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

FORM 10-Q

(Mark one)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 29, 2019

☐ **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
Dallas
Texas 75240

(Address of principal executive offices) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	WING	NASDAQ Global Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 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.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

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

On July 31, 2019 there were 29,442,728 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)

	June 29, 2019 (Unaudited)	December 29, 2018
Assets		
Current assets		
Cash and cash equivalents	$ 17,075	$ 12,493
Restricted cash	4,811	4,462
Accounts receivable, net	5,548	5,764
Prepaid expenses and other current assets	3,494	2,056
Advertising fund assets, restricted	2,488	5,131
Total current assets	33,416	29,906
Property and equipment, net	8,361	8,338
Goodwill	49,655	49,655
Trademarks	32,700	32,700
Customer relationships, net	13,572	14,233
Other non-current assets	12,321	4,917
Total assets	**$ 150,025**	**$ 139,749**
Liabilities and stockholders' deficit		
Current liabilities		
Accounts payable	$ 2,524	$ 2,750
Other current liabilities	15,649	16,201
Current portion of debt	3,200	2,400
Advertising fund liabilities	2,488	5,131
Total current liabilities	23,861	26,482
Long-term debt, net	308,511	309,374
Deferred revenues, net of current	21,353	21,885
Deferred income tax liabilities, net	4,223	4,866
Other non-current liabilities	8,445	1,972
Total liabilities	366,393	364,579
Commitments and contingencies (see Note 8)		
Stockholders' deficit		
Common stock, $0.01 par value; 100,000,000 shares authorized; 29,442,728 and 29,296,939 shares issued and outstanding as of June 29, 2019 and December 29, 2018, respectively	295	293
Additional paid-in-capital	892	1,036
Accumulated deficit	(217,555)	(226,159)
Total stockholders' deficit	(216,368)	(224,830)
Total liabilities and stockholders' deficit	**$ 150,025**	**$ 139,749**

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	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Revenue:				
Royalty revenue, franchise fees and other	$ 21,187	$ 17,204	$ 42,515	$ 34,985
Advertising fees and related income	13,487	8,355	26,697	16,960
Company-owned restaurant sales	13,888	11,478	27,403	22,481
Total revenue	48,562	37,037	96,615	74,426
Costs and expenses:				
Cost of sales [1]	10,573	7,745	20,303	15,142
Advertising expenses	12,973	8,209	25,707	16,852
Selling, general and administrative	13,394	10,078	25,936	20,911
Depreciation and amortization	1,335	1,079	2,611	2,029
Total costs and expenses	38,275	27,111	74,557	54,934
Operating income	10,287	9,926	22,058	19,492
Interest expense, net	4,299	2,342	8,709	4,078
Income before income tax expense	5,988	7,584	13,349	15,414
Income tax expense	1,070	745	1,825	2,407
Net income	$ 4,918	$ 6,839	$ 11,524	$ 13,007
Earnings per share				
Basic	$ 0.17	$ 0.23	$ 0.39	$ 0.45
Diluted	$ 0.17	$ 0.23	$ 0.39	$ 0.44
Weighted average shares outstanding				
Basic	29,418	29,230	29,377	29,173
Diluted	29,667	29,528	29,650	29,509
Dividends per share	$ 0.09	$ 0.07	$ 0.18	$ 3.31

[1] Cost of sales includes all operating expenses of company-owned restaurants, including advertising expenses, and excludes depreciation and amortization, which are presented separately.

See accompanying notes to consolidated financial statements.

WINGSTOP INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Deficit
For the Twenty-Six Weeks Ended June 29, 2019 and June 30, 2018
(amounts in thousands, except share data)
(Unaudited)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount			
Balance at December 30, 2017	29,092,669	$ 291	$ 262	$ (58,971)	$ (58,418)
Net income	—	—	—	6,168	6,168
Issuance of common stock, net	41,159	1	(1)	—	—
Exercise of stock options	25,182	—	165	—	165
Tax payments for restricted stock upon vesting	(3,187)	—	—	(142)	(142)
Stock-based compensation expense	—	—	514	—	514
Dividends paid	—	—	(895)	(93,902)	(94,797)
Balance at March 31, 2018	29,155,823	292	45	(146,847)	(146,510)
Net income	—	—	—	6,839	6,839
Issuance of common stock, net	5,105	—	—	—	—
Exercise of stock options	110,615	1	289	—	290
Stock-based compensation expense	—	—	742	—	742
Dividends paid	—	—	(1,038)	(1,020)	(2,058)
Balance at June 30, 2018	29,271,543	$ 293	$ 38	$ (141,028)	$ (140,697)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount			
Balance at December 29, 2018	29,296,939	$ 293	$ 1,036	$ (226,159)	$ (224,830)
Adjustment for ASC 842 adoption	—	—	—	154	154
Net income	—	—	—	6,606	6,606
Issuance of common stock, net	60,683	1	(1)	—	—
Exercise of stock options	54,253	—	158	—	158
Tax payments for restricted stock upon vesting	(12,469)	—	—	(833)	(833)
Stock-based compensation expense	—	—	838	—	838
Dividends paid	—	—	(1,825)	(746)	(2,571)
Balance at March 30, 2019	29,399,406	294	206	(220,978)	(220,478)
Net income	—	—	—	4,918	4,918
Issuance of common stock, net	12,339	—	—	—	—
Exercise of stock options	33,439	1	147	—	148
Tax payments for restricted stock upon vesting	(2,456)	—	—	(226)	(226)
Stock-based compensation expense	—	—	1,928	—	1,928
Dividends paid	—	—	(1,389)	(1,269)	(2,658)
Balance at June 29, 2019	29,442,728	$ 295	$ 892	$ (217,555)	$ (216,368)

See accompanying notes to consolidated financial statements.

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

	Twenty-Six Weeks Ended	
	June 29, 2019	June 30, 2018
Operating activities		
Net income	$ 11,524	$ 13,007
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	2,611	2,029
Deferred income taxes	(687)	(157)
Stock-based compensation expense	2,766	1,256
Amortization of debt issuance costs	775	175
Changes in operating assets and liabilities:		
Accounts receivable	123	83
Prepaid expenses and other assets	(678)	(211)
Advertising fund assets and liabilities, net	(2,664)	189
Accounts payable and other current liabilities	(3,503)	909
Deferred revenue	(258)	351
Other non-current liabilities	482	(86)
Cash provided by operating activities	10,491	17,545
Investing activities		
Purchases of property and equipment	(1,442)	(1,311)
Acquisition of restaurant from franchisee	—	(5,996)
Cash used in investing activities	(1,442)	(7,307)
Financing activities		
Proceeds from exercise of stock options	306	455
Borrowings of long-term debt	—	230,108
Repayments of long-term debt	(800)	(143,750)
Payment of deferred financing costs	—	(782)
Tax payments for restricted stock upon vesting	(1,059)	(142)
Dividends paid	(5,229)	(96,854)
Cash used in financing activities	(6,782)	(10,965)
Net change in cash, cash equivalents, and restricted cash	2,267	(727)
Cash, cash equivalents, and restricted cash at beginning of period	20,940	6,392
Cash, cash equivalents, and restricted cash at end of period	$ 23,207	$ 5,665

See accompanying notes to consolidated financial statements.

(1) Basis of Presentation

Basis of Presentation

Wingstop Inc., together with its consolidated subsidiaries (collectively, "Wingstop" or the "Company"), is in the business of franchising and operating Wingstop restaurants. As of June 29, 2019, 1,139 franchised restaurants were in operation domestically, and 135 franchised restaurants were in operation internationally. As of June 29, 2019, the Company owned and operated 29 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 have been condensed or omitted. Balance sheet amounts are as of June 29, 2019 and December 29, 2018 and operating results are for the thirteen and twenty-six weeks ended June 29, 2019 and June 30, 2018.

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 29, 2018.

The Company uses a 52/53-week fiscal year that ends on the last Saturday of the calendar year. Fiscal years 2019 and 2018 have 52 weeks.

Cash, Cash Equivalents, and Restricted Cash

Cash, cash equivalents, and restricted cash within the Consolidated Balance Sheets and the Consolidated Statements of Cash Flows as of June 29, 2019 and December 29, 2018 were as follows (in thousands):

	June 29, 2019	December 29, 2018
Cash and cash equivalents	$ 17,075	$ 12,493
Restricted cash	4,811	4,462
Restricted cash, included in Advertising fund assets, restricted	1,321	3,985
Total cash, cash equivalents, and restricted cash	$ 23,207	$ 20,940

Advertising Fund

The Company administers the Wingstop Restaurants Advertising Fund ("Ad Fund"), for which a percentage of gross sales is collected from Wingstop restaurant franchisees and company-owned restaurants to be used for various forms of advertising for the Wingstop brand. Beginning in fiscal year 2019, the Ad Fund contribution collected from domestic Wingstop restaurant franchisees and company-owned restaurants increased from 3% to 4% of gross sales.

The Company consolidates and reports all assets and liabilities of the Ad Fund as restricted assets and restricted liabilities of the Ad Fund within current assets and current liabilities, respectively, in the Consolidated Balance Sheets. Ad Fund contributions and expenditures are reported on a gross basis in the Consolidated Statements of Operations, which are largely offsetting and therefore do not impact our reported net income. Company-operated restaurants' Ad Fund contributions, which were equal to 4% of gross sales for the twenty-six weeks ended June 29, 2019 and 3% of gross sales for the twenty-six weeks ended June 30, 2018, are included in cost of sales in the Consolidated Statements of Operations.

Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). 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. The new guidance also requires additional disclosures about leases. The Company adopted the requirements of the new standard as of the first day of fiscal year 2019 using the modified retrospective approach without restating comparative periods. As part of our adoption, we elected the package of practical expedients, as well as the hindsight practical expedient, permitted under the new guidance, which, among other things, allowed the Company to continue utilizing historical classification of leases. In addition, we elected not to separate non-lease components for our real estate leases.

The adoption of the new standard resulted in the recording of a right-of-use asset of approximately $8.5 million and lease liabilities of approximately $10.3 million, and had an immaterial impact on retained earnings as of the beginning of fiscal year 2019. The standard did not materially impact our Consolidated Statements of Operations and had no impact on cash flows.

(2) Earnings per Share

Basic earnings per share is computed by dividing income available to common stockholders 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 convertible into 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 the exercise and vesting of stock options and restricted stock units, respectively, 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	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Basic weighted average shares outstanding	29,418	29,230	29,377	29,173
Dilutive shares	249	298	273	336
Diluted weighted average shares outstanding	29,667	29,528	29,650	29,509

For the thirteen weeks ended June 29, 2019 and June 30, 2018, equity awards representing approximately 6,000 and 2,000 shares, respectively, were excluded from the dilutive earnings per share calculation because the effect would have been anti-dilutive.

For the twenty-six weeks ended June 29, 2019 and June 30, 2018, equity awards representing approximately 18,000 and 13,000 shares, respectively, were excluded from the dilutive earnings per share calculation because the effect would have been anti-dilutive.

(3) Dividends

In each of the first two quarters of 2019, the Company's Board of Directors declared a quarterly dividend of $0.09 per share of common stock, which, in the aggregate, totaled $5.2 million, or $0.18 per share of common stock, paid during the twenty-six weeks ended June 29, 2019.

Subsequent to the end of the second quarter, on July 31, 2019, the Company's Board of Directors declared a quarterly dividend of $0.11 per share of common stock for stockholders of record as of August 30, 2019, to be paid on September 13, 2019, totaling approximately $3.2 million.

(4) 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.

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):

		June 29, 2019		December 29, 2018	
	Fair Value Hierarchy	Carrying Value	Fair Value	Carrying Value	Fair Value
Securitized Financing Facility:					
2018-1 Class A-2 Senior Secured Notes [1]	Level 2	$ 319,200	$ 333,749	$ 320,000	$ 320,000

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

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

(5) Income Taxes

Income tax expense and the effective tax rate were $1.1 million and 17.9%, respectively, for the thirteen weeks ended June 29, 2019, and $0.7 million and 9.8%, respectively, for the thirteen weeks ended June 30, 2018. Income tax expense and the effective tax rate were $1.8 million and 13.7%, respectively, for the twenty-six weeks ended June 29, 2019, and $2.4 million and 15.6%, respectively, for the twenty-six weeks ended June 30, 2018.

Income tax expense for the thirteen and twenty-six weeks ended June 29, 2019 includes $0.6 million and $1.8 million, respectively, in tax benefits resulting from the recognition of excess tax benefits from stock-based compensation, compared to $1.2 million and $1.5 million of tax benefits recognized in the thirteen and twenty-six weeks ended June 30, 2018, respectively.

(6) Debt Obligations

On November 14, 2018, Wingstop Funding LLC (the "Issuer"), a limited-purpose, bankruptcy-remote, wholly owned indirect subsidiary of Wingstop Inc., issued $320 million of its Series 2018-1 4.970% Fixed Rate Senior Secured Notes, Class A-2 (the "Class A-2 Notes"). Interest and principal are payable on a quarterly basis, and the Class A-2 Notes have an anticipated repayment date of December 2023.

In addition, the Issuer issued Series 2018-1 Variable Funding Senior Notes, Class A-1 (the "Variable Funding Notes"), which permit borrowings of up to a maximum principal amount of $20 million, which may be used to issue letters of credit. As of June 29, 2019, $4.0 million of letters of credit were outstanding against the Variable Funding Notes, which relate primarily to interest reserves required under the base indenture and related supplemental indenture. There were no amounts drawn down on the letter of credit as of June 29, 2019 or December 29, 2018.

The Class A-2 Notes and the Variable Funding Notes are referred to collectively as the "Notes" and were issued in a securitization transaction pursuant to which certain of the Company's domestic and foreign revenue-generating assets, consisting principally of franchise-related agreements and intellectual property, were contributed or otherwise transferred to the Issuer and certain other limited-purpose, bankruptcy-remote, wholly owned indirect subsidiaries of the Company that act as guarantors of the Notes and that have pledged substantially all of their assets as collateral securing the Notes.

The Notes are subject to a series of financial and non-financial covenants and restrictions. As of June 29, 2019, the Company was in compliance with all such financial covenants.

As of June 29, 2019, the scheduled principal payments on the Class A-2 Notes were as follows (in thousands):

Remainder of fiscal year 2019	$ 1,600
Fiscal year 2020	3,200
Fiscal year 2021	3,200
Fiscal year 2022	3,200
Fiscal year 2023	308,000
Total	$ 319,200

(7) Leases

The Company determines whether an arrangement is a lease at inception. The Company has operating leases for office and retail space, as well as equipment. Our leases have remaining terms of one year to eight years, some of which include options to extend the lease term for up to ten years. Lease terms may include options to renew when it is reasonably certain that the Company will exercise that option. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We have lease agreements that contain both lease and non-lease components. For real estate leases, we account for lease components together with non-lease components (e.g., common-area maintenance).

Components of lease expense are as follows (in thousands):

	Thirteen Weeks Ended	Twenty-Six Weeks Ended
	June 29, 2019	June 29, 2019
Operating lease cost [a]	$ 522	$ 1,028
Variable lease cost [b]	126	251
Total lease cost	$ 648	$ 1,279

[a] Includes short-term leases, which are immaterial.
[b] Primarily related to adjustments for inflation, common area maintenance, and property tax.

Supplemental cash flow information related to leases is as follows (dollar amounts in thousands):

	Twenty-Six Weeks Ended
	June 29, 2019
Operating cash flow information:	
Cash paid for amounts included in the measurement of lease liabilities	$ 1,089
Non-cash activity:	
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 580

Supplemental balance sheet information related to our operating leases is as follows:

	Balance Sheet Classification	June 29, 2019
Right-of-use assets	Other non-current assets	$ 8,295
Current lease liabilities	Other current liabilities	1,868
Non-current lease liabilities	Other non-current liabilities	8,188

Weighted average lease term and discount rate information related to leases is as follows:

	Twenty-Six Weeks Ended
	June 29, 2019
Weighted average remaining lease term of operating leases	5.5 years
Weighted average discount rate of operating leases	4.80%

Maturities of lease liabilities by fiscal year are as follows (in thousands):

Remainder of fiscal year 2019	$	1,335
Fiscal year 2020		2,302
Fiscal year 2021		2,089
Fiscal year 2022		1,884
Fiscal year 2023		1,597
Thereafter		2,214
Total lease payments		11,421
Less: imputed interest		(1,365)
Present value of lease liabilities	$	10,056

As of December 29, 2018, minimum lease payments under non-cancelable operating leases by period were expected to be as follows (in thousands):

Fiscal year 2019	$	2,181
Fiscal year 2020		2,214
Fiscal year 2021		2,005
Fiscal year 2022		1,800
Fiscal year 2023		1,523
Thereafter		2,145
Total	$	11,868

(8) Commitments and Contingencies

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 such actions is not likely to have a material adverse impact on the Company's financial position, results of operations, or cash flows.

(9) Stock-Based Compensation

Stock-based compensation is measured at the date of grant, based on the calculated fair value of the award, and is recognized as expense over the requisite employee service period (generally the vesting period of the grant). The Company recognized $2.8 million in stock-based compensation expense for the twenty-six weeks ended June 29, 2019, with a corresponding increase to additional paid-in-capital. Stock-based compensation expense is included in selling, general and administrative expense in the Consolidated Statements of Operations.

Stock Options

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

	Stock Options	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Term
Outstanding - December 29, 2018	236	$ 6.04	$ 13,848	4.8
Options granted	—	—		
Options exercised	(88)	3.49		
Options canceled	(4)	26.21		
Outstanding - June 29, 2019	144	$ 6.63	$ 12,675	4.4

The total grant-date fair value of stock options vested during the twenty-six weeks ended June 29, 2019 was $0.5 million. The total intrinsic value of stock options exercised during the twenty-six weeks ended June 29, 2019 was $5.9 million. As of June 29, 2019, total unrecognized compensation expense related to unvested stock options was $0.1 million, which is expected to be recognized over a weighted-average period of 0.6 years. During the thirteen weeks ended June 29, 2019, there was a modification to certain awards resulting in additional compensation expense of $0.2 million.

Restricted Stock Units and Performance Stock Units

The following table summarizes activity related to restricted stock units ("RSUs") and performance stock units ("PSUs") (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 29, 2018	103	$ 36.18	130	$ 40.46
Units granted	44	66.46	44	66.15
Units vested	(43)	39.72	(26)	44.15
Units canceled	(15)	42.49	(11)	40.66
Outstanding - June 29, 2019	89	$ 51.45	137	$ 49.98

The fair value of the Company's RSUs and PSUs is based on the closing market price of the stock on the date of grant. The RSUs granted during the twenty-six weeks ended June 29, 2019 vest over a three-year service period. As of June 29, 2019, total unrecognized compensation expense related to unvested RSUs was $3.9 million, which is expected to be recognized over a weighted-average period of 2.0 years.

The PSUs vest based on the outcome of certain performance criteria. For the PSUs granted during the twenty-six weeks ended June 29, 2019, the amount of units that can be earned range from 0% to 100% of the number of PSUs granted based on a service condition and a performance vesting condition 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 these PSUs is recognized over the vesting period when the achievement of the performance conditions becomes probable. The total compensation cost for the PSUs is determined based on the most likely outcome of the performance condition and the number of awards expected to vest. As of June 29, 2019, total unrecognized compensation expense related to unvested PSUs was $4.5 million. During the thirteen weeks ended June 29, 2019, there was a modification to certain awards resulting in additional compensation expense of $0.7 million.

Restricted Stock Awards

The fair value of the unvested restricted stock awards is based on the closing price of the Company's common stock on the date of grant. As of June 29, 2019, total unrecognized compensation expense related to unvested restricted stock awards was $0.6 million, which will be recognized over a weighted average period of approximately 1.9 years.

(10) Business Segments

The Company's business operates in two segments: the "Franchise" segment and the "Company" segment. The Franchise segment consists of domestic and international franchise restaurants, which represent the majority of our system-wide restaurants. As of June 29, 2019, the Franchise segment consisted of 1,274 restaurants operated by Wingstop franchisees in the United States and international markets, compared to 1,162 franchised restaurants in operation as of June 30, 2018. Franchise segment revenue consists primarily of franchise royalty revenue, advertising fee revenue, franchise and development fees revenue, and international territory fees.

As of June 29, 2019, the Company segment consisted of 29 company-owned restaurants located in the United States, compared to 26 company-owned restaurants as of June 30, 2018. Company segment revenue is comprised of food and beverage sales at company-owned restaurants. Company segment expenses consist of operating expenses at company-owned restaurants and include food, beverage, labor, benefits, utilities, rent, and other operating costs.

The following table reflects revenue and profit information with respect to each segment and reconciles segment profits to income before taxes (in thousands):

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Revenue:				
Franchise segment	$ 34,674	$ 25,559	$ 69,212	$ 51,945
Company segment	13,888	11,478	27,403	22,481
Total segment revenue	$ 48,562	$ 37,037	$ 96,615	$ 74,426
Segment Profit:				
Franchise segment	$ 8,221	$ 7,175	$ 17,476	$ 15,562
Company segment	2,066	2,751	4,582	5,392
Total segment profit	10,287	9,926	22,058	20,954
Corporate and other [1]	—	—	—	1,462
Interest expense, net	4,299	2,342	8,709	4,078
Income before taxes	$ 5,988	$ 7,584	$ 13,349	$ 15,414

[1] Corporate and other includes corporate related items not allocated to reportable segments and consists primarily of transaction costs associated with the refinancings of our credit agreement and payment of a special dividend.

(11) Building Acquisition

On June 25, 2019, the Company entered into an agreement to acquire an office building with an acquisition price of $18.3 million, which is expected to be primarily funded by cash on hand and is expected close in the third quarter of 2019. The building will be primarily used for the Company's headquarters and is located in Addison, Texas.

(12) Revenue from Contracts with Customers

Revenue from contracts with customers consists primarily of royalties, Ad Fund contributions, initial and renewal franchise fees, and upfront fees from development agreements and international territory agreements. The performance obligations under franchise agreements consist of (a) a franchise license, (b) pre-opening services, such as training, and (c) ongoing services, such as management of the Ad Fund, development of training materials and menu items, and restaurant monitoring. These performance obligations are highly interrelated, so they are not considered to be individually distinct and therefore are accounted for as a single performance obligation, which is satisfied by providing a right to use our intellectual property over the term of each franchise agreement.

Royalties and franchisee contributions to the Ad Fund, are calculated as a percentage of franchise restaurant sales over the term of the franchise agreement. Initial and renewal franchise fees are payable by the franchisee prior to the restaurant opening or at the time of a renewal of an existing franchise agreement. Franchise agreement royalties and Ad Fund contributions represent sales-based royalties that are related entirely to the performance obligation under the franchise agreement and are recognized as franchise sales occur. Additionally, initial and renewal franchise fees are recognized as revenue on a straight-line basis over the term of the respective agreement. The performance obligation under development agreements and international territory agreements generally consists of an obligation to grant exclusive development rights over a stated term. These development rights are not distinct from franchise agreements, so upfront fees paid by franchisees for development rights are deferred and apportioned to each franchise restaurant opened by the franchisee. The pro rata amount apportioned to each restaurant is accounted for as an initial franchise fee.

The following table represents a disaggregation of revenue from contracts with customers for the thirteen and twenty-six weeks ended June 29, 2019 and June 30, 2018 (in thousands):

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Royalty revenue	$ 18,437	$ 14,950	$ 36,344	$ 30,336
Advertising fees and related income	13,487	8,355	26,697	16,960
Franchise fees	939	618	2,521	1,304

Franchise fee, development fee, and international territory fee payments received by the Company are recorded as deferred revenue on the Consolidated Balance Sheets, which represents a contract liability. Deferred revenue is reduced as fees are recognized in revenue over the term of the franchise license for the respective restaurant. As the term of the franchise license is typically ten years, substantially all of the franchise fee revenue recognized in the thirteen and twenty-six weeks ended June 29, 2019 was included in the deferred revenue balance as of December 29, 2018. Approximately $8.0 million and $9.2 million of deferred revenue as of June 29, 2019 and December 29, 2018, respectively, relates to restaurants that have not yet opened, so the fees are not yet being amortized. The weighted average remaining amortization period for deferred franchise and renewal fees related to open restaurants is 7.3 years. The Company does not have any material contract assets as of June 29, 2019.

(13) Subsequent Events

On July 10, 2019, the Company entered into an agreement to acquire one existing restaurant from a franchisee in the Dallas market. The total purchase price was $1.2 million and the acquisition is expected to close in the third quarter of 2019.

This restaurant acquisition will be accounted for as a business combination. The Company is still determining the estimated fair value of assets acquired and liabilities assumed. The excess of the purchase price over the aggregate fair value of assets acquired will be allocated to goodwill. The results of operations of this location will be included in our Consolidated Statements of Operations as of the date of the acquisition.

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

The following discussion and analysis of the financial condition and results of operations of Wingstop Inc. (collectively with its direct and indirect subsidiaries on a consolidated basis, "Wingstop," the "Company," "we," "our," or "us") should be read in conjunction with the accompanying unaudited consolidated financial statements and related notes in Part I, Item 1 of this Quarterly Report on Form 10-Q (this "Quarterly Report") and with the audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K for the fiscal year ended December 29, 2018 (our "Annual Report"). The statements in this discussion regarding industry outlook, our expectations regarding our future performance, liquidity, and capital resources, and other non-historical statements 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 14 of our Annual Report. 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 2019 and 2018 each contain 52 weeks.

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 focused on wings, fries, and sides, which generate approximately 93% of our system-wide sales.

We offer our guests 11 bold, distinctive and craveable flavors on our bone-in and boneless chicken wings and tenders that are always cooked to order and paired with our fresh-cut, seasoned fries and made-from-scratch Ranch and Bleu Cheese dips. 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 than other consumer groups.

Wingstop is the largest fast casual chicken wings-focused restaurant chain in the world and has demonstrated strong, consistent growth. As of June 29, 2019, we had a total of 1,303 restaurants in our global system. Our restaurant base is 98% franchised, with 1,274 franchised locations (including 135 international locations) and 29 company-owned restaurants as of June 29, 2019.

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.

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Domestic Franchised Activity:				
Beginning of period	1,112	1,021	1,095	1,004
Openings	29	21	49	43
Closures	(2)	—	(5)	(4)
Acquired by Company	—	(2)	—	(3)
Restaurants end of period	1,139	1,040	1,139	1,040
Domestic Company-Owned Activity:				
Beginning of period	29	24	29	23
Openings	—	—	—	—
Closures	—	—	—	—
Acquired from franchisees	—	2	—	3
Restaurants end of period	29	26	29	26
Total Domestic Restaurants	**1,168**	**1,066**	**1,168**	**1,066**
International Franchised Activity:				
Beginning of period	132	112	128	106
Openings	5	10	11	16
Closures	(2)	—	(4)	—
Restaurants end of period	135	122	135	122
Total System-wide Restaurants	**1,303**	**1,188**	**1,303**	**1,188**

System-wide sales. System-wide sales represents net sales for all of our company-owned and franchised restaurants, with franchised restaurant sales 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 ranges 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 franchised restaurants. Same store sales are driven by changes in transactions and average transaction size. Transaction size changes are driven by price changes or product mix shifts from either a change in the number of items purchased or shifts into higher or lower priced categories of items.

EBITDA and Adjusted EBITDA. 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. EBITDA and Adjusted EBITDA may not be comparable to other similarly titled measures of other companies due to differences in methods of calculation. For a reconciliation of net income to EBITDA and Adjusted EBITDA and 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 June 29, 2019 and June 30, 2018 (dollars in thousands):

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Number of system-wide restaurants open at end of period	1,303	1,188	1,303	1,188
System-wide sales [1]	$ 371,505	$ 304,858	$ 733,865	$ 617,838
Domestic restaurant AUV	$ 1,189	$ 1,124	$ 1,189	$ 1,124
System-wide domestic same store sales growth	12.8%	4.3%	9.9%	6.8%
Company-owned domestic same store sales growth	13.8%	3.5%	9.1%	7.7%
Total revenue	$ 48,562	$ 37,037	$ 96,615	$ 74,426
Net income	$ 4,918	$ 6,839	$ 11,524	$ 13,007
Adjusted EBITDA [2]	$ 13,549	$ 11,747	$ 27,435	$ 24,239

(1) The percentage of system-wide sales attributable to company-owned restaurants was 3.7% and 3.8% for the thirteen weeks ended June 29, 2019 and June 30, 2018, respectively, and was 3.7% and 3.6% for the twenty-six weeks ended June 29, 2019 and June 30, 2018, 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, accounting principles generally accepted in the United States ("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 transaction costs, gains and losses on the disposal of assets, and stock-based compensation expense. There were no gains or losses on disposal of assets during the thirteen and twenty-six weeks ended June 29, 2019 and June 30, 2018. 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 on a period-over-period basis 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-based equity awards.

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. In addition, the instruments governing our indebtedness use EBITDA (with additional adjustments) to measure our compliance with covenants, such as our 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 and stock-based compensation expense. 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 measure 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 June 29, 2019 and June 30, 2018 (in thousands):

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 29, 2019	**June 30, 2018**	**June 29, 2019**	**June 30, 2018**
Net income	$ 4,918	$ 6,839	$ 11,524	$ 13,007
Interest expense, net	4,299	2,342	8,709	4,078
Income tax expense	1,070	745	1,825	2,407
Depreciation and amortization	1,335	1,079	2,611	2,029
EBITDA	$ 11,622	$ 11,005	$ 24,669	$ 21,521
Additional adjustments:				
Transaction costs [(a)]	—	—	—	1,462
Stock-based compensation expense [(b)]	1,927	742	2,766	1,256
Adjusted EBITDA	$ 13,549	$ 11,747	$ 27,435	$ 24,239

(a) Represents costs and expenses related to the refinancing of the senior secured credit facility dated June 30, 2016 and payment of a special dividend; all transaction costs are included in selling, general and administrative expenses ("SG&A").
(b) Includes non-cash, stock-based compensation.

Results of Operations

Thirteen Weeks Ended June 29, 2019 compared to Thirteen Weeks Ended June 30, 2018

The following table sets forth our results of operations for the thirteen weeks ended June 29, 2019 and June 30, 2018 (dollars in thousands):

	Thirteen Weeks Ended		Increase / (Decrease)	
	June 29, 2019	June 30, 2018	$	%
Revenue:				
Royalty revenue, franchise fees and other	$ 21,187	$ 17,204	$ 3,983	23.2 %
Advertising fees and related income	13,487	8,355	5,132	61.4 %
Company-owned restaurant sales	13,888	11,478	2,410	21.0 %
Total revenue	48,562	37,037	11,525	31.1 %
Costs and expenses:				
Cost of sales (1)	10,573	7,745	2,828	36.5 %
Advertising expenses	12,973	8,209	4,764	58.0 %
Selling, general and administrative	13,394	10,078	3,316	32.9 %
Depreciation and amortization	1,335	1,079	256	23.7 %
Total costs and expenses	38,275	27,111	11,164	41.2 %
Operating income	10,287	9,926	361	3.6 %
Interest expense, net	4,299	2,342	1,957	83.6 %
Income before income tax expense	5,988	7,584	(1,596)	(21.0)%
Income tax expense	1,070	745	325	43.6 %
Net income	$ 4,918	$ 6,839	$ (1,921)	(28.1)%

(1) Cost of sales includes all operating expenses of company-owned restaurants, including advertising expenses, and excludes depreciation and amortization, which are presented separately.

Total revenue. During the thirteen weeks ended June 29, 2019, total revenue was $48.6 million, an increase of $11.5 million, or 31.1%, compared to $37.0 million in the comparable period in 2018.

Royalty revenue, franchise fees and other. During the thirteen weeks ended June 29, 2019, royalty revenue, franchise fees and other was $21.2 million, an increase of $4.0 million, or 23.2%, compared to $17.2 million in the comparable period in 2018. Royalty revenue increased due to 112 net franchise restaurant openings since June 30, 2018 and domestic same store sales growth of 12.8%.

Advertising fees and related income. During the thirteen weeks ended June 29, 2019, advertising fees and related income was $13.5 million, an increase of $5.1 million, compared to $8.4 million in the comparable period in 2018. Advertising fees increased primarily due to the increase in the Ad Fund contribution rate from 3% to 4% of gross sales beginning in fiscal year 2019 as well as the 21.9% increase in system-wide sales in the thirteen weeks ended June 29, 2019 compared to the thirteen weeks ended June 30, 2018.

Company-owned restaurant sales. During the thirteen weeks ended June 29, 2019, company-owned restaurant sales were $13.9 million, an increase of $2.4 million, or 21.0%, compared to $11.5 million in the comparable period in 2018. The increase was primarily due to company-owned same store sales growth of 13.8%, which was primarily driven by an increase in transactions, and the acquisition of five franchised restaurants since the prior year comparable period, resulting in additional sales of $0.7 million.

Cost of sales. During the thirteen weeks ended June 29, 2019, cost of sales was $10.6 million, an increase of $2.8 million, or 36.5%, compared to $7.7 million in the comparable period in 2018. Cost of sales as a percentage of company-owned restaurant sales was 76.1% in the thirteen weeks ended June 29, 2019, compared to 67.5% in the comparable period in 2018.

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

	Thirteen Weeks Ended			
	June 29, 2019		June 30, 2018	
	In dollars	As a % of company-owned restaurant sales	In dollars	As a % of company-owned restaurant sales
Cost of sales:				
Food, beverage and packaging costs	$ 5,205	37.5 %	$ 3,696	32.2 %
Labor costs	3,193	23.0 %	2,549	22.2 %
Other restaurant operating expenses	2,556	18.4 %	1,789	15.6 %
Vendor rebates	(381)	(2.7)%	(289)	(2.5)%
Total cost of sales	$ 10,573	76.1 %	$ 7,745	67.5 %

Food, beverage and packaging costs as a percentage of company-owned restaurant sales were 37.5% in the thirteen weeks ended June 29, 2019, compared to 32.2% in the comparable period in 2018. The increase was primarily due to a 32.1% increase in the cost of bone-in chicken wings as compared to the prior year period.

Labor costs as a percentage of company-owned restaurant sales were 23.0% for the thirteen weeks ended June 29, 2019, compared to 22.2% in the comparable period in 2018. The increase was primarily due to investments in labor as well as training associated with the three franchised restaurants that we acquired in the fiscal fourth quarter of 2018 as we make investments to prepare these restaurants to be refranchised in a future period. This increase is offset slightly by the increase in company-owned same store sales of 13.8%.

Other restaurant operating expenses as a percentage of company-owned restaurant sales were 18.4% for the thirteen weeks ended June 29, 2019, compared to 15.6% in the comparable period in 2018. The increase as a percentage of company-owned restaurant sales was due to an increase in the Ad Fund contribution rate from 3% to 4% of gross sales beginning in fiscal year 2019, an increase in the amount of third-party delivery fees as we completed the launch of delivery at all company-owned restaurants in April 2019, as well as investments associated with with the three franchised restaurants that we acquired in the fiscal fourth quarter of 2018 as we prepare these restaurants to be refranchised in a future period. This increase was slightly offset by the increase in company-owned same store sales of 13.8%.

Advertising expenses. During the thirteen weeks ended June 29, 2019, advertising expenses were $13.0 million, an increase of $4.8 million compared to $8.2 million in the comparable period in 2018, primarily due to the Ad Fund contribution rate increasing from 3% to 4% of gross sales beginning in fiscal year 2019. Advertising expenses are recognized at the same time the related revenue is recognized, which does not necessarily correlate to the actual timing of the related advertising spend.

Selling, general and administrative. During the thirteen weeks ended June 29, 2019, SG&A expense was $13.4 million, an increase of $3.3 million compared to $10.1 million in the comparable period in 2018. The increase in SG&A expense was primarily due to an increase of $0.9 million in headcount related expenses as we make investments to support our strategic initiatives. Also contributing to the increase is $0.5 million associated with additional expenses to support our continued investment in our national advertising campaign. Stock-based compensation increased approximately $0.9 million related to the modification of certain stock awards. The remaining increases in SG&A were related expenses paid to support investments in technology and other initiatives.

Depreciation and amortization. During the thirteen weeks ended June 29, 2019, depreciation expense was $1.3 million, an increase of $0.3 million compared to $1.1 million in the comparable period in 2018. The increase in depreciation and amortization was primarily due to additional amortization associated with reacquired franchise rights resulting from the acquisition of franchised restaurants.

Interest expense, net. During the thirteen weeks ended June 29, 2019, interest expense was $4.3 million, an increase of $2.0 million compared to $2.3 million in the comparable period in 2018. The increase was primarily due to a higher average outstanding debt balance and applicable interest rate related to our securitized debt facility.

Income tax expense. Income tax expense was $1.1 million in the thirteen weeks ended June 29, 2019, yielding an effective tax rate of 17.9%, compared to an effective tax rate of 9.8% in the prior year. The increase in the effective tax rate was due to $0.6 million in tax benefits resulting from the recognition of excess tax benefits from stock-based compensation in income tax expense in the current fiscal quarter compared to $1.2 million of excess tax benefits in the prior year period.

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)	
	June 29, 2019	**June 30, 2018**	**$**	**%**
Revenue:				
Franchise segment	$ 34,674	$ 25,559	$ 9,115	35.7 %
Company segment	13,888	11,478	2,410	21.0 %
Total segment revenue	$ 48,562	$ 37,037	$ 11,525	31.1 %
Segment Profit:				
Franchise segment	$ 8,221	$ 7,175	$ 1,046	14.6 %
Company segment	2,066	2,751	(685)	(24.9)%
Total segment profit	$ 10,287	$ 9,926	$ 361	3.6 %

Franchise segment. During the thirteen weeks ended June 29, 2019, franchise segment revenue was $34.7 million, an increase of $9.1 million, or 35.7%, compared to $25.6 million in the comparable period in 2018. Royalty revenue increased $3.5 million due to 112 net franchise restaurant openings since June 30, 2018 and domestic same store sales growth of 12.8%. Advertising fees and related income increased $5.1 million primarily due to the increase in the Ad Fund contribution rate from 3% to 4% of gross sales beginning in fiscal year 2019 as well as the increase in system-wide sales in the thirteen weeks ended June 29, 2019 compared to the thirteen weeks ended June 30, 2018.

During the thirteen weeks ended June 29, 2019, franchise segment profit was $8.2 million, an increase of $1.0 million, or 14.6%, compared to $7.2 million in the comparable period in 2018, primarily due to the growth in franchise segment revenue, which was offset by an increase of $4.8 million in advertising expenses and an increase of $3.3 million in SG&A expenses related to investments to support our strategic initiatives and our national advertising campaign.

Company segment. During the thirteen weeks ended June 29, 2019, company-owned restaurant sales were $13.9 million, an increase of $2.4 million, or 21.0%, compared to $11.5 million in the comparable period in 2018. The increase was primarily due to an increase in company-owned same store sales of 13.8%, which was primarily driven by an increase in transactions, and the acquisition of five franchised restaurants since the prior year comparable period, resulting in additional sales of $0.7 million.

During the thirteen weeks ended June 29, 2019, company segment profit was $2.1 million, a decrease of $0.7 million, or 24.9%, compared to $2.8 million in the comparable period in 2018. The decrease was primarily due to a 32.1% increase in the cost of bone-in chicken wings and an increase in the Ad Fund contribution rate from 3% to 4% of gross sales beginning in fiscal year 2019.

Twenty-Six Weeks Ended June 29, 2019 compared to Twenty-Six Weeks Ended June 30, 2018

The following table sets forth our results of operations for the twenty-six weeks ended June 29, 2019 and June 30, 2018 (dollars in thousands):

	Twenty-Six Weeks Ended		Increase / (Decrease)	
	June 29, 2019	**June 30, 2018**	**$**	**%**
Revenue:				
Royalty revenue, franchise fees and other	$ 42,515	$ 34,985	$ 7,530	21.5 %
Advertising fees and related income	26,697	16,960	9,737	57.4 %
Company-owned restaurant sales	27,403	22,481	4,922	21.9 %
Total revenue	96,615	74,426	22,189	29.8 %
Costs and expenses:				
Cost of sales [(1)]	20,303	15,142	5,161	34.1 %
Advertising expenses	25,707	16,852	8,855	52.5 %
Selling, general and administrative	25,936	20,911	5,025	24.0 %
Depreciation and amortization	2,611	2,029	582	28.7 %
Total costs and expenses	74,557	54,934	19,623	35.7 %
Operating income	22,058	19,492	2,566	13.2 %
Interest expense, net	8,709	4,078	4,631	113.6 %
Income before income tax expense	13,349	15,414	(2,065)	(13.4)%
Income tax expense	1,825	2,407	(582)	(24.2)%
Net income	$ 11,524	$ 13,007	$ (1,483)	(11.4)%

(1) Cost of sales includes all operating expenses of company-owned restaurants, including advertising expenses, and excludes depreciation and amortization, which are presented separately.

Total revenue. During the twenty-six weeks ended June 29, 2019, total revenue was $96.6 million, an increase of $22.2 million, or 29.8%, compared to $74.4 million in the comparable period in 2018.

Royalty revenue, franchise fees and other. During the twenty-six weeks ended June 29, 2019, royalty revenue, franchise fees and other was $42.5 million, an increase of $7.5 million, or 21.5%, compared to $35.0 million in the comparable period in 2018. Royalty revenue increased due to 112 net franchise restaurant openings since June 30, 2018 and domestic same store sales growth of 9.9%. Franchise fees increased $1.2 million primarily due to higher termination fees recognized in the first thirteen weeks of fiscal year 2019.

Advertising fees and related income. During the twenty-six weeks ended June 29, 2019, advertising fees and related income was $26.7 million, an increase of $9.7 million, compared to $17.0 million in the comparable period in 2018. Advertising fees increased primarily due to the increase in the Ad Fund contribution rate from 3% to 4% of gross sales beginning in fiscal year 2019 as well as the 18.8% increase in system-wide sales in the twenty-six weeks ended June 29, 2019 compared to the twenty-six weeks ended June 30, 2018.

Company-owned restaurant sales. During the twenty-six weeks ended June 29, 2019, company-owned restaurant sales were $27.4 million, an increase of $4.9 million, compared to $22.5 million in the comparable period in 2018. The increase was primarily due to the acquisition of six franchised restaurants since the prior year comparable period resulting in additional sales of $2.6 million, as well as an increase in company-owned same store sales of 9.1%, which was primarily driven by an increase in transactions.

Cost of sales. During the twenty-six weeks ended June 29, 2019, cost of sales was $20.3 million, an increase of $5.2 million, or 34.1%, compared to $15.1 million in the comparable period in 2018. Cost of sales as a percentage of company-owned restaurant sales was 74.1% in the twenty-six weeks ended June 29, 2019 compared to 67.4% in the prior year period.

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

	Twenty-Six Weeks Ended			
	June 29, 2019		June 30, 2018	
	In dollars	As a % of company-owned restaurant sales	In dollars	As a % of company-owned restaurant sales
Cost of sales:				
Food, beverage and packaging costs	$ 10,022	36.6 %	$ 7,380	32.8 %
Labor costs	6,217	22.7 %	4,934	21.9 %
Other restaurant operating expenses	4,833	17.6 %	3,395	15.1 %
Vendor rebates	(769)	(2.8)%	(567)	(2.5)%
Total cost of sales	$ 20,303	74.1 %	$ 15,142	67.4 %

Food, beverage and packaging costs as a percentage of company-owned restaurant sales were 36.6% in the twenty-six weeks ended June 29, 2019, compared to 32.8% in the comparable period in 2018. The increase is primarily due to a 21.0% increase in the cost of bone-in chicken wings as compared to the prior year period.

Labor costs as a percentage of company-owned restaurant sales were 22.7% for the twenty-six weeks ended June 29, 2019, compared to 21.9% in the comparable period in 2018. The increase was primarily due to investment in labor as well as training associated with the three franchised restaurants that we acquired in the fiscal fourth quarter of 2018 as we make investments to prepare these restaurants to be refranchised in a future period. This increase is offset slightly by the increase in company-owned domestic same store sales of 9.1%.

Other restaurant operating expenses as a percentage of company-owned restaurant sales were 17.6% for the twenty-six weeks ended June 29, 2019, compared to 15.1% in the comparable period in 2018. The increase as a percentage of company-owned restaurant sales was due to an increase in the Ad Fund contribution rate from 3% to 4% of gross sales beginning in fiscal year 2019 and an increase in the amount of third-party delivery fees as we completed the launch of delivery at all company-owned restaurants in April 2019, as well as investments associated with with the three franchised restaurants that we acquired in the fiscal fourth quarter of 2018 as we prepare these restaurants to be refranchised in a future period. This increase was slightly offset by the increase in company-owned domestic same store sales of 9.1%.

Advertising expenses. During the twenty-six weeks ended June 29, 2019, advertising expenses were $25.7 million, an increase of $8.9 million compared to $16.9 million in the comparable period in 2018 primarily due to the Ad Fund contribution rate increasing from 3% to 4% of gross sales beginning in fiscal year 2019. Advertising expenses are recognized at the same time the related revenue is recognized, which does not necessarily correlate to the actual timing of the related advertising spend.

Selling, general and administrative. During the twenty-six weeks ended June 29, 2019, SG&A expense was $25.9 million, an increase of $5.0 million compared to $20.9 million in the comparable period in 2018. The increase in SG&A expense was primarily due to an increase of $2.5 million in headcount related expenses as we make investments to support our strategic initiatives. Also contributing to the increase is $1.1 million associated with additional expenses to support our continued investment in our national advertising campaign. Stock-based compensation increased approximately $0.9 million due to the modification of certain stock awards. The remaining increases were in various SG&A items to support investments in technology and other initiatives. These year-over-year increases were offset by nonrecurring costs of $1.5 million incurred in the first quarter of 2018 related to our debt refinancing and payment of a special dividend.

Depreciation and amortization. During the twenty-six weeks ended June 29, 2019, depreciation expense was $2.6 million, an increase of $0.6 million, compared to $2.0 million in the comparable period in 2018. The increase in depreciation and amortization was primarily due to additional amortization associated with reacquired franchise rights resulting from the acquisition of franchised restaurants.

Interest expense, net. During the twenty-six weeks ended June 29, 2019, interest expense was $8.7 million, an increase of $4.6 million compared to $4.1 million in the comparable period in 2018. The increase was primarily due to a higher average outstanding debt balance and applicable interest rate related to our securitized debt facility.

Income tax expense. Income tax expense was $1.8 million in the twenty-six weeks ended June 29, 2019, yielding an annual effective tax rate of 13.7%, compared to an annual effective tax rate of 15.6% in the comparable period in 2018. The decrease in the effective tax rate was due to $1.8 million in tax benefits resulting from the recognition of excess tax benefits from stock-based compensation in income tax expense in the current year compared to $1.5 million of excess tax benefits in the prior year period.

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)	
	June 29, 2019	**June 30, 2018**	**$**	**%**
Revenue:				
Franchise segment	$ 69,212	$ 51,945	$ 17,267	33.2 %
Company segment	27,403	22,481	4,922	21.9 %
Total segment revenue	$ 96,615	$ 74,426	$ 22,189	29.8 %
Segment Profit:				
Franchise segment	$ 17,476	$ 15,562	$ 1,914	12.3 %
Company segment	4,582	5,392	(810)	(15.0)%
Total segment profit	$ 22,058	$ 20,954	$ 1,104	5.3 %

Franchise segment. During the twenty-six weeks ended June 29, 2019, franchise segment revenue was $69.2 million, an increase of $17.3 million, or 33.2%, compared to $51.9 million in the comparable period in 2018. Royalty revenue increased $6.0 million, primarily due to 112 net franchise restaurant openings since June 30, 2018 and domestic same store sales growth of 9.9%. Advertising fees and related income increased $9.7 million primarily due to the increase in the Ad Fund contribution rate from 3% to 4% of gross sales beginning in fiscal year 2019 as well as the 18.8% increase in system-wide sales in the thirteen weeks ended June 29, 2019 compared to the thirteen weeks ended June 30, 2018. Franchise fees increased $1.2 million primarily due to higher termination fees recognized in the first thirteen weeks of fiscal year 2019.

During the twenty-six weeks ended June 29, 2019, franchise segment profit was $17.5 million, an increase of $1.9 million, or 12.3%, compared to $15.6 million in the comparable period in 2018, primarily due to the growth in franchise segment revenue, which was offset by an increase of $8.9 million in advertising expenses and an increase of $6.5 million in SG&A expenses related to investments to support our strategic initiatives and our national advertising campaign, which were offset by non-recurring costs of $1.5 million incurred in the first quarter of 2018.

Company segment. During the twenty-six weeks ended June 29, 2019, company-owned restaurant sales were $27.4 million, an increase of $4.9 million, compared to $22.5 million in the comparable period in 2018. The increase was primarily due to the acquisition of six franchised restaurants since the prior year comparable period resulting in additional sales of $2.6 million and an increase in company-owned same store sales of 9.1%, which was primarily driven by an increase in transactions.

During the twenty-six weeks ended June 29, 2019, company segment profit was $4.6 million, a decrease of $0.8 million, or 15.0%, compared to $5.4 million in the comparable period in 2018. The decrease was primarily due to a 21.0% increase in the cost of bone-in chicken wings and an increase in the Ad Fund contribution rate from 3% to 4% of gross sales beginning in fiscal year 2019.

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 for at least the next twelve months.

The following table shows summary cash flows information for the twenty-six weeks ended June 29, 2019 and June 30, 2018 (in thousands):

	Twenty-Six Weeks Ended	
	June 29, 2019	**June 30, 2018**
Net cash provided by (used in):		
Operating activities	$ 10,491	$ 17,545
Investing activities	(1,442)	(7,307)
Financing activities	(6,782)	(10,965)
Net change in cash and cash equivalents	$ 2,267	$ (727)

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 $10.5 million in the twenty-six weeks ended June 29, 2019, a decrease of $7.1 million from cash provided by operations of $17.5 million in the twenty-six weeks ended June 30, 2018. The decrease was primarily due to the timing of changes in working capital expenditures, primarily related to tax payments.

Investing activities. Our net cash used in investing activities was $1.4 million in the twenty-six weeks ended June 29, 2019, a decrease of $5.9 million from $7.3 million used in investing activities in the comparable period in 2018. The decrease was primarily due to the acquisition of three restaurants from franchisees during the twenty-six weeks ended June 30, 2018.

Financing activities. Our net cash used in financing activities was $6.8 million in the twenty-six weeks ended June 29, 2019, a decrease of $4.2 million from cash used in financing activities of $11.0 million in 2018. The decrease was due to the payment of a special dividend paid in the first quarter of 2018 totaling $92.7 million, offset by net borrowings of $86.4 million in the comparable period in 2018. Also contributing to the decrease was an increase in the regular dividend and a principal payment associated with our securitized financing facility in the twenty-six weeks ended June 29, 2019.

Securitized financing facility. On November 14, 2018, we entered into a securitized financing facility comprised of $320 million of Series 2018-1 4.97% Fixed Rate Senior Secured Notes, Class A-2 (the "Class A-2 Notes") as well as a variable funding note facility of Series 2018-1 Variable Funding Senior Notes, Class A-1 (the "Variable Funding Notes" and, together with the Class A-2 Notes, the "Notes"), which will allow us to borrow up to $20 million as needed on a revolving basis. As of June 29, 2019, we had no outstanding borrowings under the Variable Funding Notes, with $4.0 million letters of credit outstanding.

The Class A-2 Notes are subject to 1% annual amortization, bear interest at a fixed rate of 4.97% per annum, and have an anticipated repayment date of December 2023. Interest and principal payments on the Notes are payable on a quarterly basis.

Dividends. We paid a quarterly cash dividend of $0.09 per share of common stock in each of the first two quarters of 2019, resulting in aggregate dividend payments of $5.2 million during the twenty-six weeks ended June 29, 2019. On July 31, 2019, the Company's Board of Directors approved a dividend of $0.11 per share, to be paid on September 13, 2019 to stockholders of record as of August 30, 2019, totaling approximately $3.2 million.

We do not currently expect the restrictions in our debt instruments to impact our ability to make regularly quarterly dividends pursuant to our quarterly dividend program. However, any future declarations of dividends, as well as the amount and timing of such dividends, are subject to capital availability and the discretion of our Board of Directors, which must evaluate, among other things, whether cash dividends are in the best interest of our stockholders.

Contractual Obligations

There have been no material changes to our contractual obligations disclosed in the contractual obligations section of Management's Discussion and Analysis of Financial Condition and Results of Operations in the Annual Report. For additional information regarding our long-term debt and our commitments and contingencies, see Note 10, *Debt Obligations* and Note 11, *Commitments and Contingencies* in the Annual Report and the corresponding Notes 6 and 8 in the notes to our unaudited consolidated financial statements included elsewhere in this Quarterly Report.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements or obligations as of June 29, 2019.

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 Annual Report, and there have been no material changes since the filing of our Annual Report.

Recent Accounting Pronouncements

See Note 1 to our consolidated financial statements, *Basis of Presentation*, for a summary of recent accounting pronouncements.

Special Note Regarding Forward-Looking Statements

This report includes statements of our expectations, intentions, plans and beliefs that constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and are intended to come within the safe harbor protection provided by those sections. These statements, which involve risks and uncertainties, relate to the discussion of our business strategies and our expectations concerning future operations, margins, profitability, trends, liquidity and capital resources and to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These forward-looking statements can generally by identified by the use of forward-looking terminology, including the terms "may," "will," "should," "expect," "intend," "plan," "anticipate," "believe," "think," "estimate," "seek," "expect," "predict," "could," "project," "potential" or, in each case, their negative or other variations or comparable terminology, although not all forward-looking statements are accompanied by such terms. These forward-looking statements are made based on expectations and beliefs concerning future events affecting us and are subject to uncertainties, risks, and factors relating to our operations and business environments, all of which are difficult to predict and many of which are beyond our control, that could cause our actual results to differ materially from those matters expressed or implied by these forward-looking statements.

Such risks and other factors include those listed in Item 1A., "Risk Factors," and elsewhere in this report, including the following factors that could cause actual results or outcomes to differ from the results expressed or implied by forward-looking statements:

- our ability to effectively implement our growth strategy;
- risks associated with changes in food and supply costs;
- our relationships with, and the performance of, our franchisees, as well as actions by franchisees that could harm our business;
- our ability to identify, recruit and contract with a sufficient number of qualified franchisees;
- risks associated with food safety, food-borne illness and other health concerns;

- our ability to successfully expand into new markets;
- our ability to effectively compete within our industry;
- risks associated with interruptions in our supply chain;
- risks associated with our future performance and operating results falling below the expectations of securities analysts and investors;
- risks associated with data privacy, cyber security, and the use and implementation of information technology;
- risks associated with our increasing dependence on digital commerce platforms;
- uncertainty in the law with respect to the assignment of liabilities in the franchise business model;
- risks associated with litigation against us or our franchisees;
- our ability to successfully advertise and market our business;
- risks associated with changes in customer preferences and perceptions;
- our ability to comply with government regulations relating to food products and franchising, including increased costs associated with new or changing regulations;
- risks associated with the geographic concentration of our business;
- our ability to maintain adequate insurance coverage for our business;
- risks associated with damage to our reputation or lack of acceptance of our brand in existing or new markets;
- our ability to comply with the terms of our securitized debt financing and generate sufficient cash flows to satisfy our significant debt service obligations thereunder;
- our ability to attract and retain our executive officers and other key employees; and
- our ability to protect our intellectual property, including trademarks and trade secrets.

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. When considering forward-looking statements in this report or that we make in other reports or statements, you should keep in mind the cautionary statements in this report and future reports we file with the SEC. New risks and uncertainties arise from time to time, and we cannot predict when they may arise or how they may affect us. Except as required by law, 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 fresh bone-in chicken wings, so we are subject to prevailing market conditions. Bone-in chicken wings accounted for approximately 28.1% and 25.9% of our company-owned restaurant cost of sales during the twenty-six weeks ended June 29, 2019 and June 30, 2018, respectively. A hypothetical 10% increase in the bone-in chicken wing costs would have increased costs of sales by approximately $0.6 million during the twenty-six weeks ended June 29, 2019. 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 arrangements with our suppliers, these arrangements cover our physical commodity needs, are not net-settled, and are accounted for as normal purchases.

Interest Rate Risk. As discussed in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation" under "Liquidity and Capital Resources," the Company entered into a securitized financing facility on November 14, 2018, issuing $320.0 million of Class A-2 Notes. The proceeds from the Class A-2 Notes were used to repay all amounts outstanding on the 2018 Facility, to pay transaction costs, for general corporate purposes, and for the payment of a special dividend. Concurrently, the Company issued the Variable Funding Notes, which permit borrowings of up to $20.0 million and may be used to issue letters of credit. The final legal maturity date of the Notes is in 2048; however, the anticipated repayment date of the Notes is December 2023. The 2018 Facility was canceled upon repayment of all outstanding amounts thereunder in connection with the closing of our securitized financing transaction.

Our long-term debt, including the current portion, consisted entirely of the $319.2 million outstanding under the Notes as of June 29, 2019 (excluding unamortized debt issuance costs and the effect of purchase accounting adjustments). The Company's predominantly fixed-rate debt structure has reduced the Company's exposure to interest rate increases that could adversely affect its earnings and cash flows, but the Company remains exposed to changes in market interest rates reflected in the fair value of the debt and to the risk that the Company may in the future need to refinance maturing debt with new debt at a higher rate. The Company is exposed to interest rate increases under the Variable Funding Notes; however, the Company had no outstanding borrowings under its Variable Funding Notes, with $4.0 million of letters of credit outstanding, as of June 29, 2019.

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 June 29, 2019, pursuant to Rule 13a-15 under 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 the rules and forms of the Securities and Exchange Commission, 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 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. To our knowledge, there are no material pending legal proceedings to which we are a party or of which any of our property is the subject.

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.

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 Company's Registration Statement 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 Company's Annual Report on Form 10-K (File No. 001-37425) for the fiscal year ended December 30, 2017 and incorporated herein by reference.
10.1	Commercial Contract of Sale, by and between Westerman Realty Interests, LLC and Wingstop Restaurants Inc., dated as of June 19, 2019, filed as Exhibit 10.1 to the Company's Current Report on Form 8-K on June 25, 2019 and incorporated herein by reference.
10.2†	Letter Agreement between Wingstop Inc. and Darryl R. Marsch, dated June 14, 2019, filed as Exhibit 10.1 to the Company's Current Report on Form 8-K on June 18, 2019 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*	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101 SCH*	Inline XBRL Taxonomy Extension Schema Document
101 CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101 DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101 LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101 PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.
** Furnished, not filed.
† Indicates management agreement.

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 1, 2019	By:	/s/ Charles R. Morrison
		Chairman and Chief Executive Officer
		(Principal Executive Officer)
Date: August 1, 2019	By:	/s/ Michael J. Skipworth
		Chief Financial Officer
		(Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATION PURSUANT TO EXCHANGE ACT RULE 13a-14(a)/15d-14(a) AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Charles R. Morrison, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Wingstop Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 1, 2019

By: /s/ Charles R. Morrison
Chairman and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION PURSUANT TO EXCHANGE ACT RULE 13a-14(a)/15d-14(a) AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael J. Skipworth, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Wingstop Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 1, 2019

By: /s/ Michael J. Skipworth
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q for the period ended June 29, 2019 of Wingstop Inc. (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles R. Morrison, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: August 1, 2019

By: /s/ Charles R. Morrison
Chairman and Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q for the period ended June 29, 2019 of Wingstop Inc. (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael J. Skipworth, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: August 1, 2019

By: /s/ Michael J. Skipworth
Chief Financial Officer
(Principal Financial and Accounting Officer)