agreement, dated as of April 27, 2020, between FWR Holding Corporation as Borrower, the lenders party thereto, and Golub Capital Markets LLC, as administrative agent	September 7, 2021, Form S-1, Exhibit 10.1(d)
10.2(e)	Fourth Amendment to Credit Agreement, dated as of August 14, 2020, between FWR Holding Corporation as Borrower, the lenders party thereto, and Golub Capital Markets LLC, as Administrative Agent	September 7, 2021, Form S-1, Exhibit 10.1(e)

10.3*	Employment Agreement, dated March 9, 2022, by and between First Watch Restaurants, Inc. and Christopher A. Tomasso	March 11, 2022, Form 8-K, Exhibit 10.1
10.4*	Employment Agreement, dated August 21, 2017, by and between First Watch Restaurants, Inc. and Laura Sorensen	September 7, 2021, Form S-1, Exhibit 10.4
10.6*	Letter Agreement, dated February 1, 2021, by and between First Watch Restaurants, Inc. and Kenneth L. Pendery, Jr.	September 7, 2021, Form S-1, Exhibit 10.8
10.7*	Letter Agreement, dated July 12, 2018, by and between First Watch Restaurants, Inc. and Mel Hope	March 23, 2022, Form 10-K, Exhibit 10.7
10.8*	First Watch Restaurant Group, Inc. 2017 Omnibus Equity Incentive Plan (formerly known as the AI Fresh Super Holdco, Inc. 2017 Omnibus Equity Incentive Plan)	September 7, 2021, Form S-1, Exhibit 10.3
10.9*	First Watch Restaurant Group, Inc. 2021 Equity Incentive Plan	March 23, 2022, Form 10-K, Exhibit 10.9
10.10*	Form of 2022 Stock Option Agreement	March 23, 2022, Form 10-K, Exhibit 10.10
10.11*	Form of 2023 Restricted Stock Unit Award Agreement	March 7, 2023, Form 10-K, Exhibit 10.11
10.12*	Form of 2024 Restricted Stock Unit Award Agreement	Filed herewith
10.13*	Form of 2024 Restricted Stock Unit Award Agreement (Special Recognition Grant)	Filed herewith
10.14*	Form of Director and Officer Indemnification Agreement	September 7, 2021, Form S-1, Exhibit 10.7
10.15	Form of Restricted Unit Award Agreement for Directors	March 7, 2023, Form 10-K, Exhibit 10.13
10.16***	Asset Purchase Agreement dated as of January 5, 2024, by and among VIM Holdings, LLC, its owners and affiliates, and First Watch Restaurants, Inc.	January 8, 2024, Form 8-K, Exhibit 2.1
21.1	List of subsidiaries	Filed herewith
23.1	Consent of Independent Registered Public Accounting Firm	Filed herewith
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
97.1	Incentive-Based Compensation Recovery Policy	Filed herewith
101	The financial information from First Watch Restaurant Group, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2023, filed on March 5, 2024, formatted in Inline Extensible Business Reporting Language ("iXBRL")	Filed herewith
104	Cover Page Interactive Data File (formatted as iXBRL and contained in Exhibit 101)	Filed herewith

* Denotes a management contract or compensatory plan or arrangement.

** 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.

***Disclosure schedules omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company will furnish supplementally a copy of any omitted schedule to the SEC upon request. The Company may request confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, for any schedules so furnished.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

FIRST WATCH RESTAURANT GROUP, INC.

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Christopher A. Tomasso</u> Christopher A. Tomasso	President, Chief Executive Officer and Director (Principal Executive Officer)	March 5, 2024
<u>/s/ Mel Hope</u> Mel Hope	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 5, 2024
<u>/s/ Ralph Alvarez</u> Ralph Alvarez	Director and Chairman of the Board	March 5, 2024
<u>/s/ Julie M.B. Bradley</u> Julie M.B. Bradley	Director	March 5, 2024
<u>/s/ Irene Chang Britt</u> Irene Chang Britt	Director	March 5, 2024
<u>/s/ Tricia Glynn</u> Tricia Glynn	Director	March 5, 2024
<u>/s/ William Kussell</u> William Kussell	Director	March 5, 2024
<u>/s/ Stephanie Lilak</u> Stephanie Lilak	Director	March 5, 2024
<u>/s/ David Paresky</u> David Paresky	Director	March 5, 2024
<u>/s/ Jostein Solheim</u> Jostein Solheim	Director	March 5, 2024

BOARD OF DIRECTORS

Ralph Alvarez

Chairman
First Watch

Operating Partner
Advent International, L.P.

Former President & COO
McDonald's Corporation

Julie Bradley

Former CFO & CAO
TripAdvisor

Irene Chang Britt

Former President/Divisional CEO
Pepperidge Farm, Inc.

Tricia Glynn

Managing Partner
Advent International, L.P.

William Kussell

Operating Partner
Advent International, L.P.

Former COO
Dunkin Brands

Stephanie Lilak

EVP/Chief People Officer
Mondelēz International, Inc.

David Paresky

Principal
Advent International, L.P.

Jostein Solheim

CEO, Health & Wellbeing
Unilever PLC

Chris Tomasso

CEO & President
First Watch

EXECUTIVE OFFICERS

Chris Tomasso

CEO & President

Mel Hope

Chief Financial Officer

Matt Eisenacher

Chief Brand Officer

Eric Hartman

EVP & Chief Development Officer

Dan Jones

Chief Operations Officer

Laura Sorensen

Chief People Officer

Jay Wolszczak

Chief Legal Officer
General Counsel & Secretary



STOCKHOLDER INFORMATION

Headquarters

8725 Penderly Place, Suite 201
Bradenton, FL 34201

Annual Meeting

Wednesday, May 22, 2024
8 a.m. EDT, Virtual

Restaurant Locations

As of December 31, 2023
524 restaurants in 29 states
425 Company-Owned, 99 Franchise-Owned

Transfer Agent

Computershare
P.O. Box 43006
Providence, RI 02940-3006
800-736-3001 (US)
781-575-3100 (Non-US)

Financial Inquiries

For additional financial documents and information, please visit investors.firstwatch.com. Contact us by phone at 941-907-9800 or by sending an email to investors@firstwatch.com.

Media Inquiries

For all media inquiries, please contact PR@firstwatch.com.

Stock Listing

First Watch Restaurant Group, Inc. Common Stock is listed on the NASDAQ Stock Exchange under the symbol FWRG.



We are who we are because of our co-founder, Ken Pendery,
and his legacy will be forever felt at First Watch.

1953 - 2024

**FIRST
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