

Edgar Filing: Wingstop Inc. - Form 10-Q

Wingstop Inc.
Form 10-Q
August 04, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended July 1, 2017

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

For the transition period from _____ to _____

Commission File No. 001-37425

WINGSTOP INC.

(Exact name of registrant as specified in its charter)

Delaware 47-3494862
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

5501 LBJ Freeway, 5th Floor, 75240
Dallas, Texas
(Address of principal executive offices) (Zip Code)

(972) 686-6500
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.

Larger accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Emerging growth company

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

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

On August 4, 2017 there were 29,072,401 shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

WINGSTOP INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(amounts in thousands, except share and per share amounts)

	July 1, 2017 (Unaudited)	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	\$ 4,447	\$ 3,750
Accounts receivable, net	3,818	3,199
Prepaid expenses and other current assets	3,505	1,634
Advertising fund assets, restricted	2,445	2,533
Total current assets	14,215	11,116
Property and equipment, net	5,441	4,999
Goodwill	45,128	45,128
Trademarks	32,700	32,700
Customer relationships, net	16,240	16,914
Other non-current assets	857	943
Total assets	\$ 114,581	\$ 111,800
Liabilities and stockholders' deficit		
Current liabilities		
Accounts payable	\$ 1,778	\$ 1,458
Other current liabilities	8,156	9,241
Current portion of debt	3,500	3,500
Advertising fund liabilities, restricted	2,445	2,533
Total current liabilities	15,879	16,732
Long-term debt, net	137,529	147,217
Deferred revenues, net of current	8,024	7,868
Deferred income tax liabilities, net	12,155	12,304
Other non-current liabilities	2,224	2,307
Total liabilities	175,811	186,428
Commitments and contingencies (see note 6)		
Stockholders' deficit		
Common stock, \$0.01 par value; 100,000,000 shares authorized; 29,072,401 and 28,747,392 shares issued and outstanding as of July 1, 2017 and December 31, 2016, respectively	291	287
Additional paid-in-capital	2,793	1,194
Accumulated deficit	(64,314)	(76,109)
Total stockholders' deficit	(61,230)	(74,628)
Total liabilities and stockholders' deficit	\$ 114,581	\$ 111,800

See accompanying notes to consolidated financial statements

WINGSTOP INC. AND SUBSIDIARIES

Consolidated Statements of Operations

(amounts in thousands, except per share data)

(Unaudited)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 1, 2017	June 25, 2016	July 1, 2017	June 25, 2016
Revenue:				
Royalty revenue and franchise fees	\$15,827	\$14,305	\$33,850	\$27,803
Company-owned restaurant sales	8,845	8,418	17,391	16,994
Total revenue	24,672	22,723	51,241	44,797
Costs and expenses:				
Cost of sales ⁽¹⁾	6,867	6,184	13,467	12,261
Selling, general and administrative	8,288	8,572	18,550	16,227
Depreciation and amortization	771	727	1,526	1,441
Total costs and expenses	15,926	15,483	33,543	29,929
Operating income	8,746	7,240	17,698	14,868
Interest expense, net	1,307	707	2,606	1,468
Other expense, net	—	10	—	38
Income before income tax expense	7,439	6,523	15,092	13,362
Income tax expense	2,174	2,444	3,297	4,993
Net income	\$5,265	\$4,079	\$11,795	\$8,369
Earnings per share				
Basic	\$0.18	\$0.14	\$0.41	\$0.29
Diluted	\$0.18	\$0.14	\$0.40	\$0.29
Weighted average shares outstanding				
Basic	29,032	28,646	28,964	28,616
Diluted	29,394	28,989	29,361	28,979

⁽¹⁾ exclusive of depreciation and amortization,
shown separately

See accompanying notes to consolidated financial statements.

WINGSTOP INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(amounts in thousands)
(Unaudited)

	Twenty-Six Weeks Ended	
	July 1, 2017	June 25, 2016
Operating activities		
Net income	\$11,795	\$8,369
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	1,526	1,441
Deferred income taxes	(149)	(131)
Stock-based compensation expense	541	253
Amortization of debt issuance costs	146	69
Changes in operating assets and liabilities:		
Accounts receivable	(619)	823
Prepaid expenses and other assets	(568)	(220)
Accounts payable and other current liabilities	(2,281)	(315)
Deferred revenue	378	(440)
Other non-current liabilities	(83)	165
Cash provided by operating activities	10,686	10,014
Investing activities		
Purchases of property and equipment	(1,301)	(975)
Cash used in investing activities	(1,301)	(975)
Financing activities		
Proceeds from exercise of stock options	1,062	285
Repayments of long-term debt	(9,750)	(10,000)
Cash used in financing activities	(8,688)	(9,715)
Net change in cash and cash equivalents	697	(676)
Cash and cash equivalents at beginning of period	3,750	10,690
Cash and cash equivalents at end of period	\$4,447	\$10,014

See accompanying notes to consolidated financial statements.

WINGSTOP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

(1) Basis of Presentation

Basis of Presentation

Wingstop Inc. (“Wingstop” or the “Company”), through its primary operating subsidiary, Wingstop Restaurants Inc. (“WRI”), collectively referred to as the “Company”, is in the business of franchising and operating Wingstop restaurants. As of July 1, 2017, 946 franchised restaurants were in operation domestically and 89 international franchised restaurants were in operation across six countries. As of July 1, 2017, the Company owned and operated 21 restaurants.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial information. Consequently, financial information and disclosures normally included in financial statements prepared annually in accordance with accounting principles generally accepted in the United States (“GAAP”) have been condensed or omitted. Balance sheet amounts are as of July 1, 2017 and December 31, 2016 and operating results are for the thirteen and twenty-six weeks ended July 1, 2017 and June 25, 2016.

In the Company’s opinion, all necessary adjustments have been made for the fair presentation of the results of the interim periods presented. The results of operations for such interim periods are not necessarily indicative of the results to be expected for the full year. The accompanying interim unaudited consolidated financial statements should be read in conjunction with the audited financial statements and the related notes thereto included in the Company’s annual report on Form 10-K for the fiscal year ended December 31, 2016.

The Company uses a 52/53-week fiscal year that ends on the last Saturday of the calendar year. Fiscal years 2017 and 2016 have 52 weeks and 53 weeks, respectively.

Advertising Fund

The Company administers the Wingstop Restaurants Advertising Fund (“Ad Fund”), which is used for various forms of advertising for the Wingstop brand. The revenues, expenses and cash flows of the Ad Fund are not included in the Consolidated Statements of Operations or Consolidated Statements of Cash Flows because the Company does not have complete discretion over the usage of the funds. Beginning in fiscal year 2017, in conjunction with the launch of national advertising, the advertising fund contribution collected from Wingstop restaurant franchisees and WRI-owned restaurants increased from 2% to 3% of gross sales. This change is not an increase to the existing 4% of the restaurants’ gross sales that has historically been required to be spent on advertising according to our franchise agreement, but rather a reallocation of the types of advertising for which the 4% ad fee will be spent. For the twenty-six weeks ended July 1, 2017 and June 25, 2016 the Company made discretionary contributions to the Ad Fund totaling \$3.8 million and \$1.1 million, respectively, for the purpose of supplementing the national advertising campaign, which were included in Selling, general & administrative (“SG&A”) expense in the Statement of Operations.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This update provides a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. This update is effective for annual and interim periods beginning after December 15, 2017 with early adoption permitted in fiscal year 2017. The Company will adopt this new guidance in fiscal year 2018, and has not yet selected a transition method. Based on a preliminary assessment, the Company expects the adoption of the new guidance to change the timing of recognition of initial franchise fees, including development and territory fees for our international business, and renewal fees. Currently, these fees are generally recognized upfront upon either opening of the respective restaurant or when a renewal agreement becomes effective. The new guidance will generally require these fees to be recognized over the term of the related franchise license for the respective restaurant. The Company is continuing to evaluate the impact the adoption of this new guidance will have on these and other revenue transactions, as well as the presentation of

advertising fund revenues and expenses, in addition to the impact on accounting policies and related disclosures. In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU 2016-02 will be effective beginning in the first quarter of 2019. Early adoption of ASU 2016-02 as of its

WINGSTOP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

issuance is permitted. This new guidance requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which was issued to simplify accounting for several aspects of share-based payment transactions, including the income tax impact, classification on the statement of cash flows and forfeitures.

The Company adopted this new standard on January 1, 2017.

As a result, the recognition of excess tax benefits are reflected in our provision for income taxes in the Consolidated Statement of Operations rather than Stockholders' deficit in the Consolidated Balance Sheet for all periods after fiscal year 2016. This provision was required to be applied prospectively. For the thirteen and twenty-six weeks ended July 1, 2017, we recognized \$0.7 million and \$2.4 million, respectively, of excess tax benefits in income tax expense in the Statement of Operations.

Excess tax benefits are now reported in cash flows from operating activities rather than cash flows from financing activities in the Consolidated Statement of Cash Flows. We elected to apply this change in presentation retrospectively, and thus, prior periods have been adjusted, resulting in an increase to cash provided by operating activities and cash used in financing activities of \$0.7 million for the twenty-six weeks ended June 25, 2016.

This new standard allows entities to make an accounting policy election to either estimate the number of equity awards that are expected to vest, as previously required, or account for forfeitures when they occur. We have elected to recognize forfeitures in the period they occur. This change in accounting policy did not result in a material impact to the Consolidated Statements of Operations.

(2) Earnings per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the reporting period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. For the calculation of diluted earnings per share, the basic weighted average number of shares is increased by the dilutive effect of stock options and restricted stock units, determined using the treasury stock method. Basic weighted average shares outstanding is reconciled to diluted weighted average shares outstanding as follows (in thousands):

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 1, 2017	June 25, 2016	July 1, 2017	June 25, 2016
Basic weighted average shares outstanding	29,032	28,646	28,964	28,616
Dilutive shares	362	343	397	363
Diluted weighted average shares outstanding	29,394	28,989	29,361	28,979

For the thirteen weeks ended July 1, 2017 and June 25, 2016, respectively, approximately 3,000 and 7,000 equity awards were excluded from the dilutive earnings per share calculation because the effect would have been anti-dilutive.

For the twenty-six weeks ended July 1, 2017 and June 25, 2016, respectively, approximately 20,000 and 5,000 equity awards were excluded from the dilutive earnings per share calculation because the effect would have been anti-dilutive.

(3) Fair Value Measurements

Fair value is the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for

that asset or liability. Assets and liabilities are classified using a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value as follows:

Level 1 — Unadjusted quoted prices for identical instruments traded in active markets.

Level 2 — Observable market-based inputs or unobservable inputs corroborated by market data.

Level 3 — Unobservable inputs reflecting management's estimates and assumptions.

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WINGSTOP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

The carrying values of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to their short-term nature. Fair value of debt is determined on a non-recurring basis, which results are summarized as follows (in thousands):

	Fair Value Hierarchy	July 1, 2017 Carrying Value (2)	Fair Value	December 31, 2016 Carrying Value (2)	Fair Value
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Senior Secured Credit Facility:

Term loan facility (1)	Level 2	\$66,500	\$66,500	\$68,250	\$68,250
Revolving credit facility (1)	Level 2	\$75,000	\$75,000	\$83,000	\$83,000

(1) The fair value of long-term debt was estimated using available market information.

(2) Excluding issuance costs netted on the Balance Sheet.

The Company also measures certain non-financial assets at fair value on a non-recurring basis, primarily long-lived assets, intangible assets and goodwill, in connection with our periodic evaluations of such assets for potential impairment.

(4) Income Taxes

Income tax expense and the effective tax rate were \$2.2 million and 29.2%, respectively, for the thirteen weeks ended July 1, 2017, and \$2.4 million and 37.5%, respectively, for the thirteen weeks ended June 25, 2016. Income tax expense and the effective tax rate were \$3.3 million and 21.8%, respectively, for the twenty-six weeks ended July 1, 2017, and \$5.0 million and 37.4%, respectively, for the twenty-six weeks ended June 25, 2016.

Income tax expense for the thirteen and twenty-six weeks ended July 1, 2017 includes \$0.7 million and \$2.4 million in tax benefits, respectively, resulting from the recognition of excess tax benefits from share-based compensation in income tax expense rather than paid-in capital due to the adoption of ASU 2016-09, which resulted in a lower effective tax rate for the thirteen and twenty-six weeks ended July 1, 2017 compared to the prior year period.

(5) Debt Obligations

The senior secured credit facility consists of a term loan facility in an aggregate amount of \$70.0 million and a revolving credit facility up to an aggregate amount of \$110.0 million. As of July 1, 2017, the term loan facility and the revolving credit facility had outstanding balances of \$66.5 million and \$75.0 million, respectively, bearing interest at 3.55%.

In 2017, the Company made payments of \$8.0 million and \$1.8 million on the outstanding principal balance of its revolving credit facility and term loan facility, respectively.

The senior secured credit facility is secured by substantially all assets of the Company and requires compliance with certain financial and non-financial covenants. As of July 1, 2017, the Company was in compliance with all covenants. As of July 1, 2017, the scheduled principal payments on debt were as follows (in thousands):

Remainder of fiscal year 2017	\$1,750
Fiscal year 2018	3,500
Fiscal year 2019	2,625
Fiscal year 2020	3,500
Fiscal year 2021	130,125
Total	\$141,500

(6) Commitments and Contingencies

WRI leases certain office and retail space and equipment under non-cancelable operating leases with terms expiring at various dates through July 2031.

WINGSTOP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

A schedule of future minimum rental payments required under our operating leases, excluding contingent rent, that have initial or remaining non-cancelable lease terms in excess of one year, as of July 1, 2017, is as follows (in thousands):

Remainder of fiscal year 2017	\$864
Fiscal year 2018	1,544
Fiscal year 2019	1,310
Fiscal year 2020	1,184
Fiscal year 2021	1,028
Fiscal year 2022	971
Thereafter	3,414
Total	\$10,315

Rent expense under cancelable and non-cancelable leases was \$489,000 and \$456,000 for the thirteen weeks ended July 1, 2017 and June 25, 2016, respectively, and \$980,000 and \$921,000 for the twenty-six weeks ended July 1, 2017 and June 25, 2016, respectively.

The Company is subject to legal proceedings, claims and liabilities, such as employment-related claims and premises-liability cases, which arise in the ordinary course of business and are generally covered by insurance. In the opinion of management, the amount of ultimate liability with respect to those actions should not have a material adverse impact on financial position, results of operations or cash flows.

(7) Stock-Based Compensation

Stock-based compensation is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the requisite employee service period (generally the vesting period of the grant). The Company recognized \$0.5 million in stock compensation expense for the twenty-six weeks ended July 1, 2017, with a corresponding increase to additional paid-in-capital. Stock compensation expense is included in SG&A in the Consolidated Statement of Operations.

Stock Options

The following table summarizes stock option activity (in thousands, except per share data):

	Stock Options	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Term
Outstanding - December 31, 2016	855	\$ 5.14	\$ 20,905	6.8
Granted	—	\$ —		
Exercised	(304)	\$ 3.49		
Canceled	(107)	\$ 6.89		
Outstanding - July 1, 2017	444	\$ 5.85	\$ 11,120	6.2

The total grant-date fair value of stock options vested during the twenty-six weeks ended July 1, 2017 was \$1.0 million. The total intrinsic value of stock options exercised during the twenty-six weeks ended July 1, 2017 was \$7.7 million. As of July 1, 2017, total unrecognized compensation expense related to unvested stock options was \$1.2 million, which is expected to be recognized over a weighted-average period of 1.9 years.

WINGSTOP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

Restricted Stock Units and Performance Stock Units

The following table summarizes activity related to restricted stock units and performance stock units (in thousands, except per share data):

	Restricted Stock Units	Weighted Average Grant Date Fair Value	Performance Stock Units	Weighted Average Grant Date Fair Value
Outstanding - December 31, 2016	—	\$ —	—	\$ —
Granted	96	26.68	84	27.18
Released	—	—	—	—
Canceled	(9)	26.30	(8)	26.30
Outstanding - July 1, 2017	87	\$ 26.72	76	\$ 27.28

The fair value of restricted stock units and performance stock units are based on the closing market price of the stock on the date of grant. The restricted stock units granted during the twenty-six weeks ended July 1, 2017 vest over a three year service period. As of July 1, 2017, total unrecognized compensation expense related to unvested restricted stock units was \$2.0 million which is expected to be recognized over a weighted-average period of 2.6 years.

The performance stock units vest based on the outcome of certain performance criteria. For performance stock units granted during the twenty-six weeks ended July 1, 2017, the amount of units that can be earned range from 0% to 100% of the number of performance awards granted, based on the achievement of certain adjusted EBITDA targets, as defined by the plan, over a performance period of one to three years. The compensation expense related to the performance stock units is recognized over the vesting period when the achievement of the performance conditions become probable. As of July 1, 2017, total unrecognized compensation expense related to unvested performance stock units was \$1.5 million which is expected to be recognized over a weighted-average period of 2.6 years.

Restricted Stock Awards

The Company granted 9,000 shares of restricted stock awards during the twenty-six weeks ended July 1, 2017 with a weighted average grant date fair value of \$29.12. The fair value of the non-vested restricted stock awards is based on the closing price on the date of grant. As of July 1, 2017, total unrecognized compensation expense related to unvested restricted stock awards was \$0.4 million, which will be recognized over a weighted average period of approximately 2.6 years.

(8) Business Segments

The Franchise segment consists of domestic and international franchise restaurants, which represent the majority of our system-wide restaurants. As of July 1, 2017, the franchise operations segment consisted of 1,035 restaurants operated by Wingstop franchisees in the United States and six countries outside of the United States as compared to 894 franchised restaurants in operation as of June 25, 2016. Franchise operations revenue consists primarily of franchise royalty revenue, sales of franchise and development fees, international territory fees, and other revenue. As of July 1, 2017, the Company segment consisted of 21 company-owned restaurants, located in the United States, as compared to 20 company-owned restaurants as of June 25, 2016. Company restaurant sales are for food and beverage sales at company-owned restaurants. Company restaurant expenses are operating expenses at company-owned restaurants and include food, beverage, labor, benefits, utilities, rent and other operating costs.

WINGSTOP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

Information on segments and a reconciliation to income before taxes are as follows (in thousands):

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 1, 2017	June 25, 2016	July 1, 2017	June 25, 2016
Revenue:				
Franchise segment	\$ 15,827	\$ 14,305	\$ 33,850	\$ 27,803
Company segment	8,845	8,418	17,391	16,994
Total segment revenue	\$ 24,672	\$ 22,723	\$ 51,241	\$ 44,797

Segment Profit:

Franchise segment	\$ 7,668	\$ 6,223	\$ 15,541	\$ 12,595
Company segment	1,078	1,269	2,157	2,975
Total segment profit	8,746	7,492	17,698	15,570
Corporate and other ⁽¹⁾	—	252	—	702
Interest expense, net	1,307	707	2,606	1,468
Other (income) expense, net	—	10	—	38
Income before taxes	\$ 7,439	\$ 6,523	\$ 15,092	\$ 13,362

⁽¹⁾ Corporate and other includes corporate related items not allocated to reportable segments and consists primarily of expenses associated with the refinancings of our credit agreement and our public offerings.

(9) Subsequent Events

Restaurant Acquisition

On July 16, 2017, the Company acquired two existing restaurants from a franchisee. The total purchase price was \$3.9 million and was paid in cash funded by operations and proceeds from our revolving credit facility. The acquisition will be accounted for as a business combination.

We estimate the fair value of the acquired assets at the time of the acquisition as detailed below (in thousands):

	As of July 16, 2017
Property and equipment	\$ 190
Goodwill	2,323
Reacquired franchise rights	1,436
Total purchase price	\$ 3,949

The estimates of fair value are preliminary, and are therefore subject to further refinement. The excess of the purchase price over the aggregate fair value of assets acquired was allocated to goodwill. The results of operations of these locations will be included in our consolidated statements of earnings as of the date of acquisition.

The fair value measurement of tangible and intangible assets and liabilities as of the acquisition date is based on significant inputs not observed in the market and thus represents a Level 3 fair value measurement. Fair value measurements for reacquired franchise rights were determined using the income approach. Fair value measurements for property and equipment were determined using the cost approach.

Declaration of Regular Dividend

On August 3, 2017 the Company announced the Board of Directors approved a quarterly dividend of \$0.07 per share of common stock. This dividend will be paid on September 18, 2017 to shareholders of record as of close of business on September 3, 2017 and will total approximately \$2.0 million.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying unaudited consolidated financial statements and related notes in Item 1 and with the audited consolidated financial statements and the related notes included in our annual report on Form 10-K. The statements in this discussion regarding industry outlook, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements in this discussion are forward-looking statements. These forward-looking statements are subject to risks and uncertainties, including, but not limited to, the risks and uncertainties described in "Special Note Regarding Forward-Looking Statements" below and "Risk Factors" on page 15 of our annual report on Form 10-K. Our actual results may differ materially from those contained in or implied by any forward-looking statements.

We operate on a 52 or 53 week fiscal year ending on the last Saturday of each calendar year. Our fiscal quarters are comprised of 13 weeks, with the exception of the fourth quarter of a 53 week year, which contains 14 weeks. Fiscal years 2017 and 2016 contain 52 weeks and 53 weeks, respectively.

Overview

Wingstop is a high-growth franchisor and operator of restaurants that offer cooked-to-order, hand-sauced and tossed chicken wings.

We believe we pioneered the concept of wings as a "center-of-the-plate" item for all of our meal occasions. While other concepts include wings as add-on menu items or focus on wings in a bar or sports-centric setting, we are singularly focused on wings, fries and sides, which generate approximately 92% of our system-wide sales.

We offer 11 bold, distinctive and craveable flavors on our bone-in and boneless chicken wings paired with fresh-cut, seasoned fries and sides made fresh daily. Our menu is highly-customizable for different dining occasions, and we believe it delivers a compelling value proposition for groups, families, and individuals. We have broad and growing consumer appeal anchored by a sought after core demographic of 18-34 year old Millennials, which we believe is a loyal consumer group that dines at fast casual restaurants more frequently.

Founded in 1994 in Garland, Texas, we have sold approximately 4 billion wings since our inception. Today, Wingstop is the largest fast casual chicken wings-focused restaurant chain in the world and has demonstrated strong, consistent growth. As of July 1, 2017, we had a total 1,056 restaurants across 42 states and seven countries in our system. Our restaurant base is 98% franchised, with 1,035 franchised locations (including 89 international locations) and 21 company-owned restaurants.

Key Performance Indicators

Key measures that we use in evaluating our restaurants and assessing our business include the following:

Number of restaurants. Management reviews the number of new restaurants, the number of closed restaurants, and the number of acquisitions and divestitures of restaurants to assess net new restaurant growth, system-wide sales, royalty and franchise fee revenue and company-owned restaurant sales.

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 1, 2017		June 25, 2016	
	2017	2016	2017	2016
Domestic Franchised Activity:				
Beginning of period	927	796	901	767
Openings	23	36	51	65
Closures	(4)	(1)	(6)	(1)
Restaurants end of period	946	831	946	831
Domestic Company-Owned Activity:				
Beginning of period	21	19	21	19
Openings	—	1	—	1
Closures	—	—	—	—
Restaurants end of period	21	20	21	20
Total Domestic Restaurants	967	851	967	851
International Franchised Activity:				
Beginning of period	83	58	76	59
Openings	8	5	15	7
Closures	(2)	—	(2)	(3)
Restaurants end of period	89	63	89	63
Total System-wide Restaurants	1,056	914	1,056	914

System-wide sales. System-wide sales represents net sales for all of our company-owned and franchised restaurants, as reported by franchisees. While we do not record franchised restaurant sales as revenue, our royalty revenue is calculated based on a percentage of franchised restaurant sales, which generally range from 5.0% to 6.0% of gross sales net of discounts. This measure allows management to better assess changes in our royalty revenue, our overall store performance, the health of our brand and the strength of our market position relative to competitors. Our system-wide sales growth is driven by new restaurant openings as well as increases in same store sales.

Average unit volume (AUV). AUV consists of the average annual sales of all restaurants that have been open for a trailing 52-week period or longer. This measure is calculated by dividing sales during the applicable period for all restaurants being measured by the number of restaurants being measured. Domestic AUV includes revenue from both company-owned and franchised restaurants. AUV allows management to assess our company-owned and franchised restaurant economics. Changes in AUV are primarily driven by increases in same store sales and are also influenced by opening new restaurants.

Same store sales. Same store sales reflects the change in year-over-year sales for the same store base. We define the same store base to include those restaurants open for at least 52 full weeks. This measure highlights the performance of existing restaurants, while excluding the impact of new restaurant openings and closures. We review same store sales for company-owned restaurants as well as system-wide restaurants. Same store sales are driven by changes in transactions and average transaction size. Transaction size changes are driven by price changes or mix shifts from either a change in the number of items purchased or shifts into higher/lower priced categories of items.

Adjusted EBITDA. We define Adjusted EBITDA as net income before interest expense, net, income tax expense, and depreciation and amortization, with further adjustments for transaction costs, gains and losses on the disposal of assets, and stock-based

compensation expense. Adjusted EBITDA may not be comparable to other similarly titled captions of other companies due to differences in methods of calculation. For a reconciliation of net income to EBITDA and Adjusted EBITDA see the table below. For further discussion of EBITDA and Adjusted EBITDA as non-GAAP measures and how we utilize them see footnote 2 below.

The following table sets forth our key performance indicators as well as our total revenue and net income for the thirteen and twenty-six weeks ended July 1, 2017 and June 25, 2016 (dollars in thousands):

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 1, 2017	June 25, 2016	July 1, 2017	June 25, 2016
Number of system-wide restaurants open at end of period	1,056	914	1,056	914
System-wide sales ⁽¹⁾	\$268,504	\$235,285	\$528,420	\$471,090
Domestic restaurant AUV	\$1,095	\$1,123	\$1,095	\$1,123
System-wide domestic same store sales growth	2.0	% 3.1	% 0.5	% 3.8
Company-owned domestic same store sales growth	0.8	% 6.8	% (2.1)	% 7.9
Total revenue	\$24,672	\$22,723	\$51,241	\$44,797
Net income	\$5,265	\$4,079	\$11,795	\$8,369
Adjusted EBITDA ⁽²⁾	\$9,803	\$8,309	\$19,765	\$17,226

(1) The percentage of system-wide sales attributable to company-owned restaurants was 3.3% and 3.6% for both the thirteen and twenty-six weeks ended July 1, 2017 and June 25, 2016, respectively. The remainder was generated by franchised restaurants, as reported by our franchisees.

(2) EBITDA and Adjusted EBITDA are supplemental measures of our performance that are not required by, or presented in accordance with, U.S. GAAP. EBITDA and Adjusted EBITDA are not measurements of our financial performance under U.S. GAAP and should not be considered as an alternative to net income or any other performance measure derived in accordance with U.S. GAAP, or as an alternative to cash flows from operating activities as a measure of our liquidity.

We define "EBITDA" as net income before interest expense, net, income tax expense, and depreciation and amortization. We define "Adjusted EBITDA" as EBITDA further adjusted for transaction costs, gains and losses on the disposal of assets and stock-based compensation expense. There were no gains and losses on disposal of assets during the thirteen and twenty-six weeks ended July 1, 2017 and June 25, 2016. We caution investors that amounts presented in accordance with our definitions of EBITDA and Adjusted EBITDA may not be comparable to similar measures disclosed by our competitors, because not all companies and analysts calculate EBITDA and Adjusted EBITDA in the same manner. We present EBITDA and Adjusted EBITDA because we consider them to be important supplemental measures of our performance and believe they are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. Management believes that investors' understanding of our performance is enhanced by including these non-GAAP financial measures as a reasonable basis for comparing our ongoing results of operations. Many investors are interested in understanding the performance of our business by comparing our results from ongoing operations period over period and would ordinarily add back non-cash expenses such as depreciation and amortization, as well as items that are not part of normal day-to-day operations of our business.

Management uses EBITDA and Adjusted EBITDA:

- as a measurement of operating performance because they assist us in comparing the operating performance of our restaurants on a consistent basis, as they remove the impact of items not directly resulting from our core operations;
- for planning purposes, including the preparation of our internal annual operating budget and financial projections;
- to evaluate the performance and effectiveness of our operational strategies;
- to evaluate our capacity to fund capital expenditures and expand our business; and
- to calculate incentive compensation payments for our employees, including assessing performance under our annual incentive compensation plan and determining the vesting of performance shares.

By providing these non-GAAP financial measures, together with a reconciliation to the most comparable GAAP measure, we believe we are enhancing investors' understanding of our business and our results of operations, as well as assisting investors in evaluating how well we are executing our strategic initiatives. Items excluded from these non-GAAP measures are significant components in understanding and assessing financial performance. In addition, the instruments governing our indebtedness

use EBITDA (with additional adjustments) to measure our compliance with covenants such as fixed charge coverage, lease adjusted leverage and debt incurrence. EBITDA and Adjusted EBITDA have limitations as analytical tools, and should not be considered in isolation, or as an alternative to, or a substitute for net income or other financial statement data presented in our consolidated financial statements as indicators of financial performance. Some of the limitations are:

- such measures do not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments;
- such measures do not reflect changes in, or cash requirements for, our working capital needs;
- such measures do not reflect the interest expense, or the cash requirements necessary to service interest or principal payments on our debt;
- such measures do not reflect our tax expense or the cash requirements to pay our taxes;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future and such measures do not reflect any cash requirements for such replacements; and
- other companies in our industry may calculate such measures differently than we do, limiting their usefulness as comparative measures.

Due to these limitations, EBITDA and Adjusted EBITDA should not be considered as measures of discretionary cash available to us to invest in the growth of our business. We compensate for these limitations by relying primarily on our U.S. GAAP results and using these non-GAAP measures only supplementally. As noted in the table below, Adjusted EBITDA includes adjustments for transaction costs, gains and losses on disposal of assets and stock-based compensation, among other items. It is reasonable to expect that these items will occur in future periods. However, we believe these adjustments are appropriate because the amounts recognized can vary significantly from period to period, do not directly relate to the ongoing operations of our restaurants and complicate comparisons of our internal operating results and operating results of other restaurant companies over time. Each of the normal recurring adjustments and other adjustments described in this paragraph and in the reconciliation table below help management with a measure of our core operating performance over time by removing items that are not related to day-to-day operations.

The following table reconciles net income to EBITDA and Adjusted EBITDA for the thirteen and twenty-six weeks ended July 1, 2017 and June 25, 2016 (in thousands):

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 1, 2017	June 25, 2016	July 1, 2017	June 25, 2016
Net income	\$5,265	\$4,079	\$11,795	\$8,369
Interest expense, net	1,307	707	2,606	1,468
Income tax expense	2,174	2,444	3,297	4,993
Depreciation and amortization	771	727	1,526	1,441
EBITDA	\$9,517	\$7,957	\$19,224	\$16,271
Additional adjustments:				
Transaction costs ^(a)	—	252	—	702
Stock-based compensation expense ^(b)	286	100	541	253
Adjusted EBITDA	\$9,803	\$8,309	\$19,765	\$17,226

(a) Represents costs and expenses related to the refinancings of our credit agreement and our public offerings; all transaction costs are included in SG&A.

(b) Includes non-cash, stock-based compensation.

Results of Operations

Thirteen Weeks Ended July 1, 2017 compared to Thirteen Weeks Ended June 25, 2016

The following table sets forth our results of operations for the thirteen weeks ended July 1, 2017 and June 25, 2016 (in thousands):

	Thirteen Weeks Ended		Increase / (Decrease)		
	July 1, 2017	June 25, 2016	\$	%	
Revenue:					
Royalty revenue and franchise fees	\$15,827	\$14,305	\$1,522	10.6	%
Company-owned restaurant sales	8,845	8,418	427	5.1	%
Total revenue	24,672	22,723	1,949	8.6	%
Costs and expenses:					
Cost of sales ⁽¹⁾	6,867	6,184	683	11.0	%
Selling, general and administrative	8,288	8,572	(284)	(3.3)	%
Depreciation and amortization	771	727	44	6.1	%
Total costs and expenses	15,926	15,483	443	2.9	%
Operating income	8,746	7,240	1,506	20.8	%
Interest expense, net	1,307	707	600	84.9	%
Other expense, net	—	10	(10)	(100.0)	%
Income before income tax expense	7,439	6,523	916	14.0	%
Income tax expense	2,174	2,444	(270)	(11.0)	%
Net income	\$5,265	\$4,079	\$1,186	29.1	%

⁽¹⁾ Exclusive of depreciation and amortization, shown separately.

Total revenue. During the thirteen weeks ended July 1, 2017, total revenue was \$24.7 million, an increase of \$1.9 million, or 8.6%, compared to \$22.7 million in the comparable period in 2016.

Royalty revenue and franchise fees. During the thirteen weeks ended July 1, 2017, royalty revenue and franchise fees were \$15.8 million, an increase of \$1.5 million, or 10.6%, compared to \$14.3 million in the comparable period in 2016. Royalty revenue increased \$1.8 million due to an increase in the number of franchised restaurants from 894 at June 25, 2016 to 1,035 at July 1, 2017 and domestic same store sales growth of 2.0%. Other revenue decreased \$0.4 million, primarily due to \$0.9 million in vendor contributions received in the prior year period for the franchisee convention, which is held every 18 months, and the next convention will be in the fourth quarter of 2017. This decrease was partially offset by an increase in vendor rebates.

Company-owned restaurant sales. During the thirteen weeks ended July 1, 2017, company-owned restaurant sales were \$8.8 million, an increase of \$0.4 million, or 5.1%, compared to \$8.4 million in the comparable period in 2016. The increase is the result of company-owned domestic same store sales growth of 0.8% and the opening of two company-owned restaurants during June and December of 2016.

Cost of sales. During the thirteen weeks ended July 1, 2017, cost of sales was \$6.9 million, an increase of \$0.7 million, or 11.0%, compared to \$6.2 million in the comparable period in 2016. Cost of sales as a percentage of company-owned restaurant sales was 77.6% in the quarter ended July 1, 2017 compared to 73.5% in the prior year.

The table below presents the major components of cost of sales (dollars in thousands):

	Thirteen Weeks Ended					
	July 1, 2017	As a % of company-owned restaurant sales		June 25, 2016	As a % of company-owned restaurant sales	
Cost of sales:						
Food, beverage and packaging costs	\$3,512	39.7	%	\$3,213	38.2	%
Labor costs	2,124	24.0	%	1,869	22.2	%
Other restaurant operating expenses	1,459	16.5	%	1,440	17.1	%
Vendor rebates	(228)	(2.6)%	(338)	(4.0)%
Total cost of sales	\$6,867	77.6	%	\$6,184	73.5	%

Food, beverage and packaging costs as a percentage of company-owned restaurant sales were 39.7% in the thirteen weeks ended July 1, 2017 compared to 38.2% in the comparable period in 2016. The increase is primarily due to a 10.9% increase in commodities rates for bone-in chicken wings as compared to the prior year period.

Labor costs as a percentage of company-owned restaurant sales were 24.0% for the thirteen weeks ended July 1, 2017 compared to 22.2% in the comparable period in 2016. The increase as a percentage of company-owned restaurant sales is primarily due to an increase in wage rates and labor due to the investments in roster sizes and staffing we made in the third and fourth quarters of fiscal year 2016 and the impact of our two 2016 openings which perform at lower volumes than the average AUV for our company-owned restaurants.

Other restaurant operating expenses as a percentage of company-owned restaurant sales were 16.5% for the thirteen weeks ended July 1, 2017 compared to 17.1% in the comparable period in 2016. The decrease as a percentage of company-owned restaurant sales is primarily due to a decline in pre-opening expenses associated with the opening of a new company-owned restaurant during the thirteen weeks ended June 25, 2016.

Vendor rebates decreased \$0.1 million primarily due to contributions received from vendors during the thirteen weeks ended June 25, 2016 related to the 2016 franchisee convention.

Selling, general and administrative. During the thirteen weeks ended July 1, 2017, SG&A expense was \$8.3 million, a decrease of \$0.3 million compared to \$8.6 million in the comparable period in 2016. The decrease in SG&A expense is primarily due to \$1.1 million of expenses incurred in the prior year period associated with our 2016 franchisee convention, as well as a decrease in nonrecurring costs of \$0.3 million related to the refinancing of our credit agreement, which occurred in the third quarter of 2016. These decreases were partially offset by an increase in voluntary contributions made to the Company's advertising fund of \$0.4 million, as well as planned headcount additions and an increase in stock based compensation, as compared to the prior quarter.

Depreciation and amortization. During the thirteen weeks ended July 1, 2017, depreciation expense was \$0.8 million, comparable to prior year.

Interest expense, net. During the thirteen weeks ended July 1, 2017, interest expense was \$1.3 million, an increase of \$0.6 million compared to \$0.7 million in the comparable period in 2016. The increase is primarily due to an increase in the principal amount of indebtedness and applicable interest rate related to the refinancing of our credit agreement, which occurred in the third quarter of 2016.

Income tax expense. Income tax expense was \$2.2 million in the thirteen weeks ended July 1, 2017, yielding an effective tax rate of 29.2%, compared to an effective tax rate of 37.5% in the prior year. The decrease in the effective tax rate is due to tax benefits of \$0.7 million resulting from the recognition of excess tax benefits from share-based compensation in income tax expense rather than paid-in capital as a result of the adoption of a new accounting standard.

Segment results. The following table sets forth our revenue and operating profit for each of our segments for the period presented (dollars in thousands):

	Thirteen Weeks Ended		Increase / (Decrease)	
	July 1, 2017	June 25, 2016	\$	%
Revenue:				
Franchise segment	\$15,827	\$14,305	\$1,522	10.6 %
Company segment	8,845	8,418	427	5.1 %
Total segment revenue	\$24,672	\$22,723	\$1,949	8.6 %

Segment Profit:

Franchise segment	\$7,668	\$6,223	\$1,445	23.2 %
Company segment	1,078	1,269	(191)	(15.1)%
Total segment profit	\$8,746	\$7,492	\$1,254	16.7 %

Franchise segment. During the thirteen weeks ended July 1, 2017, franchise segment revenue was \$15.8 million, an increase of \$1.5 million, or 10.6%, compared to \$14.3 million in the comparable period in 2016. Royalty revenue increased \$1.8 million due to 141 net franchise restaurant openings since June 25, 2016 and domestic same store sales growth of 2.0%. Other revenue decreased \$0.4 million, primarily due to \$0.9 million in vendor contributions received in the prior year period for the franchisee convention, which is held every 18 months, and the next convention will be in the fourth quarter of 2017. This decrease was partially offset by an increase in vendor rebates.

During the thirteen weeks ended July 1, 2017, franchise segment profit was \$7.7 million, an increase of \$1.4 million, or 23.2%, compared to \$6.2 million in the comparable period in 2016 primarily due to the growth in revenue.

Company segment. During the thirteen weeks ended July 1, 2017, company-owned restaurant sales were \$8.8 million, an increase of \$0.4 million, or 5.1%, compared to \$8.4 million in the comparable period in 2016. The increase is the result of company-owned domestic same store sales growth of 0.8% and the opening of two company-owned restaurants during June and December of 2016.

During the thirteen weeks ended July 1, 2017, company segment profit was \$1.1 million, a decrease of \$0.2 million, or 15.1%, compared to \$1.3 million in the comparable period in 2016. The decrease was primarily due to a 10.9% increase in the commodities rates for bone-in chicken wings and an increase in wage rates and labor due to the investments in roster sizes and staffing we made in the third and fourth quarters of fiscal year 2016.

Twenty-Six Weeks Ended July 1, 2017 compared to Twenty-Six Weeks Ended June 25, 2016

The following table sets forth our results of operations for the twenty-six weeks ended July 1, 2017 and June 25, 2016 (in thousands):

	Twenty-Six Weeks Ended		Increase / (Decrease)		
	July 1, 2017	June 25, 2016	\$	%	
Revenue:					
Royalty revenue and franchise fees	\$33,850	\$27,803	\$6,047	21.7	%
Company-owned restaurant sales	17,391	16,994	397	2.3	%
Total revenue	51,241	44,797	6,444	14.4	%
Costs and expenses:					
Cost of sales ⁽¹⁾	13,467	12,261	1,206	9.8	%
Selling, general and administrative	18,550	16,227	2,323	14.3	%
Depreciation and amortization	1,526	1,441	85	5.9	%
Total costs and expenses	33,543	29,929	3,614	12.1	%
Operating income	17,698	14,868	2,830	19.0	%
Interest expense, net	2,606	1,468	1,138	77.5	%
Other expense, net	—	38	(38)	(100.0)	%
Income before income tax expense	15,092	13,362	1,730	12.9	%
Income tax expense	3,297	4,993	(1,696)	(34.0)	%
Net income	\$11,795	\$8,369	\$3,426	40.9	%

⁽¹⁾ Exclusive of depreciation and amortization, shown separately.

Total revenue. During the twenty-six weeks ended July 1, 2017, total revenue was \$51.2 million, an increase of \$6.4 million, or 14.4%, compared to \$44.8 million in the comparable period in 2016.

Royalty revenue and franchise fees. During the twenty-six weeks ended July 1, 2017, royalty revenue and franchise fees were \$33.9 million, an increase of \$6.0 million, or 21.7%, compared to \$27.8 million in the comparable period in 2016. Royalty revenue increased \$3.3 million primarily due to an increase in the number of franchised restaurants from 894 at June 25, 2016 to 1,035 at July 1, 2017 and domestic same store sales growth of 0.5%. Other revenue increased \$2.7 million, primarily due to a one-time payment, based on system-wide volumes purchased in the prior year, received in conjunction with a new vendor agreement that was executed during the first quarter of 2017. The funding from this agreement will primarily be used to support our national advertising campaign. This increase was offset by vendor contributions received in the prior year period for the franchisee convention.

Company-owned restaurant sales. During the twenty-six weeks ended July 1, 2017, company-owned restaurant sales were \$17.4 million, an increase of \$0.4 million, compared to \$17.0 million in the comparable period in 2016. The increase is primarily due to the opening of two company-owned restaurants during the second and fourth fiscal quarters of 2016, partially offset by a decline in company-owned domestic same store sales of 2.1%. The decline is primarily attributable to sales cannibalization of six existing restaurants that negatively impacted company-owned domestic same store sales by 3.6%.

Cost of sales. During the twenty-six weeks ended July 1, 2017, cost of sales was \$13.5 million, an increase of \$1.2 million, or 9.8%, compared to \$12.3 million in the comparable period in 2016. Cost of sales as a percentage of company-owned restaurant sales was 77.4% in the quarter ended July 1, 2017 compared to 72.1% in the prior year.

The table below presents the major components of cost of sales (dollars in thousands):

	Twenty-Six Weeks Ended					
	July 1, 2017	As a % of company-owned restaurant sales		June 25, 2016	As a % of company-owned restaurant sales	
Cost of sales:						
Food, beverage and packaging costs	\$6,866	39.5	%	\$6,425	37.8	%
Labor costs	4,240	24.4	%	3,607	21.2	%
Other restaurant operating expenses	2,797	16.1	%	2,755	16.2	%
Vendor rebates	(436)	(2.5)%	(526)	(3.1)%
Total cost of sales	\$13,467	77.4	%	\$12,261	72.1	%

Food, beverage and packaging costs as a percentage of company-owned restaurant sales were 39.5% in the twenty-six weeks ended July 1, 2017 compared to 37.8% in the comparable period in 2016. The increase is primarily due to a 10.9% increase in commodities rates for bone-in chicken wings.

Labor costs as a percentage of company-owned restaurant sales were 24.4% for the twenty-six weeks ended July 1, 2017 compared to 21.2% in the comparable period in 2016. The increase as a percentage of company-owned restaurant sales is primarily due to an increase in wage rates and labor due to the investments in roster sizes and staffing we made in the third and fourth quarters of fiscal year 2016 and the impact of our two 2016 openings which perform at lower volumes than our average AUV.

Other restaurant operating expenses as a percentage of company-owned restaurant sales were 16.1% for the twenty-six weeks ended July 1, 2017 compared to 16.2% in the comparable period in 2016. The decrease as a percentage of company-owned restaurant sales is primarily due to a decrease in pre-opening expenses associated with the opening of a new company-owned restaurant during the second fiscal quarter of 2016.

Vendor rebates decreased \$0.1 million primarily due to a vendor rebate received during the twenty-six weeks ended June 25, 2016 related to the franchisee convention.

Selling, general and administrative. During the twenty-six weeks ended July 1, 2017, SG&A expense was \$18.6 million, an increase of \$2.3 million compared to \$16.2 million in the comparable period in 2016. The increase in SG&A expense is primarily due to an increase in voluntary contributions the Company made to its advertising fund, including a one-time payment in the first quarter in conjunction with a new vendor agreement executed during the thirteen weeks ended April 1, 2017 which was intended to provide support for the Company's national advertising campaign. SG&A expense also increased due to planned headcount additions and an increase in stock based compensation and travel expenses. These increases were partially offset by a decrease of \$1.1 million of expenses related to the 2016 franchisee convention, as well as a decrease in nonrecurring expenses of \$0.7 million related to the follow on offering and refinancing of our credit agreement which occurred in the prior year period.

Depreciation and amortization. During the twenty-six weeks ended July 1, 2017, depreciation expense was \$1.5 million, an increase of \$0.1 million, or 5.9%, compared to \$1.4 million in the comparable period in 2016.

Interest expense, net. During the twenty-six weeks ended July 1, 2017, interest expense was \$2.6 million, an increase of \$1.1 million compared to \$1.5 million in the comparable period in 2016. The increase is primarily due to an increase in the principal amount of indebtedness and an increase in the applicable interest rate related to the refinancing of our credit agreement, which occurred in the third quarter of 2016.

Income tax expense. Income tax expense was \$3.3 million in the twenty-six weeks ended July 1, 2017, yielding an annual effective tax rate of 21.8%, compared to an annual effective tax rate of 37.4% in the prior year. The decrease in the effective tax rate is due to tax benefits of \$2.4 million resulting from the recognition of excess tax benefits from share-based compensation in income tax expense rather than paid-in capital as a result of the adoption of a new accounting standard.

Segment results. The following table sets forth our revenue and operating profit for each of our segments for the period presented (dollars in thousands):

	Twenty-Six Weeks Ended		Increase / (Decrease)	
	July 1, 2017	June 25, 2016	\$	%
Revenue:				
Franchise segment	\$33,850	\$27,803	\$6,047	21.7 %
Company segment	17,391	16,994	397	2.3 %
Total segment revenue	\$51,241	\$44,797	\$6,444	14.4 %

Segment Profit:

Franchise segment	\$15,541	\$12,595	\$2,946	23.4 %
Company segment	2,157	2,975	(818)	(27.5)%
Total segment profit	\$17,698	\$15,570	\$2,128	13.7 %

Franchise segment. During the twenty-six weeks ended July 1, 2017, franchise segment revenue was \$33.9 million, an increase of \$6.0 million, or 21.7%, compared to \$27.8 million in the comparable period in 2016. Royalty revenue increased \$3.3 million primarily due to 141 net franchise restaurant openings since June 25, 2016 and domestic same store sales growth of 0.5%. Other revenue increased \$2.7 million primarily due to a one-time payment, based on system-wide volumes purchased in the prior year, received under a new vendor agreement executed during the first quarter of 2017. The funding from this agreement will primarily be used to support our national advertising campaign. This increase was offset by \$0.9 million vendor contributions received in the prior year period for the franchisee convention.

During the twenty-six weeks ended July 1, 2017, franchise segment profit was \$15.5 million, an increase of \$2.9 million, or 23.4%, compared to \$12.6 million in the comparable period in 2016 primarily due to the growth in revenue.

Company segment. During the twenty-six weeks ended July 1, 2017, company-owned restaurant sales were \$17.4 million, an increase of \$0.4 million, compared to \$17.0 million in the comparable period in 2016. The increase is primarily due to the opening of two company-owned restaurants during the second and fourth fiscal quarters of 2016, partially offset by a decline in company-owned domestic same store sales of 2.1%. The decline is primarily attributable to sales cannibalization of six existing restaurants that negatively impacted company-owned domestic same store sales by 3.6%.

During the twenty-six weeks ended July 1, 2017, company segment profit was \$2.2 million, a decrease of \$0.8 million, or 27.5%, compared to \$3.0 million in the comparable period in 2016. The decrease is primarily due to a 10.9% increase in commodities rates for bone-in chicken wings, a decline of 2.1% in company-owned same store sales, an increase in wage rates and labor due to the investments in roster sizes and staffing we made in the third and fourth quarters of fiscal year 2016, and deleveraging associated with the decline in same store sales and the impact of our two 2016 openings which perform at lower volumes than the average AUV of our company-owned restaurants.

Liquidity and Capital Resources

General. Our primary sources of liquidity and capital resources are cash provided from operating activities, cash and cash equivalents on hand, and proceeds from the incurrence of debt. Our primary requirements for liquidity and capital are working capital and general corporate needs. Historically, we have operated with minimal positive working capital or negative working capital. We believe that our sources of liquidity and capital will be sufficient to finance our continued operations and growth strategy.

The following table shows summary cash flows information for the twenty-six weeks ended July 1, 2017 and June 25, 2016 (in thousands):

	Twenty-Six Weeks Ended	
	July 1, 2017	June 25, 2016
Net cash provided by (used in):		
Operating activities	\$10,686	\$10,014
Investing activities	(1,301)	(975)
Financing activities	(8,688)	(9,715)
Net change in cash and cash equivalents	\$697	\$(676)

Operating activities. Our cash flows from operating activities are principally driven by sales at both franchise restaurants and company-owned restaurants, as well as franchise and development fees. We collect franchise royalties from our franchise owners on a weekly basis. Restaurant-level operating costs at our company-owned restaurants, unearned franchise and development fees and corporate overhead costs also impact our cash flows from operating activities.

Net cash provided by operating activities was \$10.7 million in the twenty-six weeks ended July 1, 2017, an increase of \$0.7 million from \$10.0 million in 2016. The increase was primarily due to the timing of changes in working capital, specifically the timing of interest and tax payments, offset by an increase in net income.

Investing activities. Our net cash used in investing activities was \$1.3 million in the twenty-six weeks ended July 1, 2017, an increase of \$0.3 million from \$1.0 million used in investing activities in 2016. The increase was due to an increase in capital expenditures over the comparable period.

Financing activities. Our net cash used in financing activities was \$8.7 million in the twenty-six weeks ended July 1, 2017, a decrease of \$1.0 million from cash used in financing activities of \$9.7 million in 2016. The decrease in cash used for financing activities is primarily due to an increase of \$0.8 million in proceeds from the exercise of stock options.

Senior secured credit facility. On June 30, 2016, we entered into a \$180.0 million new senior secured credit facility, which replaced the second amended and restated credit facility dated March 18, 2015. In connection with the new senior secured credit facility, the facility size was increased to \$180.0 million and is comprised of a \$70.0 million term loan and a \$110.0 million revolving credit facility. The previous credit facility included a term loan of \$132.5 million and a revolving credit facility of \$5.0 million. We used the proceeds from the new senior secured credit facility and cash on hand to refinance \$85.5 million of indebtedness under the Company's March 2015 credit facility and to pay a dividend of \$83.3 million to our stockholders. Borrowings under the new senior secured credit facility bear interest, payable quarterly, at the base rate plus a margin (1.00% to 2.00%, dependent on our reported leverage ratio) or LIBOR plus a margin (2.00% to 3.00%, dependent on our reported leverage ratio), at the Company's discretion. The new senior secured credit facility also extended the maturity date from March 2020 to June 2021. Subject to certain conditions, the Company has the ability to increase the size of the new senior secured credit facility by an additional \$30.0 million.

In the current year, we made principal payments of \$9.8 million on our new senior secured credit facility. Under the new senior secured credit facility, principal installments for the term loan of \$875,000 are due quarterly with all unpaid amounts due at maturity in June 2021.

The new senior secured credit facility is secured by substantially all of our assets and requires compliance with certain financial and non-financial covenants, including fixed charge coverage and leverage. We were in compliance with these covenants as of July 1, 2017. Failure to comply with these covenants in the future could cause an acceleration of

outstanding amounts under the term loan and restrict us from borrowing under the revolving credit facility to fund our liquidity requirements.

Contractual Obligations

In connection with our new senior secured credit facility, principal payments of \$875,000 are due quarterly with all unpaid amounts due at maturity in June 2021.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements or obligations, except for leases, as of July 1, 2017.

Critical Accounting Policies and Estimates

Our consolidated financial statements and accompanying notes are prepared in accordance with GAAP. Preparing consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and assumptions are affected by the application of our accounting policies. Critical accounting estimates are those that require application of management's most difficult, subjective or complex judgments, often as a result of matters that are inherently uncertain and may change in subsequent periods. While we apply our judgment based on assumptions believed to be reasonable under the circumstances, actual results could vary from these assumptions. It is possible that materially different amounts would be reported using different assumptions. Our critical accounting policies and estimates are identified and described in our annual consolidated financial statements and the related notes included in our Form 10-K, and there have been no material changes since the filing of our annual report on Form 10-K.

Recent Accounting Pronouncements

JOBS Act. We currently qualify as an "emerging growth company" pursuant to the provisions of the JOBS Act. For as long as we are an "emerging growth company," we may 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, reduced disclosure obligations relating to the presentation of financial statements in Management's Discussion and Analysis of Financial Condition and Results of Operations, exemptions from the requirements of holding advisory "say-on-pay" votes on executive compensation and shareholder advisory votes on golden parachute compensation.

In addition, an emerging growth company can delay its adoption of certain accounting standards until those standards would otherwise apply to private companies. However, we are choosing to "opt out" of this extended transition period, and as a result, we plan to comply with any new or revised accounting standards on the relevant dates on which non-emerging growth companies must adopt the standards. Section 107 of the JOBS Act provides that our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable. As of the last business day of our second quarter of fiscal 2017, our market capitalization held by non-affiliates exceeded \$700 million. On this basis, we anticipate that we will qualify as a "large accelerated filer" as of the end of our fiscal year 2017, at which time we will cease to qualify as an emerging growth company and for the various reporting requirement exemptions described above. Among other things, our independent registered public accounting firm will be required to formally attest to the effectiveness of our internal controls over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act. If we are unable to comply with the requirements of Section 404 in a timely manner, the market price of our stock could decline and we could be subject to sanctions or investigations by the NASDAQ Stock Market, the SEC or other regulatory authorities, which could require additional financial and management resources. We anticipate incurring additional professional service fees and other operating expenses as a result of this and other public company reporting requirements that will apply to us in future fiscal periods.

Special Note Regarding Forward-Looking Statements

This document contains statements about future events and expectations that constitute forward-looking statements. Forward-looking statements are based on our beliefs, assumptions and expectations of our future financial and operating performance and growth plans, taking into account the information currently available to us. Such statements include, in particular, statements about our plans, strategies and prospects. Words such as "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate," "could," "would," "will" and variations of such words and similar expressions are intended to identify such forward-looking statements. Examples of forward-looking statements in this Quarterly Report on Form 10-Q include, but are not limited to, our expectations with respect to our future liquidity, expenses and consumer appeal. These statements are based on beliefs and assumptions of Wingstop's management,

which in turn are based on currently available information. These statements are not guarantees of future

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performance and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed, implied or forecasted in such forward-looking statements.

Factors that could cause actual results or outcomes to differ from the results expressed or implied by forward-looking statements include, among other things:

- overall macroeconomic conditions may impact our ability to successfully execute our growth strategy and franchise and open new restaurants that are profitable and to increase our revenue and operating profits;
- the impact of the operating results of our and our franchisees' existing restaurants on our financial performance;
- the impact of new restaurant openings on our financial performance;
- our ability to recruit and contract with qualified franchisees and to open new franchise restaurants;
- our ability to develop and maintain the Wingstop brand, including through effective advertising and marketing and the support of our franchisees' and the negative impact of actions of a franchisee, acting as an independent third party, could have on our financial performance or brand;
- concerns regarding food safety and food-borne illness and other health concerns;
- our and our franchisees' reliance on vendors, suppliers and distributors or changes in food and supply costs, including any increase in the prices of the ingredients most critical to our menu, particularly bone-in chicken wings;
- our and our franchisees' ability to compete with many other restaurants and to increase domestic same store sales and average weekly sales;
- our ability to successfully meet or exceed the expectations of securities analysts or investors concerning our annual or quarterly operating results, domestic same store sales or average weekly sales;
- our expansion into new markets may present increased risks due to our unfamiliarity with those areas;
- the reliability of our, our franchisees' and our licensees' information technology systems and network security, including costs resulting from breaches of security of confidential guest, franchisee or employee information;
- legal complaints, litigation or regulatory compliance, including changes in laws impacting the franchise business model;
- our and our franchisees' ability to attract and retain qualified employees while also controlling labor costs;
- potential fluctuations in our annual or quarterly operating results and the impact of significant adverse weather conditions and other disasters;
- disruptions in our and our franchisees' ability to utilize computer systems to process transactions and manage our business;
- health concerns arising from outbreaks of viruses, including the impact of a pandemic spread of avian flu on our and our franchisees' supply of chicken;
- our and our franchisees' ability to obtain and maintain required licenses and permits or to comply with alcoholic beverage or food control regulations;
- our ability to maintain insurance that provides adequate levels of coverage against claims;
- our and our franchisees' ability to successfully operate in unfamiliar markets and markets where there may be limited or no market recognition of our brand, including the impact that our expansion into international markets has on our exposure to risk factors over which neither we nor our franchisees have control;
- the potential impact opening new restaurants in existing markets could have on sales at existing restaurants;
- the effectiveness of our advertising and marketing campaigns, which may not be successful;
- food safety issues, which may adversely impact our or our franchisees' business;
- changes in consumer preferences, including changes caused by diet and health concerns or government regulation;
- the continued service of our executive officers;
- our ability to successfully open new franchised Wingstop restaurants for which we have signed commitments;
- our stated sales to investment ratio and average unlevered cash-on-cash return may not be indicative of future results of any new franchised restaurant;
- our ability to protect our intellectual property;

- our ability to generate or raise capital on acceptable terms in the future, including our ability to incur additional debt and other restrictions under the terms of our existing senior secured credit facility;
- the JOBS Act allowing us to postpone the date by which we must comply with certain laws and regulations intended to protect investors and to reduce the amount of information we provide in our reports filed with the SEC until the end of our fiscal year 2017, at which time we expect to no longer qualify as an emerging growth company;
- the costs and time requirements as a result of operating as a public company, including our ability to maintain adequate internal control over financial reporting in order to comply with applicable reporting obligations;
- fluctuations in exchange rates on our revenue;
- future impairment charges; and
- the impact of anti-takeover provisions in our charter documents and under Delaware law, which could make an acquisition of us more difficult, limit attempts by our stockholders to replace or remove our current management and limit the market price of our common stock.

The above list of factors is not exhaustive. Some of these and other factors are discussed in more detail under “Risk Factors” in our annual report on Form 10-K. We assume no obligation to update or revise any forward-looking statements for any reason, or to update the reasons actual results could differ materially from those anticipated in any forward-looking statements, even if new information becomes available in the future.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Impact of Inflation. The primary inflationary factors affecting our and our franchisees' operations are food and beverage costs, labor costs, energy costs and the costs and materials used in the construction of new restaurants. Our restaurant operations are subject to federal and state minimum wage laws governing such matters as working conditions, overtime and tip credits. Significant numbers of our and our franchisees' restaurant personnel are paid at rates related to the federal and/or state minimum wage and, accordingly, increases in the minimum wage increase our and our franchisees' labor costs. To the extent permitted by competition and the economy, we have mitigated increased costs by increasing menu prices and may continue to do so if deemed necessary in future years. Substantial increases in costs and expenses could impact our operating results to the extent such increases cannot be passed through to our customers. Historically, inflation has not had a material effect on our results of operations. Severe increases in inflation, however, could affect the global and U.S. economies and could have an adverse impact on our business, financial condition and results of operations.

Commodity Price Risk. We are exposed to market risks from changes in commodity prices. Many of the food products purchased by us are affected by weather, production, availability and other factors outside our control. Although we attempt to minimize the effect of price volatility by negotiating fixed price contracts for the supply of key ingredients, there are no established fixed price markets for bone-in chicken wings, so we are subject to prevailing market conditions. Bone-in chicken wings accounted for approximately 30.7% and 30.1% of our company-owned restaurant cost of sales during the twenty-six weeks ended July 1, 2017 and June 25, 2016, respectively, with an average price per pound of \$2.13 and \$1.92, respectively. A hypothetical 10% increase in the bone-in chicken wing costs would have increased costs of sales by approximately \$0.4 million during the twenty-six weeks ended July 1, 2017. We do not engage in speculative financial transactions nor do we hold or issue financial instruments for trading purposes. In instances when we use fixed pricing agreements with our suppliers, these agreements cover our physical commodity needs, are not net-settled, and are accounted for as normal purchases.

Interest Rate Risk. We are subject to interest rate risk in connection with borrowings under our senior secured credit facility, which bears interest at variable rates. As of July 1, 2017, we had \$141.5 million outstanding under our credit facility. Derivative financial instruments, such as interest rate swap agreements and interest rate cap agreements, may be used for the purpose of managing fluctuating interest rate exposures that exist from our variable rate debt obligations that are expected to remain outstanding. Interest rate changes do not affect the market value of such debt, but could impact the amount of our interest payments, and accordingly, our future earnings and cash flows, assuming other factors are held constant. A hypothetical 1.0% percentage point increase or decrease in the interest rate associated with our credit facilities would have resulted in a \$1.4 million impact on interest expense on an annualized basis.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of July 1, 2017, pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and 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.

Changes in Internal Control over Financial Reporting

There have been no other significant changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time we may be involved in 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 in the aggregate, will have a material adverse effect on our financial position, results of operations, liquidity or capital resources.

Item 1A. Risk Factors

A description of the risk factors associated with our business is contained in the “Risk Factors” section of our annual report on Form 10-K for the fiscal year ended December 31, 2016. We anticipate that we will qualify as a “large accelerated filer” as of the end of our fiscal year 2017, at which time we will cease to qualify as an emerging growth company under the JOBS act and for the various reporting requirement exemptions, including the requirements of Section 404 of the Sarbanes-Oxley Act.

There have been no other material changes to our Risk Factors as previously reported.

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

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Index to Exhibits

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of Wingstop Inc. filed as exhibit 3.1 to the Registration Statement of the Company on Form S-1/A (Registration No. 333-203891) on June 2, 2015 and incorporated herein by reference
3.2	Amended and Restated Bylaws of Wingstop Inc. filed as exhibit 3.2 to the Registration Statement of the Company on Form S-1/A (Registration No. 333-203891) on June 2, 2015 and incorporated herein by reference
31.1*	Certification of Principal Executive Officer under Section 302 of the Sarbanes–Oxley Act of 2002
31.2*	Certification of Principal Financial Officer under Section 302 of the Sarbanes–Oxley Act of 2002
32.1**	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes–Oxley Act of 2002
32.2**	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes–Oxley Act of 2002
101 INS*	XBRL Instance Document
101 SCH*	XBRL Taxonomy Extension Schema Document
101 CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101 DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101 LAB*	XBRL Taxonomy Extension Label Linkbase Document
101 PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

** Furnished, not filed.

Signatures

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

Wingstop Inc.
(Registrant)

Date: August 4, 2017 By: /s/ Charles R. Morrison
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: August 4, 2017 By: /s/ Michael J. Skipworth
Chief Financial Officer
(Principal Financial and Accounting Officer)