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

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 26, 2020

☐ **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 Select Market

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

Indicate by check mark whether the registrant has submitted electronically 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 October 30, 2020 there were 29,683,465 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 par value amounts)

	September 26, 2020 (Unaudited)	December 28, 2019
Assets		
Current assets		
Cash and cash equivalents	$ 48,230	$ 12,849
Restricted cash	4,114	4,790
Accounts receivable, net	5,378	5,175
Prepaid expenses and other current assets	5,630	2,449
Advertising fund assets, restricted	18,933	4,927
Total current assets	82,285	30,190
Property and equipment, net	27,196	27,842
Goodwill	53,290	50,188
Trademarks	32,700	32,700
Customer relationships, net	11,928	12,910
Other non-current assets	12,292	12,283
Total assets	**$ 219,691**	**$ 166,113**
Liabilities and stockholders' deficit		
Current liabilities		
Accounts payable	$ 2,343	$ 3,348
Other current liabilities	20,144	21,454
Current portion of debt	16,000	3,200
Advertising fund liabilities	18,933	4,927
Total current liabilities	57,420	32,929
Long-term debt, net	311,240	307,669
Deferred revenues, net of current	23,088	22,343
Deferred income tax liabilities, net	6,090	4,485
Other non-current liabilities	5,390	8,115
Total liabilities	403,228	375,541
Commitments and contingencies (see Note 7)		
Stockholders' deficit		
Common stock, $0.01 par value; 100,000,000 shares authorized; 29,683,465 and 29,457,228 shares issued and outstanding as of September 26, 2020 and December 28, 2019, respectively	297	295
Additional paid-in-capital	496	552
Accumulated deficit	(184,330)	(210,275)
Total stockholders' deficit	(183,537)	(209,428)
Total liabilities and stockholders' deficit	**$ 219,691**	**$ 166,113**

See accompanying notes to consolidated financial statements.

WINGSTOP INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(amounts in thousands, except per share data)
(Unaudited)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Revenue:				
Royalty revenue, franchise fees and other	$ 28,806	$ 21,876	$ 80,863	$ 64,391
Advertising fees and related income	19,653	14,056	55,590	40,753
Company-owned restaurant sales	15,529	13,943	49,076	41,346
Total revenue	63,988	49,875	185,529	146,490
Costs and expenses:				
Cost of sales (1)	11,804	10,339	36,367	30,642
Advertising expenses	18,267	12,652	51,780	38,359
Selling, general and administrative	17,282	13,527	44,786	39,463
Depreciation and amortization	2,334	1,408	5,287	4,019
Total costs and expenses	49,687	37,926	138,220	112,483
Operating income	14,301	11,949	47,309	34,007
Interest expense, net	4,405	4,243	12,764	12,952
Income before income tax expense	9,896	7,706	34,545	21,055
Income tax expense (benefit)	(185)	1,801	4,829	3,626
Net income	$ 10,081	$ 5,905	$ 29,716	$ 17,429
Earnings per share				
Basic	$ 0.34	$ 0.20	$ 1.00	$ 0.59
Diluted	$ 0.34	$ 0.20	$ 1.00	$ 0.59
Weighted average shares outstanding				
Basic	29,642	29,449	29,572	29,401
Diluted	29,854	29,696	29,791	29,667
Dividends per share	$ 0.14	$ 0.11	$ 0.36	$ 0.29

(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 Thirty-Nine Weeks Ended September 28, 2019
(amounts in thousands, except share data)
(Unaudited)

	Common Stock				
	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Deficit
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
Shares issued under stock plans	114,936	1	157	—	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
Shares issued under stock plans	45,778	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)
Net income	—	—	—	5,905	5,905
Shares issued under stock plans	11,560	—	174	—	174
Tax payments for restricted stock upon vesting	(914)	—	—	(84)	(84)
Stock-based compensation expense	—	—	2,043	—	2,043
Dividends paid	—	—	(2,772)	(473)	(3,245)
Balance at September 28, 2019	29,453,374	$ 295	$ 337	$ (212,207)	$ (211,575)

See accompanying notes to consolidated financial statements.

WINGSTOP INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Deficit
For the Thirty-Nine Weeks Ended September 26, 2020
(amounts in thousands, except share data)
(Unaudited)

	Common Stock				
	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Deficit
Balance at December 28, 2019	29,457,228	$ 295	$ 552	$ (210,275)	$ (209,428)
Net income	—	—	—	8,096	8,096
Shares issued under stock plans	128,585	1	504	—	505
Tax payments for restricted stock upon vesting	(2,419)	—	—	(229)	(229)
Stock-based compensation expense	—	—	1,331	—	1,331
Dividends paid	—	—	(2,168)	(1,055)	(3,223)
Balance at March 28, 2020	29,583,394	296	219	(203,463)	(202,948)
Net income	—	—	—	11,539	11,539
Shares issued under stock plans	13,057	—	57	—	57
Tax payments for restricted stock upon vesting	(104)	—	—	(12)	(12)
Stock-based compensation expense	—	—	1,969	—	1,969
Dividends paid	—	—	(2,202)	(1,075)	(3,277)
Balance at June 27, 2020	29,596,347	296	43	(193,011)	(192,672)
Net income	—	—	—	10,081	10,081
Shares issued under stock plans	87,751	1	328	—	329
Tax payments for restricted stock upon vesting	(633)	—	—	(99)	(99)
Stock-based compensation expense	—	—	3,007	—	3,007
Dividends paid	—	—	(2,882)	(1,301)	(4,183)
Balance at September 26, 2020	29,683,465	$ 297	$ 496	$ (184,330)	$ (183,537)

See accompanying notes to consolidated financial statements.

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

	Thirty-Nine Weeks Ended	
	September 26, 2020	September 28, 2019
Operating activities		
Net income	$ 29,716	$ 17,429
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	5,287	4,019
Deferred income taxes	377	(555)
Stock-based compensation expense	6,307	4,809
Gain on disposal of assets	(3,247)	—
Amortization of debt issuance costs	1,228	1,179
Changes in operating assets and liabilities:		
Accounts receivable	(203)	(188)
Prepaid expenses and other assets	668	(979)
Advertising fund assets and liabilities, net	12,578	3,164
Accounts payable and other current liabilities	(4,165)	(1,014)
Deferred revenue	958	528
Other non-current liabilities	(2,725)	194
Cash provided by operating activities	46,779	28,586
Investing activities		
Purchases of property and equipment	(3,729)	(21,082)
Acquisitions of restaurants from franchisees	(5,635)	(1,229)
Proceeds from sales of assets	4,800	—
Cash used in investing activities	(4,564)	(22,311)
Financing activities		
Proceeds from exercise of stock options	891	480
Borrowings of long-term debt	16,000	5,000
Repayments of long-term debt	(800)	(1,600)
Payment of deferred financing costs	—	(15)
Tax payments for restricted stock upon vesting	(340)	(1,143)
Dividends paid	(10,683)	(8,474)
Cash provided by (used in) financing activities	5,068	(5,752)
Net increase in cash, cash equivalents, and restricted cash	47,283	523
Cash, cash equivalents, and restricted cash at beginning of period	21,175	20,940
Cash, cash equivalents, and restricted cash at end of period	$ 68,458	$ 21,463

See accompanying notes to consolidated financial statements.

(1) Basis of Presentation and Update to Significant Accounting Policies

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 September 26, 2020, the Company had 1,277 domestic franchised restaurants and 171 international franchised restaurants. As of September 26, 2020, the Company owned and operated 31 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 September 26, 2020 and December 28, 2019, and operating results are for the thirteen and thirty-nine weeks ended September 26, 2020 and September 28, 2019.

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 28, 2019.

The Company uses a 52/53-week fiscal year that ends on the last Saturday of the calendar year. Fiscal years 2020 and 2019 each 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 September 26, 2020 and December 28, 2019 were as follows (in thousands):

	September 26, 2020	December 28, 2019
Cash and cash equivalents	$ 48,230	$ 12,849
Restricted cash	4,114	4,790
Restricted cash, included in Advertising fund assets, restricted	16,114	3,536
Total cash, cash equivalents, and restricted cash	$ 68,458	$ 21,175

Segment Reporting

Historically, the Company had two reporting segments: franchise operations and company restaurant operations. In accordance with Accounting Standards Codification 280 "Segment Reporting", the Company uses the management approach for determining its reportable segments. The management approach is based upon the way management reviews performance and allocates resources. During the second fiscal quarter of 2020, the Company reevaluated its operating segments and determined it has one operating segment and one reporting segment due to changes in how the Company's chief operating decision maker assesses the Company's performance and allocates resources.

Recently Issued Accounting Pronouncements

In December 2019, the Financial Accounting Standards Board issued Accounting Standard Update No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* ("ASU 2019-12"). ASU 2019-12 is effective for fiscal years beginning after December 15, 2020, including applicable interim periods. The Company is currently assessing the impact of adopting this standard but does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

(2) Earnings per Share

Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of shares of common stock 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, as 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		Thirty-Nine Weeks Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Basic weighted average shares outstanding	29,642	29,449	29,572	29,401
Dilutive shares	212	247	219	266
Diluted weighted average shares outstanding	29,854	29,696	29,791	29,667

For the thirteen weeks ended September 26, 2020 and September 28, 2019, equity awards representing approximately 400 and 100 shares, respectively, were excluded from the dilutive earnings per share calculation because the effect would have been anti-dilutive.

For the thirty-nine weeks ended September 26, 2020 and September 28, 2019, equity awards representing approximately 400 and 2,000 shares, respectively, were excluded from the dilutive earnings per share calculation because the effect would have been anti-dilutive.

(3) Dividends

The Company's Board of Directors declared a quarterly dividend of $0.11 per share of common stock in each of the first two quarters, and a quarterly dividend of $0.14 per share of common stock in the third quarter, resulting in aggregate dividend payments of $10.7 million, or $0.36 per share of common stock, during the thirty-nine weeks ended September 26, 2020.

Subsequent to the third quarter, on November 2, 2020, the Company's Board of Directors announced a quarterly dividend of $0.14 per share of common stock, payable to stockholders of record as of November 20, 2020. The regular quarterly dividend is to be paid on December 10, 2020, totaling approximately $4.2 million.

On October 30, 2020, in conjunction with the completion of a transaction to refinance the Company's existing securitized financing facility, the Company's Board of Directors declared a special dividend of $5.00 per share of common stock, payable to stockholders of record as of November 20, 2020. The special dividend is to be paid on December 3, 2020, totaling approximately $149 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):

		September 26, 2020		December 28, 2019	
	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	$ 316,800	$ 322,775	$ 317,600	$ 331,247
2018-1 Class A-1 Variable Funding Senior Notes [2]	Level 2	$ 16,000	$ 16,000	$ —	$ —

[1] The fair value of the 2018-1 Class A-2 Senior Secured Notes was estimated using available market information.
[2] The fair value of the 2018-1 Class A-1 Variable Funding Senior Notes was estimated based on the borrowing rates currently available for variable rate loans obtained from third-party lending institutions and approximated the book value of such 2018-1 Class A-1 Variable Funding Senior Notes.

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 benefit and the effective tax rate were $0.2 million and (1.9)%, respectively, for the thirteen weeks ended September 26, 2020, compared to income tax expense and an effective tax rate of $1.8 million and 23.4%, respectively, for the thirteen weeks ended September 28, 2019. Income tax expense and the effective tax rate were $4.8 million and 14.0%, respectively, for the thirty-nine weeks ended September 26, 2020, and $3.6 million and 17.2%, respectively, for the thirty-nine weeks ended September 28, 2019.

Income tax expense for the thirteen and thirty-nine weeks ended September 26, 2020 included $2.9 million and $4.4 million, respectively, in tax benefits resulting from the recognition of excess tax benefits from stock-based compensation, as compared to $0.1 million and $1.9 million in tax benefits for the thirteen and thirty-nine weeks ended September 28, 2019, respectively.

(6) Debt Obligations

Long-term debt consisted of the following components (in thousands):

	September 26, 2020	December 28, 2019
2018-1 Class A-2 Senior Secured Notes	$ 316,800	$ 317,600
2018-1 Class A-1 Variable Funding Senior Notes	16,000	—
Debt issuance costs, net of amortization	(5,560)	(6,731)
Total debt	327,240	310,869
Less: current portion of debt	(16,000)	(3,200)
Long-term debt, net	$ 311,240	$ 307,669

As of September 26, 2020, we had $316.8 million of outstanding Series 2018-1 4.97% Fixed Rate Senior Secured Notes, Class A-2 (the "2018 Class A-2 Notes") and $16.0 million of outstanding Series 2018-1 Variable Funding Senior Notes, Class A-1 (the "2018 Variable Funding Notes," and together with the 2018 Class A-2 Notes, the "2018 Notes"). The 2018 Variable Funding Notes were issued in the first quarter of 2020 as a precautionary measure to improve the Company's cash position. The 2018 Variable Funding Notes had a weighted average interest rate of 2.72% during the thirty-nine weeks ended September 26, 2020 and are classified as current debt. There were no borrowings outstanding under the 2018 Variable Funding Notes as of December 28, 2019. Further, as of September 26, 2020 and December 28, 2019, $4.0 million of letters of credit were outstanding against the 2018 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 letters of credit as of September 26, 2020 or December 28, 2019.

During the thirty-nine weeks ended September 26, 2020, the Company had a leverage ratio under the 2018 Class A-2 Notes of less than 5.0x. Per the terms of the Company's debt agreements, principal payments on the 2018 Class A-2 Notes are not due until the repayment date as long as the Company maintains a leverage ratio of less than 5.0x. As such, the Company ceased making principal payments beginning in the second quarter of 2020. Accordingly, the entire outstanding balance of the 2018 Class A-2 Notes has been classified as long-term debt.

The 2018 Class A-2 Notes and the 2018 Variable Funding Notes were each 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 2018 Notes and that have pledged substantially all of their assets.

On October 30, 2020, the Company completed a transaction to refinance its existing securitized financing facility with a new securitized financing facility. For additional information, see "Note 11—Subsequent Events."

(7) 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.

(8) 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 award). The Company recognized $6.3 million in stock-based compensation expense for the thirty-nine weeks ended September 26, 2020, 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 Per Share	Aggregate Intrinsic Value	Weighted Average Remaining Term
Outstanding - December 28, 2019	134	$ 5.72	$ 10,801	3.8 years
Options granted	68	84.41		
Options exercised	(130)	5.40		
Outstanding - September 26, 2020	72	$ 79.94	$ 15,171	5.3 years

The total grant-date fair value of stock options vested during the thirty-nine weeks ended September 26, 2020 was $0.2 million. The total intrinsic value of stock options exercised during the thirty-nine weeks ended September 26, 2020 was $15.4 million. As of September 26, 2020, total unrecognized compensation expense related to unvested stock options was $1.3 million, which is expected to be recognized over a weighted-average period of 2.4 years. During the thirty-nine weeks ended September 26, 2020, there was a modification to certain awards resulting in additional compensation expense of $0.4 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 Per Share	Performance Stock Units	Weighted Average Grant Date Fair Value
Outstanding - December 28, 2019	82	$ 52.73	169	$ 55.92
Units granted	25	91.35	44	85.60
Units vested	(40)	44.45	(53)	41.54
Units canceled	(12)	64.03	(8)	66.04
Outstanding - September 26, 2020	55	$ 74.04	152	$ 68.92

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 thirty-nine weeks ended September 26, 2020 vest over a three-year service period. As of September 26, 2020, total unrecognized compensation expense related to unvested RSUs was $3.1 million, which is expected to be recognized over a weighted-average period of 1.7 years.

The Company granted 41,199 PSUs during the thirty-nine weeks ended September 26, 2020 that are based on a service condition and a performance vesting condition based on the achievement of certain adjusted EBITDA targets over a performance period of three years (the "TSR PSUs"). The maximum vesting percentage that could be realized for each of the TSR PSUs is 250% based on the level of performance achieved for the respective awards, as well as a market vesting condition linked to the level of total stockholder return received by the Company's stockholders during the performance period measured against the companies in the S&P 600 Restaurant Index. The TSR PSUs were valued based on a Monte Carlo simulation model to reflect the impact of the total stockholder return market condition, resulting in a grant-date fair value range of $0.00 to $311.72 per unit based on the outcome of the performance condition. The probability of satisfying a market condition is considered in the estimation of the grant-date fair value for TSR PSUs and the compensation cost is not reversed if the market condition is not achieved, provided the requisite service has been provided.

The compensation expense related to the 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 September 26, 2020, total unrecognized compensation expense related to unvested PSUs was $9.1 million.

(9) Company-owned Restaurant Transactions

During the second fiscal quarter 2020, the Company completed the sale of two company-owned restaurants to an existing franchisee for aggregate proceeds of $2.3 million. In connection with the sale of the restaurants, the Company recorded a $2.0 million pre-tax gain on the sale of the related assets and liabilities, which was net of a $28,000 reduction in goodwill. The net gain on these store sales was recorded in Selling, general and administrative expense in the Company's Consolidated Statements of Operations.

During the third fiscal quarter 2020, the Company completed the sale of five company-owned restaurants to an existing franchisee for aggregate proceeds of $2.5 million. In connection with the sale of the restaurants, the Company recorded a $1.2 million pre-tax gain on the sale of the related assets and liabilities, which was net of a $30,000 reduction in goodwill. The net gain on these restaurants was recorded in Selling, general and administrative expense in the Company's Consolidated Statements of Operations.

On August 31, 2020, the Company acquired five existing restaurants from a franchisee. The total purchase price was $5.6 million, which was funded by cash flows from operations. The following table summarizes the preliminary allocations of the purchase price to the estimated fair value of assets acquired and liabilities assumed at the date of the acquisition (in thousands):

	Purchase Price Allocation	
Working capital	$	35
Property and equipment		622
Reacquired franchise rights		1,816
Goodwill		3,162
Operating lease right-of-use assets		1,195
Operating lease liabilities		(1,195)
Total purchase price	$	5,635

The estimates of fair value are preliminary, and are therefore subject to further refinement. The excess of the purchase price over the aggregate fair value of assets acquired was allocated to goodwill and is attributable to the benefits expected as a result of the acquisition, including sales and unit growth opportunities. Approximately $3.2 million of the goodwill from the acquisition is expected to be deductible for federal income tax purposes.

Pro-forma financial information of the combined entities is not presented due to the immaterial impact of the financial results of the acquired restaurant on our consolidated financial statements.

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

(10) Revenue from Contracts with Customers

The following table represents a disaggregation of revenue from contracts with customers for the thirteen and thirty-nine weeks ended September 26, 2020 and September 28, 2019 (in thousands):

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Royalty revenue	$ 26,007	$ 19,065	$ 72,761	$ 55,409
Advertising fees and related income	19,653	14,056	55,590	40,753
Franchise fees	1,151	875	2,914	3,396

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 thirty-nine weeks ended September 26, 2020 was included in the deferred revenue balance as of December 28, 2019. Approximately $8.6 million and $8.3 million of deferred revenue as of September 26, 2020 and December 28, 2019, 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 7.2 years. The Company did not have any material contract assets as of September 26, 2020.

(11) Subsequent Events

On October 30, 2020, the Company completed a transaction to refinance its existing securitized financing facility with a new securitized financing facility, pursuant to which Wingstop Funding LLC (the "Issuer”), a limited-purpose, bankruptcy-remote, wholly-owned indirect subsidiary of the Company, issued $480.0 million of its Series 2020-1 2.84% Fixed Rate Senior Notes, Class A-2 (the "2020 Class A-2 Notes"). The Issuer also entered into a revolving financing facility of Series 2020-1 Variable Funding Senior Notes, Class A-1 which permits borrowings of up to a maximum principal amount of $50.0 million, which may be used to issue letters of credit. A portion of the proceeds of the 2020 Class A-2 Notes was used to repay the $332.8 million of principal outstanding on the existing 2018 Class A-2 Notes and 2018 Variable Funding Notes, together with accrued and unpaid interest and make-whole prepayment consideration due thereon, and to pay related transaction fees. The Company intends to use the additional net proceeds to strengthen its liquidity position and for general corporate purposes, including a return of capital to the Company’s stockholders (see Note 3).

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 28, 2019 (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 10 of our Annual Report and in Part II, Item 1A. of this Quarterly 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 2020 and 2019 each contain 52 weeks.

Overview

Wingstop is the largest fast casual chicken wings-focused restaurant chain in the world, with over 1,400 locations worldwide. We are dedicated to serving the world flavor through an unparalleled guest experience and offering of classic wings, boneless wings and tenders, always cooked to order and hand-sauced-and-tossed in 11 bold, distinctive flavors.

The Company is primarily a franchisor, with approximately 98% of Wingstop's restaurants currently owned and operated by independent franchisees. We believe our asset-light, highly-franchised business model generates strong operating margins and requires low capital expenditures, creating stockholder value through strong and consistent free cash flow and capital-efficient growth.

Historically, the Company had two reporting segments: franchise operations and company restaurant operations. In accordance with Accounting Standards Codification 280 "Segment Reporting", the Company uses the management approach for determining its reportable segments. The management approach is based upon the way management reviews performance and allocates resources. During the second fiscal quarter of 2020, the Company reevaluated its operating segments and determined it has one operating segment and one reporting segment due to changes in how the Company's chief operating decision maker assesses the Company's performance and allocates resources.

Impact of COVID-19

In March 2020, the novel coronavirus ("COVID-19") outbreak was declared a pandemic by the World Health Organization, significantly changing consumer behaviors as individuals are being encouraged to practice social distancing. This has also led to restaurants reducing restaurant seating capacity, and in some cases restaurant closures, due to various restrictions mandated by governments around the world. As of March 16, 2020, we made the decision to close our domestic dining rooms and limit our service to carryout and delivery only. Several of our international markets also closed their dining rooms as a result of the outbreak. As of the end of the third quarter of 2020, approximately four of our international restaurants and one domestic restaurant were temporarily closed. While we cannot predict the extent to which COVID-19 will impact our business or the global economy, we believe our business is well-positioned for the transition to largely off-premise dining that has resulted from the outbreak. Prior to the COVID-19 outbreak, carry-out and delivery represented approximately 80% of our domestic sales mix, and our digital sales mix was just over 40%. As a result of the required changes to consumer behavior to largely off-premise dining, as well as promotional activities associated with delivery, we have seen an increase in domestic same store sales growth through the end of the third quarter of 2020. Our international markets, which have historically had a higher mix of dine-in sales, have seen an overall decline in same store sales growth due to the required closure of dining rooms and in some cases temporary restaurant closures. In the third quarter of 2020, the decline in same store sales lessened due to the reopening and resumption of normal store hours at the majority of our international franchised stores that had been temporarily closed for portions of the prior quarter. We did not experience difficulties with our supply chain as a result of COVID-19 during the first three quarters of 2020; however, there can be no assurances that we will not experience supply chain challenges in the future. Lastly, to further secure our liquidity position and provide financial flexibility in light of uncertain market conditions, we borrowed $16 million under our Variable Funding Notes (as defined below) in the first quarter of 2020, providing the Company with an unrestricted cash balance of approximately $48.2 million as of September 26, 2020. See *"Liquidity and Capital Resources"* below for further details.

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		Thirty-Nine Weeks Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Domestic Franchised Activity:				
Beginning of period	1,244	1,139	1,200	1,095
Openings	34	31	79	80
Closures	(1)	—	(4)	(5)
Acquired by Company	(5)	(1)	(5)	(1)
Re-franchised by Company	5	—	7	—
Restaurants end of period	1,277	1,169	1,277	1,169
Domestic Company-Owned Activity:				
Beginning of period	30	29	31	29
Openings	1	—	2	—
Closures	—	—	—	—
Acquired by Company	5	1	5	1
Re-franchised to franchisees	(5)	—	(7)	—
Restaurants end of period	31	30	31	30
Total Domestic Restaurants	**1,308**	**1,199**	**1,308**	**1,199**
International Franchised Activity:				
Beginning of period	162	135	154	128
Openings	10	7	18	18
Closures	(1)	(1)	(1)	(5)
Restaurants end of period	171	141	171	141
Total System-wide Restaurants	**1,479**	**1,340**	**1,479**	**1,340**

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 permanent 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, costs and fees associated with investments in our strategic initiatives, 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 thirty-nine weeks ended September 26, 2020 and September 28, 2019 (dollars in thousands):

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Number of system-wide restaurants open at end of period	1,479	1,340	1,479	1,340
System-wide sales [1]	$ 509,155	$ 383,469	$ 1,448,108	$ 1,117,341
Domestic restaurant AUV	$ 1,435	$ 1,219	$ 1,435	$ 1,219
Domestic same store sales growth	25.4 %	12.3 %	22.5 %	10.7 %
Company-owned domestic same store sales growth	15.2 %	11.9 %	15.3 %	10.1 %
Total revenue	$ 63,988	$ 49,875	$ 185,529	$ 146,490
Net income	$ 10,081	$ 5,905	$ 29,716	$ 17,429
Adjusted EBITDA [2]	$ 18,409	$ 15,400	$ 55,654	$ 42,835

(1) The percentage of system-wide sales attributable to company-owned restaurants was 3.2% and 3.7% for the thirteen weeks ended September 26, 2020 and September 28, 2019, respectively, and was 3.4% and 3.8% for the thirty-nine weeks ended September 26, 2020 and September 28, 2019, 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 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 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, costs and fees associated with investments in our strategic initiatives, gains and losses on the disposal of assets, and stock-based compensation expense. It is reasonable to expect that this item 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 thirty-nine weeks ended September 26, 2020 and September 28, 2019 (in thousands):

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Net income	$ 10,081	$ 5,905	$ 29,716	$ 17,429
Interest expense, net	4,405	4,243	12,764	12,952
Income tax expense	(185)	1,801	4,829	3,626
Depreciation and amortization	2,334	1,408	5,287	4,019
EBITDA	$ 16,635	$ 13,357	$ 52,596	$ 38,026
Additional adjustments:				
Gain on disposal of assets [a]	(1,233)	—	(3,249)	—
Stock-based compensation expense [b]	3,007	2,043	6,307	4,809
Adjusted EBITDA	$ 18,409	$ 15,400	$ 55,654	$ 42,835

[a] Represents a gain resulting from the re-franchise of company-owned restaurants to franchisees which is included in Selling, general and administrative expense in the Consolidated Statements of Operations.
[b] Includes non-cash, stock-based compensation.

Results of Operations

Thirteen Weeks Ended September 26, 2020 compared to Thirteen Weeks Ended September 28, 2019

The following table sets forth our results of operations for the thirteen weeks ended September 26, 2020 and September 28, 2019 (dollars in thousands):

	Thirteen Weeks Ended		Increase / (Decrease)	
	September 26, 2020	September 28, 2019	$	%
Revenue:				
Royalty revenue, franchise fees and other	$ 28,806	$ 21,876	$ 6,930	31.7 %
Advertising fees and related income	19,653	14,056	5,597	39.8 %
Company-owned restaurant sales	15,529	13,943	1,586	11.4 %
Total revenue	63,988	49,875	14,113	28.3 %
Costs and expenses:				
Cost of sales [(1)]	11,804	10,339	1,465	14.2 %
Advertising expenses	18,267	12,652	5,615	44.4 %
Selling, general and administrative	17,282	13,527	3,755	27.8 %
Depreciation and amortization	2,334	1,408	926	65.8 %
Total costs and expenses	49,687	37,926	11,761	31.0 %
Operating income	14,301	11,949	2,352	19.7 %
Interest expense, net	4,405	4,243	162	3.8 %
Income before income tax expense	9,896	7,706	2,190	28.4 %
Income tax expense (benefit)	(185)	1,801	(1,986)	(110.3)%
Net income	$ 10,081	$ 5,905	$ 4,176	70.7 %

[(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 September 26, 2020, total revenue was $64.0 million, an increase of $14.1 million, or 28.3%, compared to $49.9 million in the comparable period in 2019.

Royalty revenue, franchise fees and other. During the thirteen weeks ended September 26, 2020, royalty revenue, franchise fees and other was $28.8 million, an increase of $6.9 million, or 31.7%, compared to $21.9 million in the comparable period in 2019. Royalty revenue increased primarily due to domestic same store sales growth of 25.4% as well as 138 net franchise restaurant openings since September 28, 2019.

Advertising fees and related income. During the thirteen weeks ended September 26, 2020, advertising fees and related income was $19.7 million, an increase of $5.6 million, compared to $14.1 million in the comparable period in 2019. Advertising fees increased primarily due the 32.8% increase in system-wide sales in the thirteen weeks ended September 26, 2020 compared to the thirteen weeks ended September 28, 2019.

Company-owned restaurant sales. During the thirteen weeks ended September 26, 2020, company-owned restaurant sales were $15.5 million, an increase of $1.6 million, or 11.4%, compared to $13.9 million in the comparable period in 2019. The increase was primarily due to company-owned same store sales growth of 15.2%, which was driven by both an increase in transaction size and an increase in transactions. Also contributing to the increase was the acquisition of five corporate restaurants and the opening of three corporate restaurants since the prior year comparable period, resulting in additional sales of $1.1 million. These increases were partially offset by the re-franchising of seven corporate restaurants since the prior year comparable period, resulting in a decline in sales of $1.4 million.

Cost of sales. During the thirteen weeks ended September 26, 2020, cost of sales was $11.8 million, an increase of $1.5 million, or 14.2%, compared to $10.3 million in the comparable period in 2019. Cost of sales as a percentage of company-owned restaurant sales was 76.0% in the thirteen weeks ended September 26, 2020, compared to 74.2% in the comparable period in 2019.

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

	Thirteen Weeks Ended			
	September 26, 2020		September 28, 2019	
	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	$ 5,655	36.4 %	$ 5,162	37.0 %
Labor costs	3,944	25.4 %	3,098	22.2 %
Other restaurant operating expenses	2,512	16.2 %	2,456	17.6 %
Vendor rebates	(307)	(2.0) %	(377)	(2.7) %
Total cost of sales	$ 11,804	76.0 %	$ 10,339	74.2 %

Food, beverage and packaging costs as a percentage of company-owned restaurant sales were 36.4% in the thirteen weeks ended September 26, 2020, compared to 37.0% in the comparable period in 2019. The decrease was primarily due to a 1.4% decrease 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 25.4% for the thirteen weeks ended September 26, 2020, compared to 22.2% in the comparable period in 2019. The increase as a percentage of company-owned restaurant sales was primarily due to additional incentive pay provided to team members during the COVID-19 pandemic. This was partially offset by our ability to leverage costs due to the increase in company-owned same store sales of 15.2%.

Other restaurant operating expenses as a percentage of company-owned restaurant sales were 16.2% for the thirteen weeks ended September 26, 2020, compared to 17.6% in the comparable period in 2019. The decrease as a percentage of company-owned restaurant sales was a result of our ability to leverage costs due to the increase in company-owned same store sales of 15.2%.

Advertising expenses. During the thirteen weeks ended September 26, 2020, advertising expenses were $18.3 million, an increase of $5.6 million compared to $12.7 million in the comparable period in 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 ("SG&A"). During the thirteen weeks ended September 26, 2020, SG&A expense was $17.3 million, an increase of $3.8 million compared to $13.5 million in the comparable period in 2019. The increase in SG&A expense was primarily due to approximately $3.4 million in higher variable-based compensation expense, inclusive of stock-based compensation expense, and $1.0 million in headcount-related expenses to support the growth in our business. We also incurred expenses of $0.5 million related to COVID-19 and support provided to international franchisees. These increases were partially offset by a gain of $1.2 million recognized due to the re-franchising of five company-owned restaurants.

Depreciation and amortization. During the thirteen weeks ended September 26, 2020, depreciation expense was $2.3 million, an increase of $0.9 million compared to $1.4 million in the comparable period in 2019. The increase in depreciation and amortization was primarily due to accelerated depreciation on certain assets.

Interest expense, net. During the thirteen weeks ended September 26, 2020, interest expense, net was $4.4 million, an increase of $0.2 million compared to $4.2 million of interest expense, net in the comparable period in 2019. The increase in interest expense, net was primarily due to a higher average outstanding debt balance from the prior year comparable period.

Income tax expense (benefit). During the thirteen weeks ended September 26, 2020, we recognized an income tax benefit of $0.2 million yielding an effective tax rate of (1.9)%, compared to an effective tax rate of 23.4% in the prior year period. The decrease in the effective tax rate was due to the impact of excess tax benefits associated with stock options exercised.

Thirty-Nine Weeks Ended September 26, 2020 compared to Thirty-Nine Weeks Ended September 28, 2019

The following table sets forth our results of operations for the thirty-nine weeks ended September 26, 2020 and September 28, 2019 (dollars in thousands):

	Thirty-Nine Weeks Ended		Increase / (Decrease)	
	September 26, 2020	**September 28, 2019**	**$**	**%**
Revenue:				
Royalty revenue, franchise fees and other	$ 80,863	$ 64,391	$ 16,472	25.6 %
Advertising fees and related income	55,590	40,753	14,837	36.4 %
Company-owned restaurant sales	49,076	41,346	7,730	18.7 %
Total revenue	185,529	146,490	39,039	26.6 %
Costs and expenses:				
Cost of sales (1)	36,367	30,642	5,725	18.7 %
Advertising expenses	51,780	38,359	13,421	35.0 %
Selling, general and administrative	44,786	39,463	5,323	13.5 %
Depreciation and amortization	5,287	4,019	1,268	31.6 %
Total costs and expenses	138,220	112,483	25,737	22.9 %
Operating income	47,309	34,007	13,302	39.1 %
Interest expense, net	12,764	12,952	(188)	(1.5)%
Income before income tax expense	34,545	21,055	13,490	64.1 %
Income tax expense	4,829	3,626	1,203	33.2 %
Net income	$ 29,716	$ 17,429	$ 12,287	70.5 %

(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 thirty-nine weeks ended September 26, 2020, total revenue was $185.5 million, an increase of $39.0 million, or 26.6%, compared to $146.5 million in the comparable period in 2019.

Royalty revenue, franchise fees and other. During the thirty-nine weeks ended September 26, 2020, royalty revenue, franchise fees and other was $80.9 million, an increase of $16.5 million, or 25.6%, compared to $64.4 million in the comparable period in 2019. Royalty revenue increased due to 138 net franchise restaurant openings since September 28, 2019 and domestic same store sales growth of 22.5%.

Advertising fees and related income. During the thirty-nine weeks ended September 26, 2020, advertising fees and related income was $55.6 million, an increase of $14.8 million, or 36.4%, compared to $40.8 million in the comparable period in 2019. Advertising fees increased primarily due to the 29.6% increase in system-wide sales in the thirty-nine weeks ended September 26, 2020 compared to the thirty-nine weeks ended September 28, 2019.

Company-owned restaurant sales. During the thirty-nine weeks ended September 26, 2020, company-owned restaurant sales were $49.1 million, an increase of $7.7 million, or 18.7%, compared to $41.3 million in the comparable period in 2019. The increase was primarily due an increase in company-owned same store sales of 15.3%, which was driven by both an increase in transaction size and transactions. Also contributing to the increase was the acquisition of five corporate restaurants and the opening of three corporate restaurants since the prior year comparable period, resulting in additional sales of $3.1 million. These increases were partially offset by the re-franchising of seven corporate restaurants since the prior year comparable period, resulting in a decline in sales of $0.8 million.

Cost of sales. During the thirty-nine weeks ended September 26, 2020, cost of sales was $36.4 million, an increase of $5.7 million, or 18.7%, compared to $30.6 million in the comparable period in 2019. Cost of sales as a percentage of company-owned restaurant sales was 74.1% in the thirty-nine weeks ended September 26, 2020 and September 28, 2019.

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

	Thirty-Nine Weeks Ended			
	September 26, 2020		September 28, 2019	
	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	$ 17,085	34.8 %	$ 15,184	36.7 %
Labor costs	12,156	24.8 %	9,314	22.5 %
Other restaurant operating expenses	8,164	16.6 %	7,289	17.6 %
Vendor rebates	(1,038)	(2.1) %	(1,145)	(2.8) %
Total cost of sales	$ 36,367	74.1 %	$ 30,642	74.1 %

Food, beverage and packaging costs as a percentage of company-owned restaurant sales were 34.8% in the thirty-nine weeks ended September 26, 2020, compared to 36.7% in the comparable period in 2019. The decrease was primarily due to a 10.4% decrease 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 24.8% for the thirty-nine weeks ended September 26, 2020, compared to 22.5% in the comparable period in 2019. The increase was primarily due to additional incentive pay provided to team members during the COVID-19 pandemic. These increases were partially offset by our ability to leverage costs due to the increase in company-owned same store sales of 15.3%.

Other restaurant operating expenses as a percentage of company-owned restaurant sales were 16.6% for the thirty-nine weeks ended September 26, 2020, compared to 17.6% in the comparable period in 2019. The decrease as a percentage of company-owned restaurant sales was due to sales leverage achieved as a result of the increase in company-owned same store sales of 15.3%. This decrease was slightly offset by an increase in delivery fees payable to third-party delivery providers due to the growth in delivery mix as a percent of total sales during the thirty-nine weeks ended September 26, 2020.

Advertising expenses. During the thirty-nine weeks ended September 26, 2020, advertising expenses were $51.8 million, an increase of $13.4 million, or 35.0%, compared to $38.4 million in the comparable period in 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 thirty-nine weeks ended September 26, 2020, SG&A expense was $44.8 million, an increase of $5.3 million, or 13.5%, compared to $39.5 million in the comparable period in 2019. The increase in SG&A expense was primarily due to approximately $4.3 million in higher variable performance-based compensation expense, inclusive of stock-based compensation expense, and $1.9 million in headcount-related expenses to support the growth in our business. We also incurred expenses of $1.1 million related to COVID-19 and support provided to international franchisees and a one-time donation to the National Restaurant Employee Relief Fund of $1.0 million to support restaurant workers in times of need. These increases were partially offset by a gain of $3.2 million recognized due to the re-franchising of seven company-owned restaurants.

Depreciation and amortization. During the thirty-nine weeks ended September 26, 2020, depreciation and amortization expense was $5.3 million, an increase of $1.3 million, or 31.6%, compared to $4.0 million in the comparable period in 2019. The increase in depreciation and amortization expense was primarily due to accelerated depreciation on certain assets.

Interest expense, net. During the thirty-nine weeks ended September 26, 2020, interest expense, net was $12.8 million, a decrease of $0.2 million, or 1.5%, compared to $13.0 million in the comparable period in 2019. The decrease in interest expense, net was primarily due to a lower average outstanding debt balance from the prior year comparable period.

Income tax expense. Income tax expense was $4.8 million in the thirty-nine weeks ended September 26, 2020, yielding an effective tax rate of 14.0%, compared to an effective tax rate of 17.2% in the prior year period. The decrease in the effective tax rate was primarily due to the impact of excess tax benefits associated with stock options exercised during the period.

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 with negative working capital. We have in the past, and may in the future, refinance our existing indebtedness with new debt arrangements and/or equity issuances and utilize a portion of funds to return capital to our stockholders. We believe 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 thirty-nine weeks ended September 26, 2020 and September 28, 2019 (in thousands):

	Thirty-Nine Weeks Ended	
	September 26, 2020	**September 28, 2019**
Net cash provided by (used in):		
Operating activities	$ 46,779	$ 28,586
Investing activities	(4,564)	(22,311)
Financing activities	5,068	(5,752)
Net change in cash and cash equivalents	$ 47,283	$ 523

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 $46.8 million in the thirty-nine weeks ended September 26, 2020, an increase of $18.2 million from cash provided by operating activities of $28.6 million in the thirty-nine weeks ended September 28, 2019. The increase is the result of increased operating income associated with the increased sales over the prior period, coupled with the increase in working capital due to timing of payments associated with our national advertising campaign.

Investing activities. Our net cash used in investing activities was $4.6 million in the thirty-nine weeks ended September 26, 2020, a decrease of $17.7 million from cash used in investing activities of $22.3 million in the thirty-nine weeks ended September 28, 2019. The decrease in cash used in investing activities was primarily due to the purchase of a new corporate headquarters building for $18.3 million during the thirty-nine weeks ended September 28, 2019.

Financing activities. Our net cash provided by financing activities was $5.1 million in the thirty-nine weeks ended September 26, 2020, an increase of $10.8 million from cash used in financing activities of $5.8 million in 2019. The increase was primarily due to additional borrowings under our 2018 Variable Funding Notes (as defined below) of $16.0 million in the thirty-nine weeks ended September 26, 2020, partially offset by an increase in the amount of our regular dividend.

Securitized financing facility. On October 30, 2020, the Company completed a transaction to refinance its existing securitized financing facility with a new securitized financing facility, pursuant to which Wingstop Funding LLC (the "Issuer"), a limited-purpose, bankruptcy-remote, wholly-owned indirect subsidiary of the Company, issued $480.0 million of its Series 2020-1 2.84% Fixed Rate Senior Notes, Class A-2 (the "2020 Class A-2 Notes"). The Issuer also entered into a revolving financing facility of Series 2020-1 Variable Funding Senior Notes, Class A-1 which permits borrowings of up to a maximum principal amount of $50.0 million, which may be used to issue letters of credit (the "2020 Variable Funding Notes" and, together with the 2020 Class A-2 Notes, the "2020 Notes"). A portion of the proceeds of the 2020 Class A-2 Notes was used to repay the $332.8 million of principal outstanding on the existing 2018 Class A-2 Notes and 2018 Variable Funding Notes"), together with accrued and unpaid interest and make-whole prepayment consideration due thereon, and to pay related transaction fees. The Company intends to use the additional net proceeds to strengthen its liquidity position and for general corporate purposes, including a return of capital to the Company's stockholders.

The 2020 Class A-2 Notes are generally subject to 1% annual amortization, bear interest at a fixed rate of 2.84% per annum, and have an anticipated repayment date of December 2027.

Borrowings under the 2020 Variable Funding Notes accrue interest at a variable rate based on (i) the prime rate, (ii) overnight federal funds rates, (iii) the London interbank offered rate for U.S. Dollars or (iv) with respect to advances made by conduit investors, the weighted average cost of, or related to, the issuance of commercial paper allocated to fund or maintain such advances, in each case plus any applicable margin, as more fully set forth in the Variable Funding Note Purchase Agreement, dated October 30, 2020. Interest payments on the 2020 Notes are payable on a quarterly basis.

As of September 26, 2020, we had $16.0 million outstanding borrowings under the 2018 Variable Funding Notes, with $4.0 million letters of credit outstanding, and $316.8 million outstanding under the 2018 Class A-2 Notes. There were no amounts drawn down on the letters of credit as of September 26, 2020.

Dividends. We paid a quarterly cash dividend of $0.11 per share of common stock in each of the first two quarters of 2020, and a quarterly cash dividend of $0.14 per share of common stock in the third quarter of 2020, resulting in aggregate dividend payments of $10.7 million, or $0.36 per share of common stock, during the thirty-nine weeks ended September 26, 2020. On November 2, 2020, the Company's Board of Directors announced a quarterly dividend of $0.14 per share of common stock, payable to stockholders of record as of November 20, 2020. The regular quarterly dividend is to be paid on December 10, 2020, totaling approximately $4.2 million.

On October 30, 2020, in conjunction with the completion of a transaction to refinance the Company's existing securitized financing facility, the Company's Board of Directors declared a special dividend of $5.00 per share of common stock, payable to stockholders of record as of November 20, 2020. The special dividend is to be paid on December 3, 2020, totaling approximately $149 million.

We do not currently expect the restrictions in our debt instruments to impact our ability to make regular 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

During the thirteen weeks ended September 26, 2020, there were 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 our Annual Report. For additional information regarding our long-term debt and our commitments and contingencies, see Note 10, *Debt Obligations* and Note 12, *Commitments and Contingencies* in our 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

The Company is required to provide standby letters of credit related to our securitized financing facility. Although the letters of credit are off-balance sheet, the obligations to which they relate are reflected as liabilities in the Consolidated Balance Sheet. Outstanding letters of credit totaled $4.0 million at September 26, 2020. We do not believe these arrangements have or are likely to have a material effect on our results of operations, financial condition, revenues or expenses, capital expenditures or liquidity.

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

The Company has reviewed all recently issued, but not yet effective, accounting pronouncements and does not believe the future adoption of any such pronouncements may be expected to cause a material impact on its financial condition or the results of its operations.

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 Part II, 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:

- the impacts of the novel coronavirus (COVID-19) pandemic on our business;
- the response of governments and of our Company to the pandemic;
- 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, including availability of food products;
- 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 and third-party delivery service providers;
- 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;
- risks associated with our expansion into international markets and foreign government restrictions on operations;
- 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 and Part II, Item 1A. in this Quarterly 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 26.2% and 28.4% of our company-owned restaurant cost of sales during the thirty-nine weeks ended September 26, 2020 and September 28, 2019, respectively. A hypothetical 10% increase in the bone-in chicken wing costs would have increased costs of sales by approximately $1.0 million during the thirty-nine weeks ended September 26, 2020. 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 of September 26, 2020, the Company was exposed to interest rate risk on borrowings under the 2018 Variable Funding Notes. As of September 26, 2020, the Company had borrowings of $16.0 million under the 2018 Variable Funding Notes and $4.0 million of letters of credit outstanding. A hypothetical increase or decrease of 100 basis points on the variable rate under the 2018 Variable Funding Notes as of September 26, 2020 would not materially affect our results of operations or cash flows.

The majority of our long-term debt consisted of the $316.8 million outstanding under the 2018 Class A-2 Notes as of September 26, 2020 (excluding unamortized debt issuance costs and the effect of purchase accounting adjustments). The Company's fixed rate securitized debt exposes the Company to changes in market interest rates reflected in the fair value of the debt and to the risk that the Company may need to refinance maturing debt with new debt at a higher rate.

On October 30, 2020, the Company completed a transaction to refinance its existing securitized financing facility with a new securitized financing facility, pursuant to which the Issuer issued the 2020 Class A-2 Notes and entered into a revolving financing facility of 2020 Variable Funding Notes that permit borrowings of up to a maximum principal amount of $50.0 million. The new securitized financing facility exposes the Company to substantially the same interest rate risks as discussed above.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 26, 2020, 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

The Company is providing this additional risk factor to supplement the risk factors contained in Part I, Item 1A. of our Annual Report.

Public health epidemics or outbreaks, such as COVID-19, could materially and adversely impact our business.

The pandemic novel coronavirus (COVID-19) outbreak, federal, state and local government responses to COVID-19 and our Company's response to the outbreak have all disrupted and will continue to disrupt our business. In the United States and throughout much of the world, individuals are being encouraged to practice social distancing, restricted from gathering in groups and, in some areas, placed on complete restriction from non-essential movements outside of their homes. In response to the COVID-19 outbreak and these changing conditions, we closed the dining rooms in all of our domestic, which at the time represented approximately 20% of our domestic system sales, and also closed the dining rooms in some of our international restaurants in the first quarter. We have also incurred additional operating expenses at our company-owned restaurants due to the payment of increased incentive compensation to our full-time team members in light of COVID-19 and increased Selling, general and administrative expense due to COVID-19-related support provided to international franchisees. The COVID-19 outbreak and these responses to date have affected and will continue to adversely affect our guest traffic, international sales, and operating costs and we cannot predict how long the outbreak will last or what other government responses may occur.

The early impact of the COVID-19 outbreak adversely affected our ability to open new restaurants during the months of March and April of 2020. Social distancing and stay-at-home or shelter-in-place orders and mandates as well as construction restrictions related to COVID-19 caused an initial slowdown in planned openings and in construction related processes such as onsite inspections, permitting, and construction completion in some jurisdictions. These changes adversely affected, our ability to grow our business during this time period, and may continue to affect our ability to open new restaurants if stay-at-home or shelter-in-place orders are reinstated.

Disruptions in operations for a significant amount of time due to COVID-19-related social distancing, or other movement restricting policies put in place in an effort to slow the spread of COVID-19, could impact our revenues or result in our providing payment relief or other forms of support to franchisees, and may materially adversely affect our business and results of operations. Restaurant operations could be further disrupted if any employees are diagnosed with COVID-19 since this could require some or all of a restaurant's employees to be quarantined and restaurant facilities to be closed to disinfect. If a significant percentage of the workforce is unable to work, whether because of illness, quarantine, limitations on travel, or other government restrictions in connection with COVID-19, operations may be negatively impacted, potentially adversely affecting our liquidity, financial condition or results of operations. In addition, any report or publicity linking our facilities to instances of coronavirus exposure could adversely impact our brand and reputation as well as our revenue and profits.

In addition, our suppliers could be adversely impacted by the COVID-19 outbreak. If our suppliers' employees are unable to work, whether because of illness, quarantine, limitations on travel or other government restrictions in connection with COVID-19, we could face shortages of food items or other supplies at our or our franchisees' restaurants, and our and our franchisees' operations and sales could be adversely impacted by such supply interruptions.

If the business interruptions caused by COVID-19 last longer than we expect, we or our franchisees may need to seek other sources of liquidity. The COVID-19 outbreak is adversely affecting the availability of liquidity generally in the credit markets, and there can be no guarantee that additional liquidity, whether through the credit markets or government programs, will be readily available or available on favorable terms, especially the longer the COVID-19 outbreak lasts.

The ultimate impact of the COVID-19 pandemic on the Company's operations is unknown and will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the COVID-19 outbreak, new information which may emerge concerning the severity of the COVID-19 pandemic, and any additional preventative and protective actions that governments, or the Company, may direct, which may result in an extended period of continued business disruption, reduced customer traffic, and reduced operations. Both franchised restaurants and company-owned restaurants, across all geographies, have been impacted, and management expects that they will continue to be impacted to some degree, but the significance of the impact of the COVID-19 outbreak on the Company's business and the duration for which it may have an impact cannot be determined at this time.

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., as amended through June 15, 2020, filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 27, 2020 (File No. 001-37425) and incorporated by reference herein.
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.
4.1	Amended and Restated Base Indenture, dated as of October 30, 2020, by and between Wingstop Funding LLC, as Issuer, and Citibank, N.A., as Trustee and Securities Intermediary, filed as Exhibit 4.1 to the Current Report on Form 8-K (File No. 001-37425) of the Company on November 2, 2020 and incorporated herein by reference.
4.2	Series 2020-1 Supplement to Base Indenture, dated as of October 30, 2020, by and between Wingstop Funding LLC, as Issuer of the Series 2020-1 fixed rate senior secured notes, Class A-2, and Series 2020-1 variable funding senior secured notes, Class A-1, and Citibank, N.A., as Trustee and Series 2020-1 Securities Intermediary, filed as Exhibit 4.2 to the Current Report on Form 8-K (File No. 001-37425) of the Company on November 2, 2020 and incorporated herein by reference.
10.1	Purchase Agreement, dated as of October 9, 2020, by and among the Company, certain indirect subsidiaries of the Company party thereto and Barclays Capital Inc., filed as Exhibit 10.1 to the Current Report on Form 8-K (File No. 001-37425) of the Company on October 9, 2020 and incorporated herein by reference.
10.2	Class A-1 Note Purchase Agreement, dated as of October 30, 2020, by and among Wingstop Funding LLC, as Issuer, each of Wingstop Guarantor LLC and Wingstop Franchising LLC, as Guarantor, Wingstop Restaurants Inc., as Manager, the conduit investors party thereto, the financial institutions party thereto, certain funding agents, Barclays Bank PLC, Swingline Lender and Administrative Agent, and Barclays Bank PLC, New York Branch, as L/C Provider, filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-37425) on November 2, 2020 and incorporated herein by reference.
10.3	Guarantee and Collateral Agreement, dated as of October 30, 2020, by and among Wingstop Guarantor LLC and Wingstop Franchising LLC, each as a Guarantor, in favor of Citibank, N.A., as Trustee, filed as Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 001-37425) on November 2, 2020 and incorporated herein by reference.
10.4	Management Agreement, dated as of October 30, 2020, by and among Wingstop Funding LLC, Wingstop Franchising LLC, Wingstop Guarantor LLC, Wingstop Restaurants Inc., as Manager, and Citibank, N.A., as Trustee, filed as Exhibit 10.3 to the Company's Current Report on Form 8-K (File No. 001-37425) on November 2, 2020 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
104*	Cover Page Interactive Data File (formatted as Inline XBRL and Contained in Exhibit 101)

* Filed herewith.
** Furnished, not filed.

Signatures

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

Wingstop Inc.
(Registrant)

Date: November 2, 2020

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

Date: November 2, 2020

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: November 2, 2020

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: November 2, 2020

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 September 26, 2020 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: November 2, 2020

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 September 26, 2020 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: November 2, 2020

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