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Wingstop Inc.
Form 10-Q
November 02, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 24, 2016

☐ 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. x 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). x Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Larger accelerated filer ☐ Accelerated filer ☐
Non-accelerated filer ☒ Smaller reporting company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

☐ Yes ☒ No

On November 2, 2016 there were 28,747,392 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)

	September 24, 2016 (Unaudited)	December 26, 2015
Assets		
Current assets		
Cash and cash equivalents	\$ 3,828	\$ 10,690
Accounts receivable, net	2,529	3,404
Prepaid expenses and other current assets	2,899	1,752
Advertising fund assets, restricted	2,114	3,774
Total current assets	11,370	19,620
Property and equipment, net	4,871	4,593
Goodwill	45,128	45,128
Trademarks	32,700	32,700
Customer relationships, net	17,279	18,296
Other non-current assets	991	313
Total assets	\$ 112,339	\$ 120,650
Liabilities and stockholders' deficit		
Current liabilities		
Accounts payable	\$ 1,693	\$ 1,360
Other current liabilities	8,553	7,436
Current portion of debt	3,500	—
Advertising fund liabilities, restricted	2,114	3,774
Total current liabilities	15,860	12,570
Long-term debt, net	153,933	95,008
Deferred revenues, net of current	7,272	7,623
Deferred income tax liabilities, net	12,950	13,018
Other non-current liabilities	2,273	2,104
Total liabilities	192,288	130,323
Commitments and contingencies (see note 6)		
Stockholders' deficit		
Common stock, \$0.01 par value; 100,000,000 shares authorized; 28,731,042 and 28,581,182 shares issued and outstanding as of September 24, 2016 and December 26, 2015, respectively	287	286
Additional paid-in-capital	185	36,870
Accumulated deficit	(80,421)	(46,829)
Total stockholders' deficit	(79,949)	(9,673)
Total liabilities and stockholders' deficit	\$ 112,339	\$ 120,650

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		Thirty-Nine Weeks Ended	
	September 26, 2016	September 26, 2015	September 26, 2016	September 26, 2015
Revenue:				
Royalty revenue and franchise fees	\$13,660	\$ 11,587	\$41,463	\$ 34,144
Company-owned restaurant sales	8,150	7,547	25,144	23,248
Total revenue	21,810	19,134	66,607	57,392
Costs and expenses:				
Cost of sales ⁽¹⁾	6,091	5,328	18,352	16,580
Selling, general and administrative	8,893	7,317	25,120	25,658
Depreciation and amortization	746	636	2,187	1,944
Total costs and expenses	15,730	13,281	45,659	44,182
Operating income	6,080	5,853	20,948	13,210
Interest expense, net	1,390	800	2,858	2,764
Other expense, net	216	96	254	382
Income before income tax expense	4,474	4,957	17,836	10,064
Income tax expense	1,721	1,784	6,714	3,753
Net income	\$2,753	\$ 3,173	\$11,122	\$ 6,311
Earnings per share				
Basic	\$0.10	\$ 0.11	\$0.39	\$ 0.23
Diluted	\$0.09	\$ 0.11	\$0.38	\$ 0.23
Weighted average shares outstanding				
Basic	28,725	28,581	28,652	27,135
Diluted	29,014	28,891	28,991	27,438
Dividends per share	\$2.90	\$ —	\$2.90	\$ 1.83

⁽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)

	Thirty-Nine Weeks Ended September 26, 2016		September 26, 2015	
Operating activities				
Net income	\$ 11,122		\$ 6,311	
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation and amortization	2,187		1,944	
Excess tax benefit of stock-based compensation	(1,019)	)	(757))
Deferred income taxes	(68)	)	(660))
Stock-based compensation expense	392		492	
Amortization of debt issuance costs	357		299	
Changes in operating assets and liabilities:				
Accounts receivable	875		(4))
Prepaid expenses and other assets	(98)	)	(991))
Accounts payable and other current liabilities	961		834	
Deferred revenue	201		203	
Other non-current liabilities (attributable to deferred rent and lease incentives)	169		210	
Cash provided by operating activities	15,079		7,881	
Investing activities				
Purchases of property and equipment	(1,471)	)	(1,329))
Cash used in investing activities	(1,471)	)	(1,329))
Financing activities				
Proceeds from issuance of common stock, net of expenses	—		34,651	
Proceeds from exercise of stock options	459		478	
Borrowings of long-term debt	165,000		40,000	
Principal payments on long-term debt	(102,500)	)	(38,218))
Payment of deferred financing costs	(1,180)	)	(227))
Excess tax benefit of stock-based compensation	1,019		757	
Dividends paid	(83,268)	)	(47,999))
Cash used in financing activities	(20,470)	)	(10,558))
Net change in cash and cash equivalents	(6,862)	)	(4,006))
Cash and cash equivalents at beginning of period	10,690		9,723	
Cash and cash equivalents at end of period	\$ 3,828		\$ 5,717	
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”) is in the business of franchising and operating Wingstop restaurants. As of September 24, 2016, 862 franchised restaurants were in operation domestically and 67 international franchised restaurants were in operation across five countries. As of September 24, 2016, the Company owned and operated 20 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 September 24, 2016 and December 26, 2015 and operating results are for the thirteen and thirty-nine weeks ended September 24, 2016 and September 26, 2015.

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 26, 2015.

The Company uses a 52/53-week fiscal year that ends on the last Saturday of the calendar year. Fiscal years 2016 and 2015 have 53 weeks and 52 weeks, respectively.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The amendments in ASU 2014-08 change the criteria for reporting discontinued operations while enhancing disclosures in this area. It also addresses sources of confusion and inconsistent application related to financial reporting of discontinued operations guidance in GAAP. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization’s operations and financial results. Examples include a disposal of a major geographic area, a major line of business, or a major equity method investment. In addition, the new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. The Company adopted the amendment as of the first day of fiscal year 2016, and the adoption did not have any impact on the Company’s consolidated financial statements.

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, which will require us to adopt these provisions in the first quarter of fiscal 2018. This update permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect this guidance will have on our consolidated financial statements and related disclosures and has not yet selected a transition method.

In April 2015, the FASB issued ASU No 2015-03, Simplifying the Presentation of Debt Issuance Costs. This update changes the presentation of debt issuance costs in the balance sheet. ASU 2015-03 requires debt issuance costs related to a recognized debt obligation to be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability rather than being presented as an asset. Amortization of debt issuance costs will continue to be reported as interest expense. In August 2015, the FASB issued ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. This ASU clarified guidance in

ASC 2015-03 stating that the SEC staff would not object to a company presenting debt issuance costs related to a line-of-credit arrangement on the balance sheet as a deferred asset, regardless of whether there were any outstanding borrowings at period-end. This update is effective for annual and interim periods beginning after December 15, 2015. The Company adopted this pronouncement during the first quarter of 2016 and applied the update on a retrospective basis, wherein the balance sheet of each period presented was adjusted to reflect the effects of applying the new

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

guidance. The Company reclassified deferred financing costs of \$492,000 for the period ended December 26, 2015 from other non-current assets to long-term debt on the Consolidated Balance Sheets.

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 issuance is permitted. The new leases standard 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 the new leases standard on the consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718). This update requires all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) to be recognized as income tax expense or benefit in the income statement, including recognition of excess tax benefits regardless of whether the benefit reduces taxes payable in the current period. Currently, GAAP requires excess tax benefits to be recognized in additional paid-in capital; tax deficiencies are recognized either as an offset to accumulated excess tax benefits, if any, or in the income statement, and excess tax benefits are not recognized until the deduction reduces taxes payable. ASU 2016-09 further requires that excess tax benefits be classified along with other income tax cash flows as an operating activity on the Statement of Cash Flows. Currently, they are classified as financing activities. The update also allows entities to make an accounting policy election to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur. This update is effective for annual and interim periods beginning after December 15, 2016, which will require us to adopt these provisions in the first quarter of fiscal 2017. Early application is permitted. The Company is evaluating the effect this guidance will have on our consolidated financial statements and related disclosures and has not yet selected a transition method.

(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 net income per share, the basic weighted average number of shares is increased by the dilutive effect of stock options and restricted share awards, determined using the treasury stock method. For the thirteen weeks ended September 24, 2016 we had approximately 5,000 stock options outstanding which were excluded from the dilutive earnings per share calculation because the effect would have been anti-dilutive. For the thirteen weeks ended September 26, 2015 all stock options had a dilutive effect; therefore none were excluded from the calculation of diluted earnings per share. For the thirty-nine weeks ended September 24, 2016 and September 26, 2015, respectively, we had approximately 5,000 and 8,000 stock options outstanding which were excluded from the dilutive earnings per share calculation because the effect would have been anti-dilutive. Basic weighted average shares outstanding is reconciled to diluted weighted average shares outstanding as follows (in thousands):

	Thirteen Weeks Ended September 24, 2016		Thirteen Weeks Ended September 26, 2015		Thirty-Nine Weeks Ended September 24, 2016		Thirty-Nine Weeks Ended September 26, 2015	
Basic weighted average shares outstanding	28,725	28,581	28,652	27,135	28,652	27,135	28,652	27,135
Dilutive stock options	289	310	339	303	339	303	339	303
Diluted weighted average shares outstanding	29,014	28,891	28,991	27,438	28,991	27,438	28,991	27,438

(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.

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):

		September 24,		December 26,	
	Fair Value Hierarchy	2016 Carrying Value	2016 Fair Value	2015 Carrying Value	2015 Fair Value
Senior Secured Credit Facility:					
Term loan facility ⁽¹⁾	Level 2	\$70,000	\$70,000	\$95,500	\$95,500
Revolving credit facility ⁽¹⁾	Level 2	\$88,000	\$88,000	\$—	\$—

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

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 \$1.7 million and 38.5%, respectively, for the thirteen weeks ended September 24, 2016, and \$1.8 million and 36.0%, respectively, for the thirteen weeks ended September 26, 2015.

Income tax expense and the effective tax rate were \$6.7 million and 37.6%, respectively, for the thirty-nine weeks ended September 24, 2016, and \$3.8 million and 37.3%, respectively, for the thirty-nine weeks ended September 26, 2015.

(5) Debt Obligations

On June 30, 2016, the Company entered into a \$180.0 million new senior secured credit facility (the "Credit Facility"), which replaced the Company's second amended and restated credit facility dated March 18, 2015. The Credit Facility includes 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. The Company used the proceeds from the Credit Facility and cash on hand to refinance \$85.5 million of indebtedness under the Company's March 2015 debt facility and to pay a dividend of \$83.3 million to its shareholders. Borrowings under the term loan facility bear interest, payable quarterly, at our option, at the base rate plus a margin (1.00% to 2.00%, dependent on the Company's reported leverage ratio) or LIBOR plus a margin (2.00% to 3.00%, dependent on the Company's reported leverage ratio). The Credit Facility matures in June 2021. As of September 24, 2016, the term loan facility had an outstanding balance of \$70.0 million that bears interest at 3.38%. The revolving credit facility bears interest, payable quarterly, at our option, at the base rate plus a margin or LIBOR plus a margin, with all unpaid amounts due at maturity in June 2021. Any unused portion of the revolving credit facility bears a commitment fee (0.375% to 0.50%, dependent on the Company's reported leverage ratio). As of September 24, 2016, the revolving credit facility had an outstanding balance of \$88.0 million, which bears interest at 3.41%.

In conjunction with the Credit Facility, the Company evaluated the refinancing of the March 2015 second amended and restated credit facility and determined \$90.0 million was accounted for as a debt modification and \$90.0 million was new debt issuance. The Company incurred \$1.3 million in financing costs of which \$0.1 million was expensed and \$1.2 million was capitalized and is being amortized using the effective interest rate method. Previously capitalized financing costs of \$0.2 million were expensed as a result of the refinancing during the current period.

The Credit Facility is secured by substantially all assets of the Company and requires compliance with certain financial and non-financial covenants. As of September 24, 2016, the Company was in compliance with all financial covenants.

As of September 24, 2016, the scheduled principal payments on debt were as follows (in thousands):

Remainder of fiscal year 2016	\$1,750
Fiscal year 2017	2,625
Fiscal year 2018	3,500

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Fiscal year 2019	3,500
Fiscal year 2020	3,500
Fiscal year 2021	143,125
Total	\$158,000

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

(6) Commitments and Contingencies

Wingstop Restaurants, Inc. ("WRI") leases certain office and retail space and equipment under non-cancelable operating leases with terms expiring at various dates through July 2031.

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 September 24, 2016, is as follows (in thousands):

Remainder of fiscal year 2016	\$417
Fiscal year 2017	1,697
Fiscal year 2018	1,510
Fiscal year 2019	1,276
Fiscal year 2020	1,150
Fiscal year 2021	994
Thereafter	4,379
Total	\$11,423

Rent expense under cancelable and non-cancelable leases was \$479,000 and \$531,000 for the thirteen weeks ended September 24, 2016 and September 26, 2015, respectively, and \$1.4 million and \$1.5 million for the thirty-nine weeks ended September 24, 2016 and September 26, 2015, 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.

Many of the food products the Company purchases are subject to changes in the price and availability of food commodities, including chicken. The Company works with its suppliers and uses a mix of forward pricing protocols for certain items under which we agree with our supplier on fixed prices for deliveries at some time in the future, fixed pricing protocols under which we agree on a fixed price with our supplier for the duration of that protocol, and formula pricing protocols under which the prices we pay are based on a specified formula related to the prices of the goods, such as spot prices.

The Company's use of any forward pricing arrangements varies substantially from time to time and these arrangements tend to cover relatively short periods (i.e., typically twelve months or less). Such contracts are used in the normal purchases of our food products and not for speculative purposes, and as such are not required to be evaluated as derivative instruments. The Company does not enter into futures contracts or other derivative instruments.

(7) Stock-Based Compensation

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 26, 2015	1,177	\$ 4.66	\$ 21,059	7.7
Granted	36	\$ 24.34		
Exercised	(150)	\$ 3.06		
Canceled	(190)	\$ 5.87		
Outstanding - September 24, 2016	873	\$ 5.10	\$ 21,432	7.0

The total grant-date fair value of stock options vested during the thirty-nine weeks ended September 24, 2016 was \$774,000. The total intrinsic value of stock options exercised during the thirty-nine weeks ended September 24, 2016 was \$3.3 million.

The Company granted 11,724 shares of restricted stock awards during the thirty-nine weeks ended September 24, 2016 with a weighted average grant date fair value of \$25.59. The fair value of the non-vested restricted stock awards

is based on the closing

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

price on the date of grant. All of the outstanding restricted stock awards are non-vested and will be recognized over a weighted average period of approximately 3.2 years.

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 \$392,000 in stock compensation expense for the thirty-nine weeks ended September 24, 2016, with a corresponding increase to additional paid-in-capital. As of September 24, 2016, there was \$2.9 million of total unrecognized stock compensation expense related to non-vested stock options and restricted stock awards, which will be recognized over a weighted average period of approximately 2.2 years. Stock compensation expense is included in SG&A in the Consolidated Statement of Operations.

(8) Business Segments

The Franchise segment consists of domestic and international franchise restaurants, which represent the majority of our system-wide restaurants. As of September 24, 2016, the franchise operations segment consisted of 929 restaurants operated by Wingstop franchisees in the United States and five countries outside of the United States as compared to 788 franchised restaurants in operation as of September 26, 2015. Franchise operations revenue consists primarily of franchise royalty revenue, sales of franchise and development fees and international territory fees.

As of September 24, 2016, the Company segment consisted of 20 company-owned restaurants, located in the United States, as compared to 19 company-owned restaurants as of September 26, 2015. 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.

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 24, 2016	September 26, 2015	September 24, 2016	September 26, 2015
Revenue:				
Franchise segment	\$13,660	\$ 11,587	\$41,463	\$ 34,144
Company segment	8,150	7,547	25,144	23,248
Total segment revenue	\$21,810	\$ 19,134	\$66,607	\$ 57,392
Segment Profit:				
Franchise segment	\$6,199	\$ 4,446	\$18,794	\$ 14,522
Company segment	1,236	1,407	4,211	4,236
Total segment profit	7,435	5,853	23,005	18,758
Corporate and other ⁽¹⁾	1,355	—	2,057	5,548
Interest expense, net	1,390	800	2,858	2,764
Other (income) expense, net	216	96	254	382
Income before taxes	\$4,474	\$ 4,957	\$17,836	\$ 10,064

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

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 2016 and 2015 contain 53 weeks and 52 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 90% of our system-wide sales.

We offer 11 bold, distinctive and craveable flavors on our bone-in and boneless chicken wings paired with hand-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 September 24, 2016, we had a total 949 restaurants across 40 states and six countries in our system. Our restaurant base is 98% franchised, with 929 franchised locations (including 67 international locations) and 20 company-owned restaurants.

Key Events

Initial Public Offering. On June 17, 2015, we completed our initial public offering of 6,670,000 shares of our common stock at a public offering price of \$19.00 per share. In the offering, we sold 2,150,000 shares and certain selling shareholders sold 4,520,000 shares. We received \$35.0 million in net proceeds, net of underwriting discounts and commissions, which we used to repay an aggregate amount of \$31.4 million of outstanding indebtedness under our senior secured credit facility and to pay an aggregate amount of \$3.3 million in connection with the termination of our management agreement with Roark Capital Management. We did not receive any of the proceeds from the sale of shares by the selling stockholders.

Follow-on Offerings. On March 9, 2016, we completed a follow-on offering of 6,612,500 shares of our common stock at a public offering price of \$24.00 per share, which included 862,500 shares sold to the underwriters pursuant to their over-allotment option. All of these shares were offered by certain selling stockholders. We did not receive any proceeds from the offering.

On August 12, 2016, we completed a second follow-on offering of 6,000,000 shares of our common stock at a public offering price of \$29.25 per share. All of these shares were offered by a certain selling stockholder, and we did not receive any proceeds from the offering.

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 September 24, 2016		Thirteen Weeks Ended September 26, 2015		Thirty-Nine Weeks Ended September 24, 2016		Thirty-Nine Weeks Ended September 26, 2015	
Domestic Franchised Activity:								
Beginning of period	831	714			767	652		
Openings	31	24			96	87		
Closures	—	(1	)		(1	(2)	
Restaurants end of period	862	737			862	737		
Domestic Company-Owned Activity:								
Beginning of period	20	19			19	19		
Openings	—	—			1	—		
Closures	—	—			—	—		
Restaurants end of period	20	19			20	19		
Total Domestic Restaurants	882	756			882	756		
International Franchised Activity:								
Beginning of period	63	52			59	41		
Openings	4	3			11	15		
Closures	—	(4	)		(3	(5)	
Restaurants end of period	67	51			67	51		
Total System-wide Restaurants	949	807			949	807		

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 management fees and expense reimbursement, transaction costs, gains and losses

on the disposal of assets, stock-based compensation expense and management agreement termination fees. 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 thirty-nine weeks ended September 24, 2016 and September 26, 2015 (dollars in thousands):

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 24, 2016	September 26, 2015	September 24, 2016	September 26, 2015
Number of system-wide restaurants open at end of period	949	807	949	807
System-wide sales (1)	\$235,975	\$201,656	\$707,077	\$603,666
Domestic restaurant AUV	\$1,126	\$1,122	\$1,126	\$1,122
System-wide domestic same store sales growth	4.1 %	6.3 %	3.9 %	8.7 %
Company-owned domestic same store sales growth	4.8 %	8.7 %	6.9 %	9.3 %
Total revenue	\$21,810	\$19,134	\$66,607	\$57,392
Net income	\$2,753	\$3,173	\$11,122	\$6,311
Adjusted EBITDA (2)	\$8,319	\$6,543	\$25,545	\$20,984

(1) The percentage of system-wide sales attributable to company-owned restaurants was 3.4% and 3.7% for the thirteen weeks ended September 24, 2016 and September 26, 2015, respectively, and was 3.5% and 3.9% for the thirty-nine weeks ended September 24, 2016 and September 26, 2015, 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, GAAP. EBITDA and Adjusted EBITDA are not measurements of our financial performance under GAAP and should not be considered as an alternative to net income or any other performance measure derived in accordance with 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 management fees and expense reimbursement, management agreement termination fees, 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 thirty-nine weeks ended September 24, 2016 and September 26, 2015. 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 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. In addition, Adjusted EBITDA includes adjustments for other items that we do not expect to regularly record, such as management fees and expense reimbursement. 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 thirty-nine weeks ended September 24, 2016 and September 26, 2015 (in thousands):

	Thirteen Weeks Ended September 24, 2016		Thirteen Weeks Ended September 26, 2015		Thirty-Nine Weeks Ended September 26, 2016		Thirty-Nine Weeks Ended September 26, 2015	
Net income	\$2,753	\$	3,173		\$11,122	\$	6,311	
Interest expense, net	1,390		800		2,858		2,764	
Income tax expense	1,721		1,784		6,714		3,753	
Depreciation and amortization	746		636		2,187		1,944	
EBITDA	\$6,610	\$	6,393		\$22,881	\$	14,772	
Additional adjustments:								
Management agreement termination fee ^(a)	—		—		—		3,297	
Management fees ^(b)	—		—		—		237	
Transaction costs ^(c)	1,570		—		2,272		2,186	
Stock-based compensation expense ^(d)	139		150		392		492	
Adjusted EBITDA	\$8,319	\$	6,543		\$25,545	\$	20,984	

(a) Represents a one-time fee of \$3.3 million that was paid in consideration for the termination of our management agreement with Roark Capital Management, LLC during the thirty-nine weeks ended September 26, 2015.

(b) Includes management fees and other out-of-pocket expenses paid to Roark Capital Management, LLC.

(c) Represents costs and expenses related to refinancings of our credit agreement and our public offerings; all transaction costs are included in SG&A with the exception of \$215,000 that is included in Other expense, net during the thirteen and thirty-nine weeks ended September 24, 2016 and \$172,000 during the thirty-nine weeks ended September 26, 2015.

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

Results of Operations

Thirteen Weeks Ended September 24, 2016 compared to Thirteen Weeks Ended September 26, 2015

The following table sets forth our results of operations for the thirteen weeks ended September 24, 2016 and September 26, 2015 (in thousands):

	Thirteen Weeks Ended		Increase /		
	September 24, 2016	September 26, 2015	\$	%	
Revenue:					
Royalty revenue and franchise fees	\$ 13,660	\$ 11,587	\$ 2,073	17.9	%
Company-owned restaurant sales	8,150	7,547	603	8.0	%
Total revenue	21,810	19,134	2,676	14.0	%
Costs and expenses:					
Cost of sales ⁽¹⁾	6,091	5,328	763	14.3	%
Selling, general and administrative	8,893	7,317	1,576	21.5	%
Depreciation and amortization	746	636	110	17.3	%
Total costs and expenses	15,730	13,281	2,449	18.4	%
Operating income	6,080	5,853	227	3.9	%
Interest expense, net	1,390	800	590	73.8	%
Other expense, net	216	96	120	125.0	%
Income before income tax expense	4,474	4,957	(483)	(9.7)	%
Income tax expense	1,721	1,784	(63)	(3.5)	%
Net income	\$ 2,753	\$ 3,173	\$ (420)	(13.2)	%

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

Total revenue. During the thirteen weeks ended September 24, 2016, total revenue was \$21.8 million, an increase of \$2.7 million, or 14.0%, compared to \$19.1 million in the comparable period in 2015.

Royalty revenue and franchise fees. During the thirteen weeks ended September 24, 2016, royalty revenue and franchise fees were \$13.7 million, an increase of \$2.1 million, or 17.9%, compared to \$11.6 million in the comparable period in 2015. Royalty revenue increased \$1.9 million primarily due to an increase in the number of franchised restaurants from 788 at September 26, 2015 to 929 at September 24, 2016 and domestic same store sales growth of 4.1%. Franchise fees increased \$0.2 million driven by 35 franchised restaurant openings during the thirteen weeks ended September 24, 2016 compared to 27 franchise restaurant openings during the thirteen weeks ended September 26, 2015.

Company-owned restaurant sales. During the thirteen weeks ended September 24, 2016, company-owned restaurant sales were \$8.2 million, an increase of \$0.6 million, compared to \$7.5 million in the comparable period in 2015. The increase is the result of company-owned domestic same store sales growth of 4.8% during the thirteen weeks ended September 24, 2016 and the addition of one company-owned restaurant opened during the second fiscal quarter of 2016.

Cost of sales. During the thirteen weeks ended September 24, 2016, cost of sales was \$6.1 million, an increase of \$0.8 million, or 14.3%, compared to \$5.3 million in the comparable period in 2015. Cost of sales as a percentage of company-owned restaurant sales was 74.7% in the quarter ended September 24, 2016 compared to 70.7% in the prior year.

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

	Thirteen Weeks Ended					
	September 24, 2016	As a % of company-owned restaurant sales		September 26, 2015	As a % of company-owned restaurant sales	
Cost of sales:						
Food, beverage and packaging costs	\$2,932	36.0	%	\$ 2,701	35.8	%
Labor costs	1,934	23.7	%	1,559	20.7	%
Other restaurant operating expenses	1,438	17.6	%	1,244	16.5	%
Vendor rebates	(213)	(2.6	)%	(176)	(2.3)%
Total cost of sales	\$6,091	74.7	%	\$ 5,328	70.7	%

Food, beverage and packaging costs as a percentage of company-owned restaurant sales were 36.0% in the thirteen weeks ended September 24, 2016 compared to 35.8% in the comparable period in 2015. The increase as a percentage of company-owned restaurant sales is primarily due to a shift in product mix during the thirteen weeks ended September 24, 2016. This was partially offset by a 1.9% decrease 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 23.7% for the thirteen weeks ended September 24, 2016 compared to 20.7% in the comparable period in 2015. The increase as a percentage of company-owned restaurant sales is primarily due to investments in roster sizes and staffing to support the continued sales growth in our company-owned restaurants, as well as the ramp up of one company-owned restaurant that opened during the second fiscal quarter of 2016 as it gets to normal efficiency.

Other restaurant operating expenses as a percentage of company-owned restaurant sales were 17.6% for the thirteen weeks ended September 24, 2016 compared to 16.5% in the comparable period in 2015. The increase as a percentage of company-owned restaurant sales is primarily due to increased rent and repairs and maintenance expenses over the prior year associated with remodels as we continue to make investments for future growth.

For the thirteen weeks ended September 24, 2016 vendor rebates were \$0.2 million, comparable to prior year.

Selling, general and administrative. During the thirteen weeks ended September 24, 2016, SG&A expense was \$8.9 million, an increase of \$1.6 million compared to \$7.3 million in the comparable period in 2015. The increase in SG&A expense is primarily due to nonrecurring costs of \$1.4 million related to the refinancing of our credit agreement and subsequent dividend payout completed during the current fiscal quarter, compared to no nonrecurring expenses in the prior year period.

Depreciation and amortization. During the thirteen weeks ended September 24, 2016, depreciation expense was \$0.7 million, an increase of \$0.1 million, or 17.3%, compared to \$0.6 million in the comparable period in 2015.

Interest expense, net. During the thirteen weeks ended September 24, 2016, interest expense was \$1.4 million, an increase of \$0.6 million, or 73.8%, compared to \$0.8 million in the comparable period in 2015. 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 in June 2016.

Other expense, net. During the thirteen weeks ended September 24, 2016, other expense, net increased \$0.1 million, primarily attributable to \$215,000 of previously capitalized financing costs which were expensed in the current period as a result of the refinancing of our credit agreement in June 2016. The increase was offset by a change in the fair value of the interest rate cap in the prior year period, which was terminated in June 2016.

Income tax expense. Income tax expense was \$1.7 million in the thirteen weeks ended September 24, 2016, yielding an annual effective tax rate of 37.6%, comparable to an annual effective tax rate of 37.3% in the prior year.

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 /	
	September 24, 2016	September 26, 2015	\$(Decrease)	%
Revenue:				
Franchise segment	\$13,660	\$11,587	\$2,073	17.9 %
Company segment	8,150	7,547	603	8.0 %
Total segment revenue	\$21,810	\$19,134	\$2,676	14.0 %

Segment Profit:

Franchise segment	\$6,199	\$4,446	\$1,753	39.4 %
Company segment	1,236	1,407	(171)	(12.2)%
Total segment profit	\$7,435	\$5,853	\$1,582	27.0 %

Franchise segment. During the thirteen weeks ended September 24, 2016, franchise segment revenue was \$13.7 million, an increase of \$2.1 million, or 17.9%, compared to \$11.6 million in the comparable period in 2015. The increase was due to 141 net franchise restaurant openings since September 26, 2015 and domestic same store sales growth of 4.1%.

During the thirteen weeks ended September 24, 2016, franchise segment profit was \$6.2 million, an increase of \$1.8 million, or 39.4%, compared to \$4.4 million in the comparable period in 2015 primarily due to the growth in revenue.

Company segment. During the thirteen weeks ended September 24, 2016, company-owned restaurant sales were \$8.2 million, an increase of \$0.6 million, compared to \$7.5 million in the comparable period in 2015. The increase is primarily due to company-owned domestic same store sales growth of 4.8% and the opening of one company-owned restaurant during the second fiscal quarter of 2016.

During the thirteen weeks ended September 24, 2016, company segment profit was \$1.2 million, a decrease of \$0.2 million, or 12.2%, compared to \$1.4 million in the comparable period in 2015. The decrease was primarily due to investments in roster sizes and staffing to support the continued sales growth in our company-owned restaurants, and increases in rent and repairs and maintenance expenses as compared to the prior year period associated with remodels as we continue to make investments for future growth, offset by a 1.9% decrease in the commodities rates for bone-in chicken wings.

Thirty-Nine Weeks Ended September 24, 2016 compared to Thirty-Nine Weeks Ended September 26, 2015
The following table sets forth our results of operations for the thirty-nine weeks ended September 24, 2016 and September 26, 2015 (in thousands):

	Thirty-Nine Weeks Ended September 24, 2016		September 26, 2015		Increase / (Decrease)	
					\$	%
Revenue:						
Royalty revenue and franchise fees	\$41,463	\$ 34,144			\$7,319	21.4 %
Company-owned restaurant sales	25,144	23,248			1,896	8.2 %
Total revenue	66,607	57,392			9,215	16.1 %
Costs and expenses:						
Cost of sales ⁽¹⁾	18,352	16,580			1,772	10.7 %
Selling, general and administrative	25,120	25,658			(538)	(2.1)%
Depreciation and amortization	2,187	1,944			243	12.5 %
Total costs and expenses	45,659	44,182			1,477	3.3 %
Operating income	20,948	13,210			7,738	58.6 %
Interest expense, net	2,858	2,764			94	3.4 %
Other expense, net	254	382			(128)	(33.5)%
Income before income tax expense	17,836	10,064			7,772	77.2 %
Income tax expense	6,714	3,753			2,961	78.9 %
Net income	\$11,122	\$ 6,311			\$4,811	76.2 %

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

Total revenue. During the thirty-nine weeks ended September 24, 2016, total revenue was \$66.6 million, an increase of \$9.2 million, or 16.1%, compared to \$57.4 million in the comparable period in 2015.

Royalty revenue and franchise fees. During the thirty-nine weeks ended September 24, 2016, royalty revenue and franchise fees were \$41.5 million, an increase of \$7.3 million, or 21.4%, compared to \$34.1 million in the comparable period in 2015. Royalty revenue increased \$5.7 million primarily due to an increase in the number of franchised restaurants from 788 at September 26, 2015 to 929 at September 24, 2016 and domestic same store sales growth of 3.9%. Franchise fees increased \$0.5 million primarily due to fees recognized from the termination of franchise agreements, as well as an increase in store openings as compared to the prior year period. Other revenue increased \$1.1 million due to vendor contributions received for the franchisee convention. The convention is held every 18 months, and there was no convention in 2015.

Company-owned restaurant sales. During the thirty-nine weeks ended September 24, 2016, company-owned restaurant sales were \$25.1 million, an increase of \$1.9 million, compared to \$23.2 million in the comparable period in 2015. The increase is the result of company-owned domestic same store sales growth of 6.9% and the opening of one company-owned restaurant during the second fiscal quarter of 2016.

Cost of sales. During the thirty-nine weeks ended September 24, 2016, cost of sales was \$18.4 million, an increase of \$1.8 million, or 10.7%, compared to \$16.6 million in the comparable period in 2015. Cost of sales as a percentage of company-owned restaurant sales was 73.0% in the quarter ended September 24, 2016 compared to 71.3% in the prior year.

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

	Thirty-Nine Weeks Ended					
	September 24, 2016	As a % of company-owned restaurant sales		September 26, 2015	As a % of company-owned restaurant sales	
Cost of sales:						
Food, beverage and packaging costs	\$9,357	37.2	%	\$ 8,622	37.1	%
Labor costs	5,541	22.0	%	4,803	20.7	%
Other restaurant operating expenses	4,194	16.7	%	3,683	15.8	%
Vendor rebates	(740)	(2.9)	%	(528)	(2.3)	%
Total cost of sales	\$18,352	73.0	%	\$ 16,580	71.3	%

Food, beverage and packaging costs as a percentage of company-owned restaurant sales were 37.2% in the thirty-nine weeks ended September 24, 2016 compared to 37.1% in the comparable period in 2015. The increase is primarily due to a 1.4% increase in commodities rates for bone-in chicken wings.

Labor costs as a percentage of company-owned restaurant sales were 22.0% for the thirty-nine weeks ended September 24, 2016 compared to 20.7% in the comparable period in 2015. The increase as a percentage of company-owned restaurant sales is primarily due to investments in roster sizes and staffing to support the continued sales growth in our company-owned restaurants, as well as the ramp up of one company-owned restaurant that opened during the second fiscal quarter of 2016 as it gets to normal efficiency.

Other restaurant operating expenses as a percentage of company-owned restaurant sales were 16.7% for the thirty-nine weeks ended September 24, 2016 compared to 15.8% in the comparable period in 2015. The increase as a percentage of company-owned restaurant sales is primarily due to increased rent expense over the prior year, as well as pre-opening expenses associated with the opening of a new company-owned restaurant during the second fiscal quarter of 2016.

Vendor rebates increased \$0.2 million primarily due to a vendor rebate received during the thirty-nine weeks ended September 24, 2016 related to the franchisee convention.

Selling, general and administrative. During the thirty-nine weeks ended September 24, 2016, SG&A expense was \$25.1 million, a decrease of \$0.5 million compared to \$25.7 million in the comparable period in 2015. SG&A expense in the current period included nonrecurring costs of \$2.1 million related to the refinancing of our credit agreement and the follow-on offerings, compared to nonrecurring expenses of \$5.5 million in the prior year period, which included a one-time fee of \$3.3 million, paid in consideration for the termination of our management agreement with Roark Capital Management, \$2.0 million of nonrecurring costs associated with our preparation to become a public company, and \$0.2 million of management fees paid to Roark Capital Management. The decrease in non-recurring costs in the current period was partially offset by \$1.1 million of expenses related to the 2016 franchisee convention and increases related to headcount additions and other recurring costs associated with being a public company incurred in the current fiscal year.

Depreciation and amortization. During the thirty-nine weeks ended September 24, 2016, depreciation expense was \$2.2 million, an increase of \$0.2 million, or 12.5%, compared to \$1.9 million in the comparable period in 2015.

Interest expense, net. During the thirty-nine weeks ended September 24, 2016, interest expense was \$2.9 million, an increase of \$0.1 million, or 3.4%, compared to \$2.8 million in the comparable period in 2015. 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 in June 2016.

Other expense, net. During the thirty-nine weeks ended September 24, 2016, other expense, net decreased \$0.1 million, primarily attributable to a change in the fair value of the interest rate cap, which was terminated in June 2016. The decrease was partially offset by \$215,000 of previously capitalized financing costs which were expensed in the current period, compared to only \$172,000 in the prior period.

Income tax expense. Income tax expense was \$6.7 million in the thirty-nine weeks ended September 24, 2016, yielding an annual effective tax rate of 37.6%, comparable to an annual effective tax rate of 37.3% in the prior year.

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

	Thirty-Nine Weeks Ended September 24, 2016		September 26, 2015		Increase / (Decrease) \$ %	
Revenue:						
Franchise segment	\$41,463	\$	34,144		\$7,319	21.4 %
Company segment	25,144	23,248			1,896	8.2 %
Total segment revenue	\$66,607	\$	57,392		\$9,215	16.1 %

Segment Profit:

Franchise segment	\$18,794	\$	14,522		\$4,272	29.4 %
Company segment	4,211	4,236			(25)	(0.6)%
Total segment profit	\$23,005	\$	18,758		\$4,247	22.6 %

Franchise segment. During the thirty-nine weeks ended September 24, 2016, franchise segment revenue was \$41.5 million, an increase of \$7.3 million, or 21.4%, compared to \$34.1 million in the comparable period in 2015. The increase was due to 141 net franchise restaurant openings since September 26, 2015, domestic same store sales growth of 3.9%, and vendor contributions of \$0.9 million received for the franchisee convention.

During the thirty-nine weeks ended September 24, 2016, franchise segment profit was \$18.8 million, an increase of \$4.3 million, or 29.4%, compared to \$14.5 million in the comparable period in 2015 primarily due to the growth in revenue.

Company segment. During the thirty-nine weeks ended September 24, 2016, company-owned restaurant sales were \$25.1 million, an increase of \$1.9 million, compared to \$23.2 million in the comparable period in 2015. The increase is primarily due to company-owned domestic same store sales growth of 6.9% and the opening of one company-owned restaurant during the thirty-nine weeks ended September 24, 2016.

During the thirty-nine weeks ended September 24, 2016, company segment profit was \$4.2 million, comparable to prior year. An increase in company-owned same store sales of 6.9% was primarily offset by a 1.4% increase in commodities rates for bone-in chicken wings and investments in roster sizes and staffing to support the continued sales growth in our company-owned restaurants, as well as the ramp up of one company-owned restaurant that opened during the second fiscal quarter of 2016 as it gets to normal efficiency.

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 thirty-nine weeks ended September 24, 2016 and September 26, 2015 (in thousands):

	Thirty-Nine Weeks Ended September 24, 2016		September 26, 2015	
Net cash provided by (used in):				
Operating activities	\$15,079	\$	7,881	
Investing activities	(1,471)	(1,329)		
Financing activities	(20,470)	(10,558)		
Net change in cash and cash equivalents	\$(6,862)	\$	(4,006)	

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

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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 \$15.1 million in the thirty-nine weeks ended September 24, 2016, an increase of \$7.2 million, from \$7.9 million in 2015 primarily due to an increase in net income from the prior period and working capital changes.

Investing activities. Our net cash used in investing activities was \$1.5 million in the thirty-nine weeks ended September 24, 2016, an increase of \$0.1 million, from \$1.3 million used in investing activities in 2015. The increase was due to an increase in capital expenditures over the comparable period.

Financing activities. Our net cash used in financing activities was \$20.5 million in the thirty-nine weeks ended September 24, 2016, an increase of \$9.9 million, from cash used in financing activities of \$10.6 million in 2015. The increase was due to a dividend payout of \$83.3 million to stockholders, compared to a dividend payout of \$48.0 million in the prior period. This was partially offset by \$35.0 million in net proceeds from the sale of common stock in our IPO in the prior period. Additionally, cash proceeds from net borrowings were \$62.5 million in the thirty-nine weeks ended September 24, 2016, compared to net borrowings of \$1.8 million in the comparable period in 2015. Senior secured credit facility. In June 2016, the Company entered into a \$180.0 million new senior secured credit facility, which replaced the Company's 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 \$85.5 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.

We made principal prepayments of \$10.0 million on our March 2015 credit facility and \$7.0 million on our new senior secured credit facility in February 2016 and September 2016, respectively. As a result of the debt refinancing, principal installments for the new senior secured credit facility 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 September 24, 2016. 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 as of September 24, 2016.

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.

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Recent Accounting Pronouncements

JOBS Act. We 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. We have availed ourselves of the reduced reporting obligations and executive compensation disclosure in the Registration Statement, and expect to continue to avail ourselves of the reduced reporting obligations available to emerging growth companies in future filings.

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.

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 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;
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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;
 publicity regarding other franchisors controlled by Roark Capital Group or its affiliates;
 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;
 the costs and time requirements as a result of operating as a public company, including our ability to effectively remediate identified material weaknesses and improve internal control over financial reporting in order to comply with applicable reporting obligations;
 fluctuations in exchange rates on our revenue;
 future impairment charges;
 the concentration of ownership by our principal stockholder; 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 28.8% and 29.2% of our company-owned restaurant cost of sales during the thirty-nine weeks ended September 24, 2016 and September 26, 2015, respectively, with an average price per pound of \$1.85 and \$1.83, respectively. A hypothetical 10% increase in the bone-in chicken wing costs would have increased costs of sales by approximately \$0.5 million during the thirty-nine weeks ended September 24, 2016. 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 September 24, 2016, we had \$158.0 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 \$1.6 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 September 24, 2016, 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 26, 2015. There have been no 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: November 2, 2016 By: /s/ Charles R. Morrison
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 2, 2016 By: /s/ Michael F. Mravle
Chief Financial Officer
(Principal Financial and Accounting Officer)