

REFINITIV

# DELTA REPORT

## 10-Q

FIRST WATCH RESTAURANT GR

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 24, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	933
CHANGES	165
DELETIONS	411
ADDITIONS	357

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

FORM 10-Q

(Mark One)

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

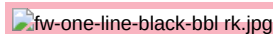
For the quarterly period ended **September 24, 2023** **March 31, 2024**

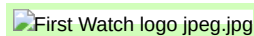
OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-40866





**First Watch Restaurant Group, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**82-4271369**

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

**8725 Penderly Place, Suite 201, Bradenton, FL 34201**

(Address of Principal Executive Offices) (Zip Code)

**(941) 907-9800**

(Registrant's telephone number, including area code)

**N/A**

(Former name, former address and former fiscal year, if changed since last report)

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, \$0.01 par value**

**FWRG**

**The Nasdaq Stock Market LLC  
(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 and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

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 Act). Yes ☐ No ☒

The registrant had outstanding **59,817,629** **60,372,531** shares of common stock as of **October 30, 2023** **May 3, 2024**.

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### Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q ("Form 10-Q") contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 ("PSLRA"), which are subject to known and unknown risks, uncertainties and other important factors that may cause actual results to be materially different from the statements made herein. All statements other than statements of historical fact are forward-looking statements. Forward-looking statements discuss our current expectations and projections relating to our financial position, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to any historical or current facts. These statements may include words such as "aim," "anticipate," "believe," "estimate," "expect," "forecast," "future," "intend," "outlook," "potential," "project," "projection," "plan," "seek," "may," "could," "would," "will," "should," "can," "can have," "likely," the negatives thereof and other similar expressions. You should evaluate all forward-looking statements made in this Form 10-Q in the context of the risks and uncertainties disclosed herein, including under Part I. Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Part II. Item 1A. "Risk Factors", and in our Annual Report on Form 10-K as of and for the year ended **December 25, 2022** **December 31, 2023** ("2022 2023 Form 10-K"), including under Part I. Item 1A. "Risk Factors" and Part II. Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations." Important factors that could cause actual results to differ materially from those in the forward-looking statements include the following: uncertainty regarding the Russia and Ukraine war, **renewed conflict in the Middle East Israel-Hamas war** and the related impact on macroeconomic conditions, including inflation, as a result of such **conflict conflicts** or other related events; our vulnerability to changes in economic conditions and consumer preferences; our inability to successfully open new restaurants or establish new markets; our inability to effectively manage our growth; **adverse effects of the COVID-19 pandemic or other infectious diseases**; potential negative impacts on sales at our and our franchisees' restaurants as a result of our opening new restaurants; a decline in visitors to any of the retail centers, lifestyle centers, or entertainment centers where our restaurants are located; lower than expected same-restaurant sales growth; unsuccessful marketing programs and limited time new offerings; changes in the cost of food; unprofitability or closure of new restaurants or lower than previously experienced performance in existing restaurants; our inability to compete effectively for customers; unsuccessful financial performance of our franchisees; our limited control over our franchisees' operations; our inability to maintain good relationships with our franchisees; conflicts of interest with our franchisees; the geographic concentration of our system-wide restaurant base in the southeast portion of the United States; damage to our reputation and negative publicity; our inability or failure to recognize, respond to and effectively manage the accelerated impact of social media; our limited number of suppliers and distributors for several of our frequently used ingredients and shortages or disruptions in the supply or delivery of such ingredients; information technology system failures or breaches of our network security; our failure to comply with federal and state laws and regulations relating to privacy, data protection, advertising and consumer protection, or the expansion of current or the enactment of new laws or regulations relating to privacy, data protection, advertising and consumer protection; our potential liability with our gift cards under the property laws of some states; our failure to enforce and maintain our trademarks and protect our other intellectual property; litigation with respect to intellectual property assets; our dependence on our executive officers and certain other key employees; our inability to identify, hire, train and retain qualified individuals for our workforce; our failure to obtain or to properly verify the employment eligibility of our employees; our failure to maintain our corporate culture as we grow; unionization activities among our employees; employment and labor law proceedings; labor shortages or increased labor costs or health care costs; risks associated with leasing property subject to long-term and non-cancelable leases; risks related to our sale of alcoholic beverages; costly and complex compliance with federal, state and local laws; changes in accounting principles applicable to us; our vulnerability to natural disasters, unusual weather conditions, pandemic outbreaks, political events, war and terrorism; our inability to secure additional capital to support business growth; our level of indebtedness; failure to comply with covenants under our credit facility; and the interests of our **majority largest** stockholder may differ from those of public stockholders.

The forward-looking statements included in this Form 10-Q are made only as of the date hereof and are expressly qualified in their entirety by these cautionary statements. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law. All

information presented herein is based on our fiscal calendar. Unless otherwise stated, references to particular years, quarters, months or periods refer to our fiscal years and the associated quarters, months and periods of those fiscal years.

## Part I - Financial Information

### Item 1. Financial Statements (Unaudited)

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

	SEPTEMBER 24, 2023	DECEMBER 25, 2022
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 39,923	\$ 49,672
Restricted cash	326	251
Accounts receivable	4,990	6,164
Inventory	4,791	5,028
Prepaid expenses	4,697	5,800
Derivative assets, current	833	—
Other current assets	3,005	373
Total current assets	58,565	67,288
Goodwill	356,969	345,219
Intangible assets, net	150,280	143,151
Operating lease right-of-use assets	400,764	352,373
Property, fixtures and equipment, net of accumulated depreciation of \$171,582 and \$145,720, respectively	237,527	195,117
Derivative assets, long-term	263	—
Other long-term assets	1,478	1,298
Total assets	\$ 1,205,846	\$ 1,104,446
<b>Liabilities and Equity</b>		
Current liabilities:		
Accounts payable	\$ 5,550	\$ 7,590
Accrued liabilities	33,840	22,729
Accrued compensation	18,258	17,899
Deferred revenues	2,655	5,193
Current portion of operating lease liabilities	42,856	38,936
Current portion of long-term debt	6,891	6,257
Note payable	—	1,376
Total current liabilities	110,050	99,980
Operating lease liabilities	420,496	366,113
Long-term debt, net	90,949	94,668
Deferred income taxes	24,003	17,166
Other long-term liabilities	3,257	3,384
Total liabilities	648,755	581,311
Commitments and contingencies (Note 12)		
Equity:		
Preferred stock; \$0.01 par value; 10,000,000 shares authorized; none issued and outstanding	—	—
Common stock; \$0.01 par value; 300,000,000 shares authorized; 59,794,999 and 59,211,019 shares issued and outstanding at September 24, 2023 and December 25, 2022, respectively	597	592
Additional paid-in capital	631,064	620,675
Accumulated deficit	(75,395)	(98,132)

Accumulated other comprehensive income	825	—
Total equity	557,091	523,135
Total liabilities and equity	\$ 1,205,846	\$ 1,104,446

	MARCH 31, 2024	DECEMBER 31, 2023
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 43,245	\$ 49,632
Restricted cash	258	329
Accounts receivable	4,130	5,532
Inventory	5,198	5,381
Prepaid expenses	8,912	7,494
Derivative assets, current	687	457
Other current assets	1,007	2,365
Total current assets	63,437	71,190
Goodwill	360,981	359,883
Intangible assets, net	151,059	151,186
Operating lease right-of-use assets	422,589	420,001
Property, fixtures and equipment, net of accumulated depreciation of \$191,757 and \$181,481, respectively	276,974	263,082
Other long-term assets	4,216	1,703
Total assets	\$ 1,279,256	\$ 1,267,045
<b>Liabilities and Equity</b>		
Current liabilities:		
Accounts payable	\$ 5,681	\$ 6,324
Accrued liabilities	32,461	35,630
Accrued compensation	20,646	21,711
Deferred revenues	3,341	5,499
Current portion of operating lease liabilities	41,316	40,281
Current portion of long-term debt	3,034	5,628
Total current liabilities	106,479	115,073
Operating lease liabilities	444,384	441,290
Long-term debt, net	122,705	119,767
Deferred income taxes	27,898	25,331
Derivative liabilities	338	1,346
Other long-term liabilities	3,012	2,954
Total liabilities	704,816	705,761
Commitments and contingencies (Note 12)		
Equity:		
Preferred stock; \$0.01 par value; 10,000,000 shares authorized; none issued and outstanding	—	—
Common stock; \$0.01 par value; 300,000,000 shares authorized; 60,372,531 and 59,891,705 shares issued and outstanding at March 31, 2024 and December 31, 2023, respectively	604	599
Additional paid-in capital	639,107	634,099
Accumulated deficit	(65,533)	(72,747)
Accumulated other comprehensive income (loss)	262	(667)
Total equity	574,440	561,284
Total liabilities and equity	\$ 1,279,256	\$ 1,267,045

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

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

		THIRTEEN WEEKS ENDED		THIRTY-NINE WEEKS ENDED	
		SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022
Revenues:	Revenues:				
Revenues:					
Revenues:					
Restaurant sales					
Restaurant sales					
Restaurant sales	Restaurant sales	\$ 215,495	\$ 183,978	\$ 636,050	\$ 536,329
Franchise revenues	Franchise revenues	3,717	2,874	10,868	8,088
Franchise revenues					
Franchise revenues					
Total revenues					
Total revenues					
Total revenues	Total revenues	219,212	186,852	646,918	544,417
Operating costs and expenses:	Operating costs and expenses:				
Operating costs and expenses:					
Restaurant operating expenses (exclusive of depreciation and amortization shown below):					
Restaurant operating expenses (exclusive of depreciation and amortization shown below):					
Restaurant operating expenses (exclusive of depreciation and amortization shown below):	Restaurant operating expenses (exclusive of depreciation and amortization shown below):				
Food and beverage costs	Food and beverage costs	48,709	44,578	143,028	129,200
Food and beverage costs					
Food and beverage costs					
Labor and other related expenses					
Labor and other related expenses					
Labor and other related expenses	Labor and other related expenses	73,137	61,262	212,312	175,091
Other restaurant operating expenses	Other restaurant operating expenses	33,694	29,685	97,572	85,761
Other restaurant operating expenses					
Other restaurant operating expenses					
Occupancy expenses					
Occupancy expenses					
Occupancy expenses	Occupancy expenses	17,555	15,091	49,950	44,318
Pre-opening expenses	Pre-opening expenses	2,035	1,490	4,323	3,569
Pre-opening expenses					
Pre-opening expenses					
General and administrative expenses					
General and administrative expenses					
General and administrative expenses	General and administrative expenses	25,179	21,689	73,168	63,194
Depreciation and amortization	Depreciation and amortization	10,434	8,679	28,992	25,302
Depreciation and amortization					

Depreciation and amortization					
Impairments and loss on disposal of assets					
Impairments and loss on disposal of assets					
Impairments and loss on disposal of assets	Impairments and loss on disposal of assets	185	338	618	572
Transaction expenses, net	Transaction expenses, net	546	1,419	2,543	1,976
Transaction expenses, net					
Transaction expenses, net					
Total operating costs and expenses					
Total operating costs and expenses					
Total operating costs and expenses	Total operating costs and expenses	211,474	184,231	612,506	528,983
Income from operations	Income from operations	7,738	2,621	34,412	15,434
Income from operations					
Income from operations					
Interest expense					
Interest expense					
Interest expense	Interest expense	(1,848)	(1,362)	(5,792)	(3,494)
Other income, net	Other income, net	771	116	1,950	395
Other income, net					
Other income, net					
Income before income taxes					
Income before income taxes					
Income before income taxes	Income before income taxes	6,661	1,375	30,570	12,335
Income tax expense	Income tax expense	(1,243)	(1,329)	(7,833)	(4,942)
Income tax expense					
Income tax expense					
Net income					
Net income					
Net income	Net income	\$ 5,418	\$ 46	\$ 22,737	\$ 7,393
Net income	Net income	\$ 5,418	\$ 46	\$ 22,737	\$ 7,393
Other comprehensive income:					
Net income					
Net income					
Other comprehensive income					
Other comprehensive income					
Other comprehensive income					
Unrealized gain on derivatives					
Unrealized gain on derivatives					
Unrealized gain on derivatives	Unrealized gain on derivatives	1,257	—	1,097	—
Income tax related to other comprehensive income	Income tax related to other comprehensive income	(272)	—	(272)	—
Other comprehensive income, net of tax		985	—	825	—
Income tax related to other comprehensive income					
Income tax related to other comprehensive income					
Comprehensive income	Comprehensive income	\$ 6,403	\$ 46	\$ 23,562	\$ 7,393

Comprehensive income									
Comprehensive income									
Net income per common share - basic									
Net income per common share - basic									
Net income per common share - basic	Net income per common share - basic	\$	0.09	\$	—	\$	0.38	\$	0.13
Net income per common share - diluted	Net income per common share - diluted	\$	0.09	\$	—	\$	0.37	\$	0.12
Net income per common share - diluted									
Net income per common share - diluted									
Weighted average number of common shares outstanding - basic									
Weighted average number of common shares outstanding - basic									
Weighted average number of common shares outstanding - basic	Weighted average number of common shares outstanding - basic		59,646,027		59,089,831		59,424,989		59,065,423
Weighted average number of common shares outstanding - diluted	Weighted average number of common shares outstanding - diluted		61,562,524		60,464,062		61,016,105		60,088,622
Weighted average number of common shares outstanding - diluted									
Weighted average number of common shares outstanding - diluted									

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

**FIRST WATCH RESTAURANT GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF EQUITY**  
*(IN THOUSANDS, EXCEPT SHARE AMOUNTS)*  
*(Unaudited)*

	Accumulated							Common Stock	Additional Paid-in Capital	Accumulated Deficit	Other Comprehensive Income (Loss)
	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Other Comprehensive Income		Total Equity				
	Shares	Amount			(Loss)						
Balance at June 25, 2023	59,463,950	\$ 594	\$ 626,216	\$ (80,813)	\$ (160)		\$545,837				
Balance at December 31, 2023											
Balance at December 31, 2023											
Balance at December 31, 2023											
Net income	Net income	—	—	—	5,418	—	5,418				
Stock-based compensation	Stock-based compensation	—	—	1,764	—	—	1,764				
Common stock issued under stock-based compensation plans, net	Common stock issued under stock-based compensation plans, net	331,049	3	3,084	—	—	3,087				



Other comprehensive income, net of tax	Other comprehensive income, net of tax	—	—	—	—	985	985	Other comprehensive income, net of tax	—	—	—	—	—	—	—	—	—	929
Balance at September 24, 2023		59,794,999	\$ 597	\$ 631,064	\$ (75,395)	\$ 825	\$557,091											
Balance at March 31, 2024																		

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income		Total Equity
	Shares	Amount					
<b>Balance at December 25, 2022</b>	59,211,019	\$ 592	\$ 620,675	\$ (98,132)	\$ —	\$ —	\$ 523,135
Net income	—	—	—	22,737	—	—	22,737
Stock-based compensation	—	—	5,386	—	—	—	5,386
Common stock issued under stock-based compensation plans, net	583,980	5	5,003	—	—	—	5,008
Other comprehensive income, net of tax	—	—	—	—	825	825	825
<b>Balance at September 24, 2023</b>	59,794,999	\$ 597	\$ 631,064	\$ (75,395)	\$ 825	\$ —	\$ 557,091

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income		Total Equity
	Shares	Amount					
<b>Balance at June 26, 2022</b>	59,075,562	\$ 591	\$ 614,223	\$ (97,692)	\$ —	\$ —	\$ 517,122
Net income	—	—	—	46	—	—	46
Stock-based compensation	—	—	2,719	—	—	—	2,719
Common stock issued under stock-based compensation plans, net	41,161	—	384	—	—	—	384
<b>Balance at September 25, 2022</b>	59,116,723	\$ 591	\$ 617,326	\$ (97,646)	\$ —	\$ —	\$ 520,271

		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Equity		Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total Equity
		Shares	Amount								
<b>Balance at December 26, 2021</b>		59,048,446	\$ 590	\$ 608,878	\$ (105,039)	\$504,429					
<b>Balance at December 25, 2022</b>											
<b>Balance at December 25, 2022</b>											
<b>Balance at December 25, 2022</b>											
Net income	Net income	—	—	—	7,393	7,393					
Stock-based compensation	Stock-based compensation	—	—	7,821	—	7,821					
Common stock issued under stock-based compensation plans, net	Common stock issued under stock-based compensation plans, net	68,277	1	627	—	628					
<b>Balance at September 25, 2022</b>		59,116,723	\$ 591	\$ 617,326	\$ (97,646)	\$520,271					
<b>Balance at March 26, 2023</b>											

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

(IN THOUSANDS)  
(Unaudited)

		THIRTY-NINE WEEKS	
		ENDED	
		SEPTEMBER	SEPTEMBER
		24, 2023	25, 2022
THIRTEEN WEEKS ENDED		THIRTEEN WEEKS ENDED	
MARCH 31, 2024		MARCH 31, 2024	
MARCH 26, 2023			
Cash flows from operating activities:	Cash flows from operating activities:		
Net income	Net income	\$ 22,737	\$ 7,393
Net income			
Net income			
Adjustments to reconcile net income to net cash provided by operating activities:	Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization			
Depreciation and amortization			
Depreciation and amortization	Depreciation and amortization	28,992	25,302
Stock-based compensation	Stock-based compensation	5,386	7,821
Non-cash operating lease costs	Non-cash operating lease costs	14,132	11,907
Non-cash portion of gain on lease modifications	Non-cash portion of gain on lease modifications	(123)	(84)
Non-cash loss on extinguishments and modifications of debt			
Deferred income taxes	Deferred income taxes	6,566	4,353
Amortization of debt discount and deferred issuance costs	Amortization of debt discount and deferred issuance costs	332	334
Impairments and loss on disposal of assets	Impairments and loss on disposal of assets	618	572
Gain on insurance proceeds	Gain on insurance proceeds	(643)	—
Changes in assets and liabilities:	Changes in assets and liabilities:		
Accounts receivable			
Accounts receivable			
Accounts receivable	Accounts receivable	1,174	1,018
Inventory	Inventory	458	(93)

Prepaid expenses	Prepaid expenses	1,115	1,346
Other assets, current and long-term	Other assets, current and long-term	(2,758)	(2,176)
Accounts payable	Accounts payable	(2,072)	(3,560)
Accrued liabilities and other long-term liabilities	Accrued liabilities and other long-term liabilities	4,997	6,032
Accrued compensation and deferred payroll taxes	Accrued compensation and deferred payroll taxes	359	(5,890)
Deferred revenues, current and long-term	Deferred revenues, current and long-term	(3,322)	(2,061)
Other liabilities			
Operating lease liabilities	Operating lease liabilities	(4,904)	(5,570)
Net cash provided by operating activities	Net cash provided by operating activities	73,044	46,644
<b>Cash flows from investing activities:</b>	<b>Cash flows from investing activities:</b>		
Capital expenditures			
Capital expenditures	Capital expenditures	(52,770)	(44,985)
Acquisitions, net of cash acquired	Acquisitions, net of cash acquired	(30,422)	—
Purchase of intangible assets	Purchase of intangible assets	(84)	(715)
Insurance proceeds	Insurance proceeds	643	—
Net cash used in investing activities	Net cash used in investing activities	(82,633)	(45,700)
<b>Cash flows from financing activities:</b>	<b>Cash flows from financing activities:</b>		
Repayments of note payable	Repayments of note payable	(1,376)	(2,352)
Repayments of note payable			
Repayments of note payable			
Proceeds from borrowings on revolving credit facility			
Repayments of borrowings on revolving credit facility			
Proceeds from long-term debt			

Repayments of long-term debt, including finance lease liabilities	Repayments of long-term debt, including finance lease liabilities	(3,519)	(1,635)
Payment of debt discount and deferred issuance costs			
Proceeds from exercise of stock options, net of employee taxes paid	Proceeds from exercise of stock options, net of employee taxes paid	5,008	628
Contingent consideration payment		(198)	(78)
Net cash used in financing activities		(85)	(3,437)
Net decrease in cash and cash equivalents and restricted cash		(9,674)	(2,493)
Net cash provided by (used in) financing activities			
Net (decrease) increase in cash and cash equivalents and restricted cash			
Cash and cash equivalents and restricted cash:	Cash and cash equivalents and restricted cash:		
Beginning of period	Beginning of period	49,923	52,115
Beginning of period	Beginning of period		
End of period	End of period	\$ 40,249	\$ 49,622
Supplemental cash flow information:			
Cash paid for interest		\$ 5,362	\$ 2,800
Cash paid for income taxes, net of refunds		\$ 1,337	\$ 777

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

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

	THIRTY-NINE WEEKS ENDED	
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022
Supplemental disclosures of non-cash investing and financing activities:		
Leased assets obtained in exchange for new operating lease liabilities	\$ 64,660	\$ 37,961
Leased assets obtained in exchange for new finance lease liabilities	\$ 145	\$ 89
Remeasurements and terminations of operating lease assets and lease liabilities	\$ (1,453)	\$ (1,861)

Remeasurements and terminations of finance lease assets and lease liabilities	\$	(43)	\$	(191)
Increase in liabilities from acquisition of property, fixtures and equipment	\$	6,202	\$	2,148

	THIRTEEN WEEKS ENDED			
	MARCH 31, 2024		MARCH 26, 2023	
Supplemental cash flow information:				
Cash paid for interest	\$	2,773	\$	1,658
Cash paid for income taxes, net of refunds	\$	—	\$	67
Supplemental disclosures of non-cash investing and financing activities:				
Leased assets obtained in exchange for new operating lease liabilities	\$	8,902	\$	8,323
Leased assets obtained in exchange for new finance lease liabilities	\$	28	\$	9
Remeasurements and terminations of operating lease assets and lease liabilities	\$	(570)	\$	(955)
Remeasurements and terminations of finance lease assets and lease liabilities	\$	(9)	\$	—
Decrease in liabilities from acquisition of property, fixtures and equipment	\$	(4,337)	\$	(707)

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

**FIRST WATCH RESTAURANT GROUP, INC.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

## 1. Nature of Business and Organization

First Watch Restaurant Group, Inc. (collectively with its wholly-owned subsidiaries, "the Company," or "Management") is a Delaware holding company. The Company operates and franchises restaurants in 29 states operating under the "First Watch" trade name, which are focused on made-to-order breakfast, brunch and lunch. The Company does not operate outside of the United States and all of its assets are located in the United States. As of September 24, 2023 March 31, 2024, the Company operated 402 432 company-owned restaurants and 103 had 99 franchise-owned restaurants.

## 2. Summary of Significant Accounting Policies

### Basis of Presentation

The Company reports financial information on a 52- or 53-week fiscal year ending on the last Sunday of each calendar year. The quarters ended September 24, 2023 March 31, 2024 and September 25, 2022 March 26, 2023 were 13-week periods. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K as of and for the year ended December 25, 2022 December 31, 2023 ("2022 2023 Form 10-K" "10-K").

The accompanying unaudited interim consolidated financial statements have been prepared by the Company in accordance with generally accepted accounting principles in the United States of America ("GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all the information and notes required by GAAP for complete financial statements. The unaudited interim consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements included in the 2022 2023 Form 10-K and include all adjustments necessary for the fair statement of the consolidated financial statements for the quarterly periods presented. The results of operations for quarterly periods are not necessarily indicative of the results to be expected for other quarterly periods or the entire fiscal year.

### Use of Estimates

The preparation of the unaudited interim consolidated financial statements in accordance with GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited interim consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates and such differences could be material.

### Fair Value of Financial Instruments

Certain assets and liabilities are carried at fair value. Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The carrying amounts of the

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

Interest Rate Swaps

As an element of the Company's interest rate risk management strategy, Management uses interest rate swaps. The intent of these instruments is to reduce cash flow exposure to variability in expected future interest rates on the Company's debt. Management has elected to designate and qualify the interest rate swaps as cash flow hedges. As such, the instruments are recorded on the balance sheet at fair value. Thereafter, gains or losses on the instruments are recognized in equity as changes to Other Comprehensive Income and subsequently reclassified into earnings at the time of the Company's debt- interest payments.

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

Summary of Recently Issued Accounting Pronouncements

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280), Improvements to Reportable Segment Disclosures*, which requires incremental disclosures related to a public entity's reportable segments but does not change the definition of a segment, the method for determining segments, or the criteria for aggregating operating segments into reportable segments. The new guidance requires that a public entity disclose, on an annual and interim basis, disaggregated expense information that is regularly provided to the chief operating decision maker ("CODM") and included within each reported measure of segment profit or loss. The disclosures are also required for public entities that have a single reporting segment. The new guidance is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024 and should be adopted retrospectively. Early adoption is permitted. Management is currently evaluating the impact of this new standard.

In December 2023, the FASB issued ASU 2023-09, *Improvements to Income Tax Disclosures*, which establishes new income tax disclosure requirements including disaggregated information about a reporting entity's effective tax rate reconciliation as well as disaggregated information on income taxes paid. The new guidance is effective for fiscal years beginning after December 15, 2024 and should be applied on a prospective basis with the option to apply the standard retrospectively. Early adoption is permitted. Management is currently evaluating the impact of this new standard.

Recent accounting guidance not discussed herein is not applicable, did not have, or is not expected to have a material impact to the Company.

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

3. Business Acquisitions

During the thirty-nine weeks ended September 24, 2023 On January 22, 2024, the Company acquired substantially all the assets associated with 17 franchise operated First Watch restaurants, of one franchise-operated restaurant for cash of \$3.0 million, incurring related transaction costs of approximately \$0.2 million. The purchase price was allocated to the fair value of assets acquired and liabilities assumed, which are based on preliminary valuations including Property, fixtures and are subject to adjustment as additional information is available. equipment of \$1.4 million, reacquired rights of \$0.5 million, operating lease right-of-use assets and liabilities of \$1.2 million and goodwill (primarily expected synergies and assembled workforce; tax deductible) of \$1.1 million.

4. Revenues

The details following tables include a detail of each acquisition are liabilities from contracts with customers:

(in thousands)	MARCH 31, 2024		DECEMBER 31, 2023	
Deferred revenues:				
Deferred gift card revenue	\$	3,067	\$	5,224
Deferred franchise fee revenue - current		274		275
Total current deferred revenues	\$	3,341	\$	5,499
Other long-term liabilities:				
Deferred franchise fee revenue - non-current	\$	1,990	\$	1,786

Changes in deferred gift card contract liabilities were as follows:

(dollars in thousands)	May 1, 2023		June 26, 2023		August 9, 2023	
Date of acquisition						
Number of acquired restaurants		6		5		6
Number of acquired restaurants under development		—		—		1
Purchase price (cash)	\$	8,177	\$	8,656	\$	14,127
Transaction costs incurred	\$	362	\$	334	\$	373

Deferred franchise fees recognized as a result of termination of pre-existing franchise agreement	\$	78	\$	123	\$	200
Recognized amounts of identifiable assets acquired and liabilities assumed:						
Cash	\$	9	\$	6	\$	16
Inventory	\$	57	\$	62	\$	102
Prepaid rent and other assets	\$	67	\$	33	\$	89
Property, fixtures and equipment	\$	1,840	\$	3,783	\$	6,364
Reacquired rights	\$	1,342	\$	2,304	\$	4,358
Goodwill (primarily expected synergies and assembled workforce; tax deductible)	\$	5,272	\$	2,667	\$	3,811
Unfavorable leasehold positions, net	\$	(330)	\$	(70)	\$	(530)
Accounts payable	\$	—	\$	—	\$	(32)
Deferred revenues - gift card liabilities assumed	\$	(80)	\$	(129)	\$	(51)

(in thousands)	THIRTEEN WEEKS ENDED	
	MARCH 31, 2024	MARCH 26, 2023
Deferred gift card revenue:		
Balance, beginning of period	\$ 5,224	\$ 4,897
Gift card sales	1,409	1,534
Gift card redemptions	(3,112)	(3,204)
Gift card breakage	(459)	(318)
Gift card liabilities assumed through acquisitions	5	—
Balance, end of period	\$ 3,067	\$ 2,909

Changes in deferred franchise fee contract liabilities were as follows:

(in thousands)	THIRTEEN WEEKS ENDED	
	MARCH 31, 2024	MARCH 26, 2023
Deferred franchise fee revenue:		
Balance, beginning of period	\$ 2,061	\$ 2,768
Cash received	335	34
Franchise revenues recognized	(102)	(77)
Business combinations - franchise revenues recognized	(30)	—
Balance, end of period	\$ 2,264	\$ 2,725

Revenues recognized disaggregated by type were as follows:

(in thousands)	THIRTEEN WEEKS ENDED	
	MARCH 31, 2024	MARCH 26, 2023
Restaurant sales:		
In-restaurant dining sales	\$ 195,199	\$ 169,229
Third-party delivery sales	25,935	22,314
Take-out sales	18,174	16,425
Total restaurant sales	\$ 239,308	\$ 207,968
Franchise revenues:		
Royalty and system fund contributions	\$ 3,009	\$ 3,361
Initial fees	102	77
Business combinations - revenues recognized	30	—
Total franchise revenues	3,141	3,438
Total revenues	\$ 242,449	\$ 211,406

## 5. Accounts Receivable

Accounts receivable consisted of the following:

(in thousands)	MARCH 31, 2024	DECEMBER 31, 2023
Receivables from third-party delivery providers	\$ 1,539	\$ 1,559
Receivables from franchisees	1,221	1,390
Receivables from vendors	680	873
Receivables related to gift card sales	367	1,585
Other receivables	323	125
Total accounts receivable	\$ 4,130	\$ 5,532

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

## 4. Revenues

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

(in thousands)	SEPTEMBER 24, 2023	DECEMBER 25, 2022
Deferred revenues:		
Deferred gift card revenue	\$ 2,370	\$ 4,897
Deferred franchise fee revenue - current	285	296
Total current deferred revenues	\$ 2,655	\$ 5,193
Other long-term liabilities:		
Deferred franchise fee revenue - non-current	\$ 1,949	\$ 2,472

Changes in deferred gift card contract liabilities were as follows:

(in thousands)	THIRTEEN WEEKS ENDED		THIRTY-NINE WEEKS ENDED	
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022
Deferred gift card revenue:				
Balance, beginning of period	\$ 3,154	\$ 2,805	\$ 4,897	\$ 4,410
Gift card sales	1,185	1,218	5,746	4,796
Gift card redemptions	(1,921)	(1,720)	(7,726)	(6,399)
Gift card breakage	(228)	(192)	(807)	(696)
Gift card liabilities assumed through acquisitions	180	—	260	—
Balance, end of period	\$ 2,370	\$ 2,111	\$ 2,370	\$ 2,111

Changes in deferred franchise fee contract liabilities were as follows:

(in thousands)	THIRTEEN WEEKS ENDED		THIRTY-NINE WEEKS ENDED	
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022
Deferred franchise fee revenue:				
Balance, beginning of period	\$ 2,672	\$ 2,637	\$ 2,768	\$ 2,536
Cash received	36	204	175	434
Franchise revenues recognized	(150)	(67)	(307)	(196)
Business combinations - franchise revenues recognized	(323)	—	(401)	—
Balance, end of period	\$ 2,235	\$ 2,774	\$ 2,235	\$ 2,774

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



Revenues recognized disaggregated by type were as follows:

(in thousands)	THIRTEEN WEEKS ENDED		THIRTY-NINE WEEKS ENDED	
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022
Restaurant sales:				
In-restaurant dining sales	\$ 176,696	\$ 147,491	\$ 520,277	\$ 425,222
Third-party delivery sales	22,011	20,105	65,765	60,960
Take-out sales	16,788	16,382	50,008	50,147
Total restaurant sales	\$ 215,495	\$ 183,978	\$ 636,050	\$ 536,329
Franchise revenues:				
Royalty and system fund contributions	\$ 3,244	\$ 2,807	\$ 10,160	\$ 7,892
Initial fees	473	67	708	196
Total franchise revenues	\$ 3,717	\$ 2,874	\$ 10,868	\$ 8,088
Total revenues	\$ 219,212	\$ 186,852	\$ 646,918	\$ 544,417

## 5. Accounts Receivable

Accounts receivable consisted of the following:

(in thousands)	SEPTEMBER 24, 2023	DECEMBER 25, 2022
Receivables from third-party delivery providers	\$ 1,414	\$ 974
Receivables from franchisees	1,184	1,076
Receivables from vendors	1,239	920
Receivables related to gift card sales	323	1,565
Other receivables	587	1,629
Total accounts receivable	\$ 4,990	\$ 6,164

## 6. Accrued Liabilities

Accrued liabilities consisted of the following:

(in thousands)	SEPTEMBER 24, 2023	DECEMBER 25, 2022
Construction liabilities	\$ 13,110	\$ 6,908
Sales tax	4,478	3,791
Self-insurance and general liability reserves	1,446	1,529
Utilities	1,840	1,468
Interest payable	1,847	1,506
Credit card fees	1,220	1,043
Property tax	1,355	951
Contingent rent	1,063	811
Common area maintenance	668	680
Other	6,813	4,042
Total accrued liabilities	\$ 33,840	\$ 22,729

(in thousands)	MARCH 31, 2024	DECEMBER 31, 2023
Construction liabilities	\$ 9,607	\$ 13,944
Sales tax	7,158	6,163
Self-insurance and general liability reserves	1,731	1,593
Utilities	1,700	1,657
Interest payable	123	401
Credit card fees	2,046	1,706
Property tax	1,048	922
Contingent rent	952	1,160
Common area maintenance	648	749



Term Facility, collectively, the "Credit Facilities" Facility). The Revolving Credit Facility was undrawn at September 24, 2023 and December 25, 2022. The Credit Facilities mature on October 6, 2026.

On February 24, 2023, the Company entered into the Amendment No. 1 to the Credit Agreement (the "Amendment") to replace LIBO Rate the London interbank offer rate ("LIBOR") with a secured overnight financing rate ("SOFR"), pursuant to the terms and LIBOR fallback language in the Credit Agreement. All outstanding borrowings under the Credit Agreement continued to bear interest at LIBOR until March 27, 2023.

On January 5, 2024, the Company entered into Amendment No. 2 to the Credit Agreement (the "Second Amendment") with terms substantially identical to the Credit Agreement to (i) replace the \$100.0 million Term Facility with a new \$100.0 million term loan A facility, (the "New Term Facility"), (ii) replace the \$75.0 million Revolving Credit Facility with a new \$75.0 million revolving credit facility (the "New Revolving Credit Facility"), (iii) increase the New Revolving Credit Facility by \$50.0 million bringing the aggregate committed amount under the New Revolving Credit Facility to \$125.0 million and (iv) add a new \$125.0 million incremental delayed draw term loan facility (the "New Delayed Draw Term Facility"). The New Delayed Draw Term Facility is available to FWR for a period of 18 months from the Second Amendment date and the proceeds may be used to fund permitted acquisitions and new restaurant capital expenditures, repay revolving loans and/or replenish balance sheet cash, in each case, used for such permitted acquisitions or capital expenditures.

#### FIRST WATCH RESTAURANT GROUP, INC.

#### NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Loans drawn under the New Delayed Draw Term Facility will amortize in equal quarterly installments at the same amortization rate per annum as then applicable to loans under the New Term Facility. The New Term Facility, the New Revolving Credit Facility and the New Delayed Draw Term Facility mature on January 5, 2029.

Effective March 27, 2023 March 31, 2024, borrowings under the Credit Facilities Facility, as amended, bear interest at the option of FWR at either (i) the alternate base rate plus a margin of between 125 150 and 200 225 basis points depending on the total rent adjusted net leverage ratio of FWR and its restricted subsidiaries on a consolidated basis (the "Total Rent Adjusted Net Leverage Ratio") or (ii) SOFR plus a credit spread adjustment of 10 basis points plus a margin of between 225 250 and 300 325 basis points depending on the Total Rent Adjusted Net Leverage Ratio. Refer to Note 8, *Interest Rate Swaps*, for information about the variable-to-fixed interest rate swap agreements entered into in June 2023.

On April 12, 2024, the Company drew \$97.5 million of the \$125.0 million New Delayed Draw Term Facility. The proceeds of which were used to repay \$22.5 million of borrowings under the New Revolving Credit Facility and fund the acquisition which was completed for approximately \$75.0 million on April 15, 2024 as discussed in Note 14, *Subsequent Events*.

#### Fair Value of Debt

The estimated fair value of the outstanding debt, excluding finance lease obligations and financing obligations, is classified as Level 3 in the fair value hierarchy and was estimated using discounted cash flow models, market yield and yield volatility. The estimated following table includes the carrying value and fair value of the outstanding Company's debt under as of the Credit Facilities was \$94.9 million and \$97.1 million at September 24, 2023 and December 25, 2022, respectively, periods indicated:

#### FIRST WATCH RESTAURANT GROUP, INC.

#### NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands)	MARCH 31, 2024		DECEMBER 31, 2023	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Term Facility	\$ 100,000	\$ 99,564	\$ 92,500	\$ 92,201
Revolving Credit Facility	\$ 22,500	\$ 22,389	\$ 30,000	\$ 29,897

#### 8. Interest Rate Swaps

On June 23, 2023, the Company entered into variable-to-fixed interest rate swaps to hedge a portion of the cash flows of the Company's variable rate debt. The interest rate swaps have an aggregate notional amount of \$90.0 million \$90 million and mature on October 6, 2026. Under the terms of the interest rate swaps, the Company will pay a weighted average fixed rate of 4.16% on the notional amount and will receive payments from the counterparties based on the three-month SOFR rate.

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

Amounts reported in Other comprehensive income related to the interest rate swaps will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. During the thirteen weeks ended March 31, 2024, a total of \$0.3 million was reclassified from Other comprehensive income (loss) as a reduction to Interest expense. Over the next 12 months, the Company estimates that \$1.0 million \$0.7 million will be reclassified as a reduction to interest expense.

#### FIRST WATCH RESTAURANT GROUP, INC.

#### NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 9. Leases

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

(in thousands)	(in thousands)	Consolidated Balance Sheets Classification	Consolidated Balance Sheets		(in thousands)	Consolidated Balance Sheets Classification	MARCH 31, 2024	DECEMBER 31, 2023
			SEPTEMBER 24, 2023	DECEMBER 25, 2022				
Operating lease right-of-use assets	Operating lease right-of-use assets	Operating lease right-of-use assets	\$ 400,764	\$ 352,373				
Finance lease assets	Finance lease assets	Property, fixtures and equipment, net	1,062	1,332				
Total lease assets	Total lease assets		\$ 401,826	\$ 353,705				
Operating lease liabilities (1) - current	Operating lease liabilities (1) - current	Current portion of operating lease liabilities	\$ 42,856	\$ 38,936				
Operating lease liabilities (1) - current								
Operating lease liabilities (1) - current								
Operating lease liabilities - non-current	Operating lease liabilities - non-current	Operating lease liabilities	420,496	366,113				
Finance lease liabilities - current	Finance lease liabilities - current	Current portion of long-term debt	641	632				
Finance lease liabilities - non-current	Finance lease liabilities - non-current	Long-term debt, net	500	801				
Total lease liabilities	Total lease liabilities		\$ 464,493	\$ 406,482				

(1) Excludes all variable lease expense.

The components of lease expense are as follows:

	Consolidated Statements of Operations and Comprehensive Income Classification	THIRTEEN WEEKS ENDED		THIRTY-NINE WEEKS ENDED	
(in thousands)		SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022
(in thousands)					
MARCH 31, 2024					
MARCH 31, 2024					
Operating lease expense					
Operating lease expense					

Operating lease expense	Operating lease expense	Other restaurant operating expenses				
		Occupancy expenses				
		Pre-opening expenses				
		General and administrative expenses	\$ 14,492	\$ 12,667	\$ 40,933	\$ 36,843
Variable lease expense	Variable lease expense	Food and beverage costs				
		Occupancy expenses				
		General and administrative expenses	4,438	3,676	12,444	10,669
Variable lease expense						
Variable lease expense						
Finance lease expense:						
Finance lease expense:						
Finance lease expense:	Finance lease expense:					
Amortization of leased assets	Amortization of leased assets	Depreciation and amortization	126	127	380	394
Amortization of leased assets						
Amortization of leased assets						
Interest on lease liabilities						
Interest on lease liabilities						
Interest on lease liabilities	Interest on lease liabilities	Interest expense	20	25	72	101
Total lease expense (1)	Total lease expense (1)		\$ 19,076	\$ 16,495	\$ 53,829	\$ 48,007
Total lease expense (1)						
Total lease expense (1)						

(1) Includes contingent rent expense of \$0.5 million and \$0.4 million \$0.5 million during the thirteen weeks ended September 24, 2023 March 31, 2024 and September 25, 2022, respectively, and \$1.4 million and \$1.2 million during the thirty-nine weeks ended September 24, 2023 and September 25, 2022 March 26, 2023, respectively.

Supplemental cash flow information related to leases was as follows:

		THIRTY-NINE WEEKS ENDED			
				THIRTEEN WEEKS ENDED	
(in thousands)	(in thousands)	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	(in thousands)	
				MARCH 31, 2024	MARCH 26, 2023
Cash paid for amounts included in the measurement of lease liabilities:	Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows - operating leases	Operating cash flows - operating leases	\$ 31,707	\$ 30,506		
Operating cash flows - operating leases					

Operating cash flows - operating leases				
Operating cash flows - finance leases	Operating cash flows - finance leases	\$	72	\$ 101
Financing cash flows - finance leases	Financing cash flows - finance leases	\$	394	\$ 385

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

Supplemental information related to leases was as follows:

		THIRTY-NINE WEEKS ENDED	
		SEPTEMBER 24, 2023	SEPTEMBER 25, 2022
Weighted-average remaining lease term (in years)			
Operating leases		14.0	14.8
Finance leases		2.7	3.0
Weighted-average discount rate <sup>(1)</sup>			
Operating leases		8.4 %	8.6 %
Finance leases		7.2 %	7.7 %

		THIRTEEN WEEKS ENDED	
		MARCH 31, 2024	MARCH 26, 2023
Weighted-average remaining lease term (in years)			
Operating leases		13.6	14.4
Finance leases		2.9	2.7
Weighted-average discount rate <sup>(1)</sup>			
Operating leases		8.3 %	8.6 %
Finance leases		6.8 %	7.6 %

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

As of **September 24, 2023** **March 31, 2024**, future minimum lease payments for operating and finance leases consisted of the following:

(in thousands)	(in thousands)	OPERATING LEASES		FINANCE LEASES
Fiscal year	Fiscal year	LEASES	LEASES	(in thousands)
2023		\$ 11,382	\$ 208	
2024				
2024				
2024	2024	47,813	600	
2025	2025	57,841	254	
2026	2026	57,555	67	
2027	2027	56,701	56	
2028				
Thereafter	Thereafter	589,118	67	
Total future minimum lease payments <sup>(1)</sup>	Total future minimum lease payments <sup>(1)</sup>	820,410	1,252	

Less:	Less:		
imputed	imputed		
interest	interest	(357,058)	(111)
Total	Total		
present	present		
value of	value of		
lease	lease		
liabilities	liabilities	\$ 463,352	\$ 1,141

(1) Excludes approximately \$149.4 million of executed operating leases that have not commenced as of September 24, 2023 March 31, 2024.

## 10. Equity and Stock-Based Compensation

### Equity Transactions

During the thirty-nine thirteen weeks ended September 24, 2023 March 31, 2024, funds managed by the Company's majority owner, largest stockholder, Advent International, Corporation, L.P. ("Advent") sold 3,500,000 and 3,000,000 6,900,000 shares of the Company's common stock through an underwritten secondary public offerings that were completed on May 18, 2023 and June 13, 2023, respectively. The selling stockholders sold an additional 525,000 and 450,000 offering, including 900,000 shares of common stock on May 18, 2023 and July 3, 2023, respectively, which were sold pursuant to the terms of the underwriter's option associated with each secondary public offering, to purchase additional shares, which was exercised in full. All net proceeds from the sale of the shares of common stock were distributed to the selling stockholders. The Company incurred approximately \$1.0 million of costs in connection with the offerings that were recorded within Transaction expenses, net on the Consolidated Statements of Operations and Comprehensive Income.

During the thirteen weeks ended September 25, 2022, funds managed by Advent, sold 4,500,000 shares of the Company's common stock through a secondary public offering that was completed on September 19, 2022. The selling stockholders sold an additional 675,000 shares of common stock on October 6, 2022 pursuant to the terms of the underwriters option associated with the secondary offering. All net proceeds from the sale of the shares of common stock were distributed to the selling stockholders. The Company incurred approximately \$1.6 million \$0.5 million of costs in connection with the offerings that were recorded within Transaction expenses, net on the Consolidated Statements of Operations and Comprehensive Income.

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

### Stock option awards

There were no stock option awards granted under the 2021 Equity Plan during the thirty-nine thirteen weeks ended September 24, 2023 March 31, 2024. A summary of stock option activity during the thirty-nine thirteen weeks ended September 24, 2023 March 31, 2024 is as follows:

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	AGGREGATE INTRINSIC VALUE (in thousands)	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (in years)
Outstanding, December 25, 2022	5,115,674	\$ 10.12	\$ 20,981	6.1
Exercised	(545,669)	\$ 9.18		
Forfeited	(126,113)	\$ 12.12		
Outstanding, September 24, 2023	4,443,892	\$ 10.18	\$ 34,316	5.4
Exercisable, September 24, 2023	2,706,341	\$ 9.67	\$ 22,277	4.9

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	AGGREGATE INTRINSIC VALUE (in thousands)	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (in years)
Outstanding, December 31, 2023	4,347,186	\$ 10.22	\$ 42,965	5.1
Exercised	(318,967)	\$ 9.87		
Outstanding, March 31, 2024	4,028,219	\$ 10.24	\$ 57,909	4.9
Exercisable, March 31, 2024	3,128,830	\$ 10.01	\$ 45,720	4.7

The aggregate intrinsic value is based on the difference between the exercise price of the stock option and the closing price of the Company's common stock on Nasdaq on the last trading day.

A summary of the non-vested stock option activity during the thirty-nine thirteen weeks ended September 24, 2023 March 31, 2024 is as follows:

	NUMBER OF OPTIONS	WEIGHTED AVERAGE GRANT DATE FAIR VALUE
Nonvested, December 25, 2022	2,324,316	\$ 7.31
Vested	(460,652)	\$ 5.59
Forfeited	(126,113)	\$ 6.47
Nonvested, September 24, 2023	1,737,551	\$ 7.83

	NUMBER OF OPTIONS	WEIGHTED AVERAGE GRANT DATE FAIR VALUE
Nonvested, December 31, 2023	1,234,031	\$ 7.36
Vested	(334,642)	\$ 6.52
Nonvested, March 31, 2024	899,389	\$ 7.67

#### Restricted stock units

During the thirteen weeks ended March 31, 2024, a total of 418,251 restricted stock units ("RSU") were granted. Of the total RSUs granted, 346,655 will vest ratably over a period of three years from grant date, the remaining 71,596 will vest 50% on the second anniversary of the grant date and 50% on the third anniversary of grant date. A summary of the Company's RSU activity for restricted stock units during the thirty-nine thirteen weeks ended September 24, 2023 March 31, 2024 is as follows:

	RESTRICTED STOCK UNITS	WEIGHTED AVERAGE GRANT DATE FAIR VALUE	AGGREGATE INTRINSIC VALUE (in thousands)
Outstanding, December 25, 2022	38,311	\$ 14.36	\$ 544
Granted	538,007	\$ 15.67	
Vested	(38,311)	\$ 14.36	
Forfeited	(22,228)	\$ 15.52	
Outstanding, September 24, 2023	515,779	\$ 15.67	\$ 9,232

	RESTRICTED STOCK UNITS	WEIGHTED AVERAGE GRANT DATE FAIR VALUE	AGGREGATE INTRINSIC VALUE (in thousands)
Outstanding, December 31, 2023	521,042	\$ 15.71	\$ 10,473
Granted	418,251	\$ 24.79	
Vested	(161,859)	\$ 15.52	
Outstanding, March 31, 2024	777,434	\$ 20.63	\$ 19,140

The aggregate intrinsic value is based on the closing price of the Company's common stock on Nasdaq of \$17.90 \$24.62 and \$14.21 \$20.10 on September 22, 2023 March 28, 2024 and December 23, 2022 December 29, 2023, the last trading days for the periods, respectively.

Stock-based compensation expense was \$1.8 million \$1.9 million and \$5.4 million \$1.5 million during the thirteen and thirty-nine weeks ended September 24, 2023 March 31, 2024 and March 26, 2023, respectively. Stock-based compensation expense was \$2.7 million and \$7.8 million during the thirteen and thirty-nine weeks ended September 25, 2022, respectively.

The total related income tax benefit for stock-based compensation expense was \$0.8 million \$1.3 million and \$1.3 million \$0.2 million during the thirteen and thirty-nine weeks ended September 24, 2023 March 31, 2024 and March 26, 2023, respectively. The total related income tax benefit for stock-based compensation expense was less than \$0.1 million during the thirteen and thirty-nine weeks ended September 25, 2022.

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

#### Unrecognized stock-based compensation expense

The following represents unrecognized stock-based compensation expense and the remaining weighted average vesting period as of September 24, 2023 March 31, 2024:

UNRECOGNIZED STOCK-BASED COMPENSATION EXPENSE (in thousands)	REMAINING WEIGHTED AVERAGE VESTING PERIOD (in years)
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UNRECOGNIZED STOCK-BASED COMPENSATION EXPENSE (in thousands)				UNRECOGNIZED STOCK-BASED COMPENSATION EXPENSE (in thousands)				REMAINING WEIGHTED AVERAGE VESTING PERIOD (in years)	
Stock options	Stock options	\$	4,574	0.8	Stock options	\$	2,567	0.6	
Restricted stock units	Restricted stock units	\$	6,549	2.4	Restricted stock units	\$	15,187	2.4	

## 11. Income Taxes

THIRTEEN WEEKS ENDED				THIRTY-NINE WEEKS ENDED			
SEPTEMBER 24, 2023				SEPTEMBER 25, 2022			
SEPTEMBER 24, 2023				SEPTEMBER 25, 2022			
THIRTEEN WEEKS ENDED				THIRTY-NINE WEEKS ENDED			
THIRTEEN WEEKS ENDED				THIRTY-NINE WEEKS ENDED			
THIRTEEN WEEKS ENDED				THIRTY-NINE WEEKS ENDED			
(in thousands)				(in thousands)			
(in thousands)				(in thousands)			
(in thousands)				(in thousands)			
Income before income taxes				Income before income taxes			
Income before income taxes				Income before income taxes			
Income before income taxes	Income before income taxes	\$	6,661	\$	1,375	\$	30,570
Income tax expense	Income tax expense	\$	(1,243)	\$	(1,329)	\$	(7,833)
Income tax expense	Income tax expense	\$	(1,243)	\$	(1,329)	\$	(7,833)
Income tax expense	Income tax expense	\$	(1,243)	\$	(1,329)	\$	(7,833)
Effective income tax rate	Effective income tax rate	18.7	%	96.7	%	25.6	%
Effective income tax rate	Effective income tax rate	18.7	%	96.7	%	25.6	%
Effective income tax rate	Effective income tax rate	18.7	%	96.7	%	25.6	%

The effective income tax rate for the thirteen weeks ended March 31, 2024 was 28.0% as compared to 32.7% for the thirteen weeks ended March 26, 2023. The change in the effective income tax rates for the thirteen and thirty-nine weeks ended September 24, 2023 as compared to the same periods in the prior year was primarily due to (i) the change in the valuation allowance for federal on deferred tax assets, (ii) the decrease in the valuation allowance for state net operating loss carryforwards, (iii) the benefit of tax credits for FICA taxes on certain employees' tips (iv) impacts and (iii) impact of executive stock-based compensation and (v) non-deductible costs associated with sales of the Company's common stock by funds managed by Advent through secondary public offerings. compensation.

The effective income tax rates for the thirteen and thirty-nine weeks ended September 24, 2023 March 31, 2024 and September 25, 2022 March 26, 2023 were different than the blended federal and state statutory rate primarily due to (i) the change in the valuation allowance, for federal deferred tax assets, (ii) the decrease in the valuation allowance for state net operating loss carryforwards, (iii) the benefit of tax credits for FICA taxes on certain employees' tips (iv) and (iii) the impacts of executive stock-based compensation and (v) non-deductible costs associated with sales of the Company's common stock by funds managed by Advent through secondary public offerings. compensation.

### Valuation allowance

Management evaluates quarterly whether the resulting deferred tax assets are realizable given the Company's earnings history. Based on the available evidence, the Company does not meet the more likely than not standard related to the realization of a portion of the deferred tax assets as of September 24, 2023 March 31, 2024. Accordingly, the Company has established a valuation allowance on the portion of deferred tax assets deemed not realizable, including state charitable contribution carryovers, various state loss carryforwards and various federal tax credit carryforwards.

Management continues to monitor and evaluate the rationale for recording a valuation allowance for deferred tax assets. As the Company's future taxable earnings increase and deferred tax assets are utilized, it is possible that a portion of the valuation allowance will no longer be needed. Release of any portion of the valuation allowance would result in the recognition of certain deferred tax assets and a decrease to income tax expense in the period of the release. The timing and amount of any release related to future taxable income is currently indeterminable. During the thirty-nine weeks ended September 24, 2023, a release of the valuation allowance related to certain

### Contingent consideration liability

Certain federal loss carryforwards, state loss carryforwards decreased income and general business credits were accumulated from operations prior to the August 2017 merger through which the Company became majority owned by Advent. To the extent that these credits and carryforwards are utilized to reduce taxes payable, the Company is required to pay the previous stockholders an amount equal to tax expense by approximately \$1.0 million. savings. A contingent consideration liability of \$1.2 million was initially recognized for expected payments to be made to the previous stockholders based on this requirement. In subsequent years, this liability was adjusted for payments made to previous stockholders

and for the estimated future use of tax credits and carryforwards. This requirement lapses with respect to any tax year, or portion thereof, beginning after December 31, 2024, or if a change in control event occurs.

During the thirteen weeks ended March 31, 2024, Advent sold common stock of the Company through a secondary public offering. As a result, Advent no longer controls a majority of the Company's issued and outstanding shares of common stock, creating a change of control event as defined in the merger agreement. A reduction of the contingent consideration liability of \$0.6 million was recognized in Transaction expenses, net to release the contingent consideration liability for any tax years not filed. As of March 31, 2024, the remaining contingent consideration liability balance of \$0.4 million related to tax returns that have been filed is included in accrued liabilities.

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

12. Commitments and Contingencies

Legal Proceedings

The Company is subject to legal proceedings, claims and liabilities that arise in the ordinary course of business. The amount of the anticipated liability with respect to these matters was not material as of September 24, 2023 March 31, 2024. In the event any litigation losses become probable and estimable, the Company will recognize any anticipated losses.

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

Unclaimed Property

The Company is subject to unclaimed or abandoned property (escheat) laws which require it to turn over to state governmental authorities the property of others held by the Company that has been unclaimed for specified periods of time. Property subject to escheat laws generally relates to uncashed checks, trade accounts receivable credits and unredeemed gift card balances. During the first quarter of 2022, the Company received a letter from the Delaware Secretary of State inviting the Company to participate in the Delaware Secretary of State's Abandoned or Unclaimed Property Voluntary Disclosure Agreement Program to avoid being sent an audit notice by the Delaware Department of Finance. On August 31, 2022, the Company was accepted into Delaware's Voluntary Disclosure Agreement Program, entitling it to certain benefits and protections offered to participants in the program. The Company intends to work in good faith to complete a review of its books and records related to unclaimed or abandoned property during the periods required under the program. The Company will continue to examine its options regarding the escheat laws of Delaware including completing Delaware's Voluntary Disclosure Agreement Program or proceeding to audit. Any potential loss, or range in the fourth quarter of loss, 2023, the Company recorded \$0.8 million in General and administrative expenses for estimated probable losses that may result might arise from this matter is not currently reasonably estimable. matter. As of December 26, 2022 March 31, 2024, this amount is included in the Accrued liabilities. The Company may ultimately be subject to greater losses.

Management believes the Company is not currently required to remit any amounts relating to future unredeemed gift cards to states as the Company's subsidiary that is the issuer of our gift cards was re-domiciled in Florida, which exempts gift cards from the abandoned and unclaimed property laws.

13. Net Income Per Common Share

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

		THIRTEEN WEEKS ENDED		THIRTY-NINE WEEKS ENDED	
		THIRTEEN WEEKS ENDED		THIRTY-NINE WEEKS ENDED	
		THIRTEEN WEEKS ENDED		THIRTY-NINE WEEKS ENDED	
		THIRTEEN WEEKS ENDED		THIRTY-NINE WEEKS ENDED	
(in thousands, except share and per share data)					
(in thousands, except share and per share data)					
(in thousands, except share and per share data)	(in thousands, except share and per share data)	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022
Numerator:	Numerator:				
Numerator:					
Numerator:					
Net income					
Net income					
Net income	Net income	\$ 5,418	\$ 46	\$ 22,737	\$ 7,393
Denominator:	Denominator:				
Denominator:					

Denominator:									
Weighted average common shares outstanding - basic									
Weighted average common shares outstanding - basic									
Weighted average common shares outstanding - basic	Weighted average common shares outstanding - basic		59,646,027		59,089,831		59,424,989		59,065,423
Weighted average common shares outstanding - diluted	Weighted average common shares outstanding - diluted		61,562,524		60,464,062		61,016,105		60,088,622
Weighted average common shares outstanding - diluted									
Weighted average common shares outstanding - diluted									
Net income per common share - basic									
Net income per common share - basic									
Net income per common share - basic	Net income per common share - basic	\$	0.09	\$	—	\$	0.38	\$	0.13
Net income per common share - diluted	Net income per common share - diluted	\$	0.09	\$	—	\$	0.37	\$	0.12
Net income per common share - diluted									
Net income per common share - diluted									
Stock options outstanding not included in diluted net income per common share as their effect is anti-dilutive									
Stock options outstanding not included in diluted net income per common share as their effect is anti-dilutive									
Stock options outstanding not included in diluted net income per common share as their effect is anti-dilutive	Stock options outstanding not included in diluted net income per common share as their effect is anti-dilutive		12,552		1,255,089		59,101		1,708,602
Restricted stock units outstanding not included in diluted net income per share as their effect is anti-dilutive	Restricted stock units outstanding not included in diluted net income per share as their effect is anti-dilutive		—		—		1,302		—
Restricted stock units outstanding not included in diluted net income per share as their effect is anti-dilutive									
Restricted stock units outstanding not included in diluted net income per share as their effect is anti-dilutive									

Diluted net income per common share is calculated by adjusting the weighted average shares outstanding for the theoretical effect of potential common shares that would be issued for stock option awards outstanding and unvested as of the respective periods using the treasury method.

**FIRST WATCH RESTAURANT GROUP, INC.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

## 14. Subsequent Events

### Business Acquisitions

On **October 13, 2023** **April 15, 2024**, the Company **executed an asset purchase agreement to acquire** **acquired 21 operating restaurants** from a franchisee, **six operating restaurants** together with **other the** associated assets, including, but not limited to, franchise and development rights for cash of approximately **\$9.2** **\$75.0** million. The **close date of the sale is** **subject purchase price will be allocated** to the **satisfaction of certain customary closing conditions set forth in** **assets acquired and liabilities assumed as the asset purchase agreement.**

**information necessary to complete the fair value analysis is obtained. The acquisition was funded by borrowings under the Credit Facility. See Note 7, Debt.**

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

### Cautionary Statement

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto included in Part I, Item 1 of this Form 10-Q and our audited consolidated financial statements and notes included in our **2022** **2023** Form 10-K. As discussed in "Cautionary Note Regarding Forward-Looking Statements," the following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may materially differ from those discussed in such forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those identified in our **2022** **2023** Form 10-K, including under "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations." **Operations**" and in "Part II, Item 1A. Risk Factors" of this Form 10-Q.*

### Overview

First Watch is an award-winning Daytime Dining concept serving made-to-order breakfast, brunch and lunch using fresh ingredients. A recipient of hundreds of local "Best Breakfast" and "Best Brunch" accolades, First Watch's **award winning** **award-winning** chef-driven menu includes elevated executions of classic favorites for breakfast, brunch and lunch. In 2023, First Watch was named **the top restaurant brand in Yelp's inaugural list of the top 50 most-loved brands in the U.S.** In 2023 and 2022, First Watch was named a Top 100 Most Loved Workplace® **by in** Newsweek **and by** the Best Practice Institute. In 2022, First Watch was recognized with ADP's coveted Culture at Work Award. The Company is majority **owned by Advent International Corporation, ("Advent")** **Institute for the second consecutive year.** On October 1, 2021, **one of the world's largest private-equity firms.** The Company's common stock **trades** **began trading** on Nasdaq under the ticker symbol "FWRG."

The Company operates and franchises restaurants in 29 states under the "First Watch" trade name and as of **September 24, 2023** **March 31, 2024**, the Company had **402** **432** company-owned restaurants and **103** **99** franchise-owned restaurants.

### Recent Developments

Financial **and operational** highlights for the thirteen weeks ended **September 24, 2023** **March 31, 2024** (**third first quarter of 2023** **2024**) as compared, **unless otherwise indicated below**, to the thirteen weeks ended **September 25, 2022** **March 26, 2023** (**third first quarter of 2022** **2023**) **reflect**, **reflected the continued success and sustained growth despite a challenging macro environment** **momentum of our strong operating performance** and include the following:

- Total revenues increased **17.3%** **14.7%** to **\$219.2 million** **\$242.4 million** in the **third first quarter of 2023** **2024** from **\$186.9 million** **\$211.4 million** in the **third first quarter of 2022** **2023**
- System-wide sales increased **14.9%** **9.4%** to **\$270.3 million** **\$289.6 million** in the **third first quarter of 2023** **2024** from **\$235.2 million** **\$264.7 million** in the **third first quarter of 2022** **2023**
- Same-restaurant sales growth of **4.8%** **(+38.8% relative to the third quarter of 2019)** **0.5%**
- Same-restaurant traffic **decline** **growth** of **1.9%** **(+6.5% same-restaurant traffic growth relative to the third quarter of 2019)** **(4.5%)**
- Income from operations margin **increased** **decreased** to **3.6%** **5.1%** during the **third first quarter of 2023** **2024** from **1.4%** **7.4%** in the **third first quarter of 2022** **2023**
- Restaurant level operating profit **margin** **margin** **increased** **decreased** to **18.7%** **20.8%** in the **third first quarter of 2023** **2024** from **17.3%** **21.2%** in the **third first quarter of 2022** **2023**
- Net income **increased** **decreased** to **\$5.4 million** **\$7.2 million**, or **\$0.09** **\$0.12** per diluted share, in the **third first quarter of 2023** **2024** from **\$46.0 thousand** **\$9.4 million**, or **\$0.15** **per diluted share** in the **third first quarter of 2022** **2023**
- Adjusted EBITDA **EBITDA** **increased** to **\$21.6 million** **\$28.6 million** in the **third first quarter of 2023** **2024** from **\$17.0 million** **\$27.4 million** in the **third first quarter of 2022** **2023**
- Opened **13** **9** system-wide restaurants **(10 company-owned and 3 franchise-owned)** **across 10 in 8 states** **and acquired 11 franchise-owned restaurants** resulting in a total of **505** **531** system-wide restaurants **(402 (432 company-owned and 103 99 franchise-owned)** across 29 states

\*Comparison Comparing the thirteen-week periods ended March 31, 2024 and April 2, 2023 in order to the thirteen weeks ended September 29, 2019 ("third quarter of 2019") is presented compare like-for-like periods. See "Key Performance Indicators" for enhanced comparability due to the economic impact of COVID-19. additional information.

\*\* See Non-GAAP Financial Measures Reconciliations section below.

## Business Trends

In The restaurant industry's casual dining segment experienced a traffic decline of 6.0% in the third first calendar quarter this year (as measured by Black Box Intelligence) versus the first quarter of 2023, we benefited from the previous year as many national full-service restaurant systems were met with unexpectedly harsh weather in January 2024 combined with sustained consumer pull-back that ran throughout the quarter. Despite the conditions, the Company's same-restaurant sales growth was 0.5% due primarily to carried price of 4.4% and positive mix, partially offset by negative same-restaurant traffic growth of 4.5%.

Commodity inflation of 2.9% in the first quarter of 2024 was due principally to increases in our cost of eggs, avocados and blueberries and partially offset by a decline in the average costs cost of our consolidated market basket combined with price increases, primarily to cover coffee. Management estimates 2024 commodity inflation implemented over the past year.

Our same-restaurant sales grew 4.8% with marginally positive in-restaurant dining traffic growth, though off-premises occasions continued to decline in comparison to last year, similar to industry-wide trends. We continue to believe the decline of our off-premises traffic reflects customers foregoing a comparatively high-ticket dining occasion combined with customers returning to the full experience of our restaurants' dining room service.

We expect full year commodity deflation to be in the range of negative 1.0% to flat. In addition, we expect hourly labor cost inflation to remain in the range of 9.0% to 11.0%, with overall restaurant-level labor cost inflation to will range between 8.0% and 10.0% in 2023, 2.0% to 4.0%.

During the thirty-nine weeks ended September 24, 2023, first quarter of 2024, restaurant-level labor experienced approximately 5.0% inflation. In 2024, we acquired 17 operating restaurants and one restaurant under development from our franchisees in continuation currently expect restaurant-level labor inflation of this component of our growth strategy. Furthermore, we continue 5.0% to execute on our long-term growth associated with new restaurant openings and we are staffed with over 120 managers to lead and operate our future new company-owned restaurants, 7.0%.

## Key Performance Indicators

Throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations" we commonly discuss the following key operating metrics which we believe will drive our financial results and long-term growth model. We believe these metrics are useful to investors because management uses these metrics to evaluate performance and assess the growth of our business as well as the effectiveness of our marketing and operational strategies.

**New Restaurant Openings** ("NROs"): the number of new company-owned First Watch restaurants commencing operations during the period. Management reviews the number of new restaurants to assess new restaurant growth and company-owned restaurant sales.

**Franchise-owned New Restaurant Openings** ("Franchise-owned NROs"): the number of new franchise-owned First Watch restaurants commencing operations during the period.

**Same-Restaurant Sales Growth**: the percentage change in year-over-year restaurant sales (excluding gift card breakage) for the comparable restaurant base, which we define as the number of company-owned First Watch branded restaurants open for 18 months or longer as of the beginning of the fiscal year ("Comparable Restaurant Base"). For the first quarter of 2024, this operating metric compares the first fiscal quarter ended March 31, 2024 with the thirteen-week period ended April 2, 2023, versus the fiscal quarter ended March 26, 2023, in order to compare like-for-like periods. For the thirteen and thirty-nine weeks ended September 24, 2023 March 31, 2024 and April 2, 2023, there were 327 344 restaurants in our Comparable Restaurant Base. For the thirteen and thirty-nine weeks ended September 25, 2022, there were 303 328 restaurants, respectively in our Comparable Restaurant Base. Measuring our same-restaurant sales growth allows management to evaluate the performance of our existing restaurant base. We believe this measure is useful for investors to provide a consistent comparison of restaurant sales results and trends across periods within our core, established restaurant base, unaffected by results of store openings, closings, and other transitional changes.

**Same-Restaurant Traffic Growth**: the percentage change in traffic counts for the thirteen weeks ended March 31, 2024 as compared to the same thirteen-week period in the prior year ended April 2, 2023 using the Comparable Restaurant Base. Measuring our same-restaurant traffic growth allows management to evaluate the performance of our existing restaurant base. We believe this measure is useful for investors because an increase in same-restaurant traffic provides an indicator as to the development of our brand and the effectiveness of our marketing strategy.

**System-wide restaurants**: the total number of restaurants, including all company-owned and franchise-owned restaurants.

**System-wide sales**: consists of restaurant sales from our company-owned restaurants and franchise-owned restaurants. We do not recognize the restaurant sales from our franchise-owned restaurants as revenue.

## Non-GAAP Financial Measures

To supplement the consolidated financial statements, which are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), we use the following non-GAAP measures, which present operating results on an adjusted basis: (i) Adjusted EBITDA, (ii) Adjusted EBITDA margin, (iii) Restaurant level operating profit and (iv) Restaurant level operating profit margin. Our presentation of these non-GAAP measures includes isolating the effects of some items that are either nonrecurring in nature or vary from period to period without any correlation to our ongoing core operating performance. These supplemental measures of performance are not required by or presented in accordance with GAAP. Management believes these non-GAAP measures provide investors with additional visibility into our operations, facilitate analysis and comparisons of our ongoing business operations because they exclude items that may not be indicative of our ongoing operating performance, help to identify operational trends and allow for greater transparency with respect to key metrics used by management in our financial and operational decision making. Our non-GAAP measures may not be comparable to similarly titled measures used by other companies and have important limitations as analytical tools. These non-GAAP measures should not be considered in isolation or as substitutes for analysis of our results as reported under GAAP as they may not provide a complete understanding of our performance. These non-GAAP measures should be reviewed in conjunction with our consolidated financial statements prepared in accordance with GAAP.

We use Adjusted EBITDA and Adjusted EBITDA margin (i) as factors in evaluating management's performance when determining incentive compensation, (ii) to evaluate our operating results and the effectiveness of our business strategies and (iii) internally as benchmarks to compare our performance to that of our competitors.

We use Restaurant level operating profit and Restaurant level operating profit margin (i) to evaluate the performance and profitability of each operating restaurant, individually and in the aggregate and (ii) to make decisions regarding future spending and other operational decisions.

**Adjusted EBITDA:** represents Net income before depreciation and amortization, interest expense, income taxes, and items that we do not consider in our evaluation of ongoing core operating performance as identified in the reconciliation of Net income, the most directly comparable measure in accordance with GAAP, to Adjusted EBITDA, included in the section *Non-GAAP Financial Measure Reconciliations* below.

**Adjusted EBITDA Margin:** represents Adjusted EBITDA as a percentage of total revenues. See *Non-GAAP Financial Measure Reconciliations* below for a reconciliation to Net income margin, the most directly comparable GAAP measure.

**Restaurant Level Operating Profit:** represents restaurant sales, less restaurant operating expenses, which include food and beverage costs, labor and other related expenses, other restaurant operating expenses, pre-opening expenses and occupancy expenses. Restaurant level operating profit excludes corporate-level expenses and other items that we do not consider in the evaluation of the ongoing core operating performance of our restaurants as identified in the reconciliation of Income from operations, the most directly comparable GAAP measure, to Restaurant level operating profit, included in the section *Non-GAAP Financial Measure Reconciliations* below.

**Restaurant Level Operating Profit Margin:** represents Restaurant level operating profit as a percentage of restaurant sales. See *Non-GAAP Financial Measure Reconciliations* below for a reconciliation to Income from operations margin, the most directly comparable GAAP measure.

## Selected Operating Data

	THIRTEEN WEEKS ENDED SEPTEMBER 24, 2023		
	Company-owned	Franchise-owned	Total
Beginning of period	381	111	492
New restaurants	10	3	13
Acquisitions of franchise-owned restaurants	11	(11)	—
End of period	402	103	505

	THIRTY-NINE WEEKS ENDED SEPTEMBER 24, 2023		
	Company-owned	Franchise-owned	Total
Beginning of period	366	108	474
New restaurant openings	20	12	32
Acquisitions of franchise-owned restaurants	17	(17)	—
Closures	(1)	—	(1)
End of period	402	103	505

(dollars in thousands)	THIRTEEN WEEKS ENDED				THIRTY-NINE WEEKS ENDED			
	SEPTEMBER 24, 2023		SEPTEMBER 25, 2022		SEPTEMBER 24, 2023		SEPTEMBER 25, 2022	
System-wide sales	\$	270,291	\$	235,231	\$	806,556	\$	680,588
Same-restaurant sales growth		4.8 %		12.0 %		8.5 %		17.0 %
Same-restaurant traffic growth (decline)		(1.9)%		3.7 %		0.7 %		10.6 %
Income from operations	\$	7,738	\$	2,621	\$	34,412	\$	15,434
Income from operations margin		3.6 %		1.4 %		5.4 %		2.9 %
Restaurant level operating profit <sup>(1)</sup>	\$	40,365	\$	31,872	\$	128,865	\$	98,390
Restaurant level operating profit margin <sup>(1)</sup>		18.7 %		17.3 %		20.3 %		18.3 %
Net income	\$	5,418	\$	46	\$	22,737	\$	7,393
Net income margin		2.5 %		— %		3.5 %		1.4 %
Adjusted EBITDA <sup>(2)</sup>	\$	21,629	\$	17,023	\$	74,858	\$	54,176
Adjusted EBITDA margin <sup>(2)</sup>		9.9 %		9.1 %		11.6 %		10.0 %

	THIRTEEN WEEKS ENDED			
	MARCH 31, 2024		MARCH 26, 2023	
System-wide sales (in thousands)	\$	289,581	\$	264,719
System-wide restaurants		531		484
Company-owned		432		370
Franchise-owned		99		114
Same-restaurant sales growth <sup>(1)</sup>		0.5 %		12.9 %
Same-restaurant traffic growth <sup>(1)</sup>		(4.5)%		5.1 %
Income from operations (in thousands)	\$	12,286	\$	15,331
Income from operations margin		5.1 %		7.4 %
Restaurant level operating profit (in thousands) <sup>(2)</sup>	\$	49,862	\$	44,102
Restaurant level operating profit margin <sup>(2)</sup>		20.8 %		21.2 %
Net income (in thousands)	\$	7,214	\$	9,360
Net income margin		3.0 %		4.4 %
Adjusted EBITDA (in thousands) <sup>(3)</sup>	\$	28,590	\$	27,413
Adjusted EBITDA margin <sup>(3)</sup>		11.8 %		13.0 %

(1) Comparing the thirteen-week period ended March 31, 2024 with the thirteen-week period ended April 2, 2023 in order to compare like-for-like periods. See "Key Performance Indicators" for additional information.

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

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

#### Same-Restaurant Sales Growth (Decline) and Same-Restaurant Traffic Growth (Decline)

THIRTEEN WEEKS ENDED	SAME-RESTAURANT TRAFFIC GROWTH		
	SAME-RESTAURANT SALES GROWTH	(DECLINE)	COMPARABLE RESTAURANT BASE
September 24, 2023	4.8 %	(1.9)%	327
September 25, 2022	12.0 %	3.7 %	303
September 26, 2021	46.2 %	40.1 %	270

#### Results of Operations

##### Thirteen and Thirty-Nine Weeks Ended September 24, 2023 Compared to Thirteen and Thirty-Nine Weeks Ended September 25, 2022

The following table summarizes our results of operations and the percentages of certain items in relation to Total revenues or, where indicated, Restaurant sales for the thirteen and thirty-nine weeks ended **September 24, 2023** **March 31, 2024** and **September 25, 2022** **March 26, 2023**:

		THIRTEEN WEEKS ENDED				THIRTY-NINE WEEKS ENDED										
		SEPTEMBER 24, 2023		SEPTEMBER 25, 2022		SEPTEMBER 24, 2023		SEPTEMBER 25, 2022								
(dollars in thousands)																
										THIR						
THIRTEEN WEEKS ENDED																
(in thousands)										(in thousands)						
										MARCH 31, 2024			MARCH 26, 2023			
Revenues	Revenues															
Restaurant sales																
Restaurant sales																
Restaurant sales	Restaurant sales	\$215,495	98.3 %	\$183,978	98.5 %	\$636,050	98.3 %	\$536,329	98.5 %	\$239,308	98.7	98.7	%	\$207,968	98.4	
Franchise revenues	Franchise revenues	3,717	1.7 %	2,874	1.5 %	10,868	1.7 %	8,088	1.5 %	Franchise revenues	3,141	1.3	1.3	%	3,438	1.6
Total revenues	Total revenues	219,212	100.0 %	186,852	100.0 %	646,918	100.0 %	544,417	100.0 %	Total revenues	\$242,449	100.0	100.0	%	\$211,406	100.0
Operating costs and expenses	Operating costs and expenses															
Restaurant operating expenses <sup>(1)</sup> (exclusive of depreciation and amortization shown below):	Restaurant operating expenses <sup>(1)</sup> (exclusive of depreciation and amortization shown below):															
Restaurant operating expenses <sup>(1)</sup> (exclusive of depreciation and amortization shown below):																
Food and beverage costs																
Food and beverage costs																
Food and beverage costs	Food and beverage costs	48,709	22.6 %	44,578	24.2 %	143,028	22.5 %	129,200	24.1 %	52,184	21.8	21.8	%	46,627	22.4	
Labor and other related expenses	Labor and other related expenses	73,137	33.9 %	61,262	33.3 %	212,312	33.4 %	175,091	32.6 %	Labor and other related expenses	79,735	33.3	33.3	%	68,573	33.0
Other restaurant operating expenses	Other restaurant operating expenses	33,694	15.6 %	29,685	16.1 %	97,572	15.3 %	85,761	16.0 %	Other restaurant operating expenses	36,792	15.4	15.4	%	31,696	15.2
Occupancy expenses	Occupancy expenses	17,555	8.1 %	15,091	8.2 %	49,950	7.9 %	44,318	8.3 %	Occupancy expenses	19,168	8.0	8.0	%	15,934	7.7
Pre-opening expenses	Pre-opening expenses	2,035	0.9 %	1,490	0.8 %	4,323	0.7 %	3,569	0.7 %	Pre-opening expenses	1,567	0.7	0.7	%	1,036	0.5
General and administrative expenses	General and administrative expenses	25,179	11.5 %	21,689	11.6 %	73,168	11.3 %	63,194	11.6 %	General and administrative expenses	27,658	11.4	11.4	%	22,705	10.7



Depreciation and amortization	Depreciation and amortization	10,434	4.8 %	8,679	4.6 %	28,992	4.5 %	25,302	4.6 %	Depreciation and amortization	12,271	5.1	5.1 %	9,117	4.3
Impairments and loss on disposal of assets	Impairments and loss on disposal of assets	185	0.1 %	338	0.2 %	618	0.1 %	572	0.1 %	Impairments and loss on disposal of assets	119	—	— %	134	0.1
Transaction expenses, net	Transaction expenses, net	546	0.2 %	1,419	0.8 %	2,543	0.4 %	1,976	0.4 %	Transaction expenses, net	669	0.3	0.3 %	253	0.1
Total operating costs and expenses	Total operating costs and expenses	211,474	96.5 %	184,231	98.6 %	612,506	94.7 %	528,983	97.2 %	Total operating costs and expenses	230,163	94.9	94.9 %	196,075	92.7
Income from operations <sup>(1)</sup>	Income from operations <sup>(1)</sup>	7,738	3.6 %	2,621	1.4 %	34,412	5.4 %	15,434	2.9 %	Income from operations <sup>(1)</sup>	12,286	5.1	5.1 %	15,331	7.4
Interest expense	Interest expense	(1,848)	(0.8)%	(1,362)	(0.7)%	(5,792)	(0.9)%	(3,494)	(0.6)%	Interest expense	(2,599)	(1.1)	(1.1)%	(1,907)	(0.9)
Other income, net	Other income, net	771	0.4 %	116	0.1 %	1,950	0.3 %	395	0.1 %	Other income, net	326	0.1	0.1 %	494	0.2
Income before income taxes	Income before income taxes	6,661	3.0 %	1,375	0.7 %	30,570	4.7 %	12,335	2.3 %	Income before income taxes	10,013	4.1	4.1 %	13,918	6.6
Income tax expense	Income tax expense	(1,243)	(0.6)%	(1,329)	(0.7)%	(7,833)	(1.2)%	(4,942)	(0.9)%	Income tax expense	(2,799)	(1.2)	(1.2)%	(4,558)	(2.2)
Net income	Net income	\$ 5,418	2.5 %	\$ 46	— %	\$ 22,737	3.5 %	\$ 7,393	1.4 %	Net income	\$ 7,214	3.0	3.0 %	\$ 9,360	4.4

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

## Restaurant Sales

Restaurant sales represent the aggregate sales of food and beverages, net of discounts, at company-owned restaurants. Restaurant sales in any period are directly influenced by the number of operating weeks in the period, the number of open restaurants, customer traffic and average check. Average check growth is driven by our menu price increases and changes to our menu mix. In both the thirteen and twenty-six week comparative periods in the table below, the trend of declining off-premises occasions is reflected as the change in the relative contribution of the Third-party delivery sales and Take-out sales to the Total Restaurant sales.

		THIRTEEN WEEKS ENDED			THIRTY-NINE WEEKS ENDED								
		SEPTEMBER	SEPTEMBER		SEPTEMBER	SEPTEMBER							
(dollars in thousands)		24, 2023	25, 2022	Change	24, 2023	25, 2022	Change						
THIRTEEN WEEKS ENDED								THIRTEEN WEEKS ENDED					
(in thousands)								MARCH		MARCH			
								31, 2024		26, 2023		Change	
Restaurant sales:	Restaurant sales:												
In-restaurant dining sales	In-restaurant dining sales												
In-restaurant dining sales	In-restaurant dining sales												
In-restaurant dining sales	In-restaurant dining sales	\$ 176,696	\$ 147,491	19.8 %	\$ 520,277	\$ 425,222	22.4 %	\$ 195,199	\$ 169,229	15.3	15.3	%	
Third-party delivery sales	Third-party delivery sales	22,011	20,105	9.5 %	65,765	60,960	7.9 %	25,935	22,314	16.2	16.2	%	

Take-out sales	Take-out sales	16,788	16,382	2.5 %	50,008	50,147	(0.3) %	Take-out sales	18,174	16,425		16,425	10.6	10.6 %
Total Restaurant sales	Total Restaurant sales	\$ 215,495	\$ 183,978	17.1 %	\$ 636,050	\$ 536,329	18.6 %	Total Restaurant sales	\$ 239,308	\$		\$ 207,968	15.1	15.1 %

The increase in total restaurant sales during the thirteen weeks ended **September 24, 2023** **March 31, 2024** as compared to the same period in the prior year was primarily due to (i) same-restaurant sales growth of 4.8% \$30.7 million from our NROs and acquired restaurants between March 26, 2023 and March 31, 2024, mainly driven by menu price increases, and (ii) \$23.3 million \$1.6 million from restaurants not in the Comparable Restaurant Base, which included \$14.6 million comparable restaurant base, partially offset by the negative impact from our 31 NROs between September 25, 2022 and September 24, 2023 and \$7.1 million from restaurants we had acquired from our franchisees. the one week shift in the fiscal calendar associated with same-restaurant sales.

The increase in total restaurant sales during the thirty-nine weeks ended September 24, 2023 as compared to the same period in the prior year was primarily due to (i) same restaurant sales growth of 8.5%, driven by same-restaurant traffic growth of 0.7% and menu price increases and (ii) \$57.0 million from restaurants not in the Comparable Restaurant Base, which included \$32.6 million from our 31 NROs between September 25, 2022 and September 24, 2023 and \$8.9 million from restaurants we had acquired from our franchisees.

#### Franchise Revenues

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

(dollars in thousands)	THIRTEEN WEEKS ENDED			THIRTY-NINE WEEKS ENDED		
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change
Franchise revenues:						
Royalty and system fund contributions	\$ 3,244	\$ 2,807	15.6 %	\$ 10,160	\$ 7,892	28.7 %
Initial fees	473	67	n/m (1)	708	196	n/m (1)
Total Franchise revenues	\$ 3,717	\$ 2,874	29.3 %	\$ 10,868	\$ 8,088	34.4 %

(1) Not meaningful.

(in thousands)	THIRTEEN WEEKS ENDED		
	MARCH 31, 2024	MARCH 26, 2023	Change
Franchise revenues:			
Royalty and system fund contributions	\$ 3,009	\$ 3,361	(10.5)%
Initial fees	102	77	32.5 %
Business acquisitions - franchise revenues recognized	30	—	100.0 %
Total Franchise revenues	\$ 3,141	\$ 3,438	(8.6)%

The increase decrease in franchise revenues during the thirteen and thirty-nine weeks ended **September 24, 2023** **March 31, 2024** as compared to the same periods period in the prior year was primarily driven by (i) due to the increase in sales from acquisition of 24 franchise-owned restaurants and (ii) \$0.3 million and \$0.8 million, respectively, over the past year, partially offset by franchise revenues from 17 the 10 franchise-owned NROs between **September 25, 2022** **March 26, 2023** and **September 24, 2023** **March 31, 2024**. The increase was partially offset by \$0.3 million and \$0.2 million lower franchise fees, respectively, as a result of the acquisitions of restaurants from our franchisees during the thirteen and thirty-nine weeks ended September 24, 2023.

#### Food and Beverage Costs

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

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Food and beverage costs	Food and beverage costs	THIRTEEN WEEKS ENDED						THIRTY-NINE WEEKS ENDED						Food and beverage costs					
		SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change						
		\$ 48,709	\$ 44,578	9.3 %	\$ 143,028	\$ 129,200	10.7 %				\$ 52,184	\$ 46,627	11.9 %					11.9 %	
As a percentage of restaurant sales	As a percentage of restaurant sales	22.6 %	24.2 %	(1.6) %	22.5 %	24.1 %	(1.6) %				21.8 %	22.4 %	(0.6) %						

Food and beverage costs as a percent of restaurant sales decreased during the thirteen and thirty-nine weeks ended September 24, 2023 March 31, 2024 as compared to the same periods period in the prior year primarily due to (i) lower carried pricing in excess of commodity costs across the market basket, driven mostly by decreases in pork and avocado prices and (ii) leveraging restaurant sales, inflation.

Food and beverage costs increased during the thirteen and thirty-nine weeks ended September 24, 2023 March 31, 2024 as compared to the same periods period in the prior year primarily as a result of (i) the increase in restaurant sales and (ii) 81 40 NROs that have opened between September 25, 2022 March 26, 2023 and September 24, 2023 and (iii) restaurants we had acquired from our franchisees. The increase was partially offset by lower commodity costs across the market basket, driven mostly by decreases in pork and avocado prices, March 31, 2024.

#### Labor and Other Related Expenses

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

Labor and other related expenses	Labor and other related expenses	THIRTEEN WEEKS ENDED						THIRTY-NINE WEEKS ENDED						Labor and other related expenses					
		SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change						
		\$ 73,137	\$ 61,262	19.4 %	\$ 212,312	\$ 175,091	21.3 %				\$ 79,735	\$ 68,573	16.3 %					16.3 %	
As a percentage of restaurant sales	As a percentage of restaurant sales	33.9 %	33.3 %	0.6 %	33.4 %	32.6 %	0.8 %				33.3 %	33.0 %	0.3 %						

Labor and other related expenses as a percentage of restaurant sales increased during the thirteen and thirty-nine weeks ended September 24, 2023 March 31, 2024 as compared to the same periods period in the prior year primarily as a result of the increase in wages average hourly labor wage increases and staffing carrying more managers to serve growing dining room traffic, staff NROs. This was partially offset by (i) more efficient hourly labor and by the increase in menu prices and (ii) the decrease in health insurance costs, prices.

The increase in labor and other related expenses during the thirteen and thirty-nine weeks ended September 24, 2023 March 31, 2024 as compared to the same periods period in the prior year was primarily due to (i) investments in average hourly labor including wage increases, in wages (ii) 40 NROs between March 26, 2023 and staffing levels, (ii) 31 NROs that have opened between September 25, 2022 and September 24, 2023 March 31, 2024 and (iii) restaurants we had acquired from our franchisees. This was partially offset by the decrease in health insurance costs, carrying more managers to staff NROs.

#### Other Restaurant Operating Expenses

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

		THIRTEEN WEEKS ENDED						THIRTY-NINE WEEKS ENDED					
		SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change

THIRTEEN WEEKS ENDED								THIRTEEN WEEKS ENDED			
(in thousands)								(in thousands)			
								MARCH 31, 2024		MARCH 26, 2023	
										Change	
Other restaurant operating expenses	Other restaurant operating expenses	\$ 33,694	\$ 29,685	13.5 %	\$ 97,572	\$ 85,761	13.8 %	\$ 36,792	\$ 31,696	16.1	16.1 %
As a percentage of restaurant sales	As a percentage of restaurant sales	15.6 %	16.1 %	(0.5) %	15.3 %	16.0 %	(0.7) %	15.4 %	15.2 %	0.2	%

The decrease in other restaurant operating expenses as a percentage of restaurant sales during the thirteen and thirty-nine weeks ended September 24, 2023 as compared to March 31, 2024 was higher than the same periods period in the prior year was primarily due to (i) leveraging in-restaurant dining sales, (ii) lower costs of to-go supplies higher repair and (iii) lower insurance costs. This was maintenance expense partially offset by the increase in repairs and maintenance expense. favorable to-go supplies costs.

The increase in other restaurant operating expenses during the thirteen weeks ended September 24, 2023 March 31, 2024 as compared to the same period in the prior year was mainly due to the increase in restaurant sales and restaurant growth, including restaurants we acquired from our franchisees, driving increases of (i) \$2.9 million \$2.1 million related to repairs and maintenance, utilities, licensing/permits, marketing and other operating expenses, (ii) \$1.2 million in credit card fees, (ii) \$0.5 million (iii) \$1.0 million in operating supplies expense and (iii) \$0.5 million (iv) \$0.8 million in third-party delivery service fees. The increase was partially offset by \$0.4 million lower insurance costs.

The increase in other restaurant operating expenses during the thirty-nine weeks ended September 24, 2023 as compared to the same period in the prior year was mainly due to the increase in restaurant sales and restaurant growth driving (i) \$2.2 million in operating supplies expense, (ii) \$7.0 million related to credit card fees, utilities and repairs and maintenance expense, in addition to (iii) \$1.4 million in third-party delivery service fees.

#### Occupancy Expenses

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

THIRTEEN WEEKS ENDED								THIRTY-NINE WEEKS ENDED			
(dollars in thousands)								(dollars in thousands)			
								SEPTEMBER 24, 2023		SEPTEMBER 25, 2022	
								Change		Change	

SEPTEMBER			SEPTEMBER			SEPTEMBER			SEPTEMBER					
(dollars in thousands)			24, 2023	25, 2022	Change	24, 2023	25, 2022	Change						
THIRTEEN WEEKS ENDED									THIRTEEN WEEKS ENDED					
(in thousands)									(in thousands)					
									MARCH 27, 2022	MARCH 28, 2021	Change			
Pre-opening expenses	Pre-opening expenses	\$	2,035	\$	1,490	36.6	%	\$	4,323	\$	3,569	21.1	%	
									\$	1,567	\$	1,036	51.3	%

### Impairments and Loss on Disposal of Assets

	THIRTEEN WEEKS ENDED			THIRTY-NINE WEEKS ENDED		
(dollars in thousands)	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change
Impairments and loss on disposal of assets	\$ 185	\$ 338	(45.3)%	\$ 618	\$ 572	8.0 %

NROs.

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

THIRTEEN WEEKS ENDED							THIRTY-NINE WEEKS ENDED											
SEPTEMBER							SEPTEMBER											
SEPTEMBER							SEPTEMBER											
(dollars in thousands)	24, 2023	25, 2022	Change	24, 2023	25, 2022	Change												
THIRTEEN WEEKS ENDED							THIRTEEN WEEKS ENDED											
(in thousands)																		
							MARCH 31, 2024	MARCH 26, 2023	Change									
Transaction expenses, net	Transaction expenses, net	\$	546	\$	1,419	(61.5)%	\$	2,543	\$	1,976	28.7 %	\$	669	\$	253	164.4	164.4	%

**Income from Operations**

(in thousands)	THIRTEEN WEEKS ENDED		
	MARCH 31, 2024	MARCH 26, 2023	Change
Income from operations	\$ 12,286	\$ 15,331	(19.9)%
As a percentage of restaurant sales	5.1 %	7.4 %	(2.3)%

The increase in Transaction expenses, net during the thirty-nine weeks ended September 24, 2023 as compared to the same period in the prior year was primarily due to costs incurred in connection with the acquisition of certain restaurants from our franchisees. The increase was partially offset by (i) lower costs incurred by us in connection with the sale of the Company's common stock by funds managed by Advent through secondary public offerings and (ii) costs related to the closures of company-owned restaurants incurred during the thirty-nine weeks ended September 25, 2022.

[illegible]

Income from operations	\$	7,738	\$	2,621	n/m <sup>(1)</sup>	\$	34,412	\$	15,434	n/m <sup>(1)</sup>
As a percentage of restaurant sales		3.6 %		1.4 %	2.2 %		5.4 %		2.9 %	2.5 %

(1) Not meaningful.

Income from operations margin increased during the thirteen and thirty-nine weeks ended September 24, 2023 as compared to the same periods in the prior year primarily due to (i) leveraging restaurant sales, (ii) lower costs for pork, avocados and to-go supplies and (iii) lower transaction costs. This was partially offset by the increase in restaurant-level wages and staffing.

Income from operations increased during the thirteen and thirty-nine weeks ended September 24, 2023 as compared to the same periods in the prior year primarily due to (i) the increase in restaurant general and administrative expenses mainly due to wage increases and additional employee headcount to support growth, (ii) the increase in depreciation and amortization as a percent of sales and franchise revenues (iii) the increase in restaurant-level wages and (ii) lower costs for commodities and to-go supplies, staffing. This decrease was partially offset by menu price increases.

Income from operations decreased during the thirteen weeks ended March 31, 2024 as compared to the same period in the prior year primarily due to (i) the increase in restaurant-level wages and staffing, (ii) higher operating costs general and administrative expenses mainly attributable to wage increases and additional employee headcount to support growth and (iii) higher depreciation and amortization expense driven by our restaurant growth and acquisitions of certain franchise-owned restaurants, partially offset by an increase in restaurant as well as (iii) higher general and administrative expenses mainly attributable to wage increases, performance-based compensation and additional employee headcount, sales.

### Interest Expense

Interest expense primarily consists of interest and fees on our outstanding debt and the amortization expense for debt discount and deferred issuance costs.

(dollars in thousands)	THIRTEEN WEEKS ENDED			THIRTY-NINE WEEKS ENDED		
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change
THIRTEEN WEEKS ENDED						
(in thousands)						
Interest expense	\$ 1,848	\$ 1,362	35.7 %	\$ 5,792	\$ 3,494	65.8 %
THIRTY-NINE WEEKS ENDED						
(in thousands)						
Interest expense	\$ 2,599	\$ 1,907	36.3 %			

The increase in interest expense during the thirteen and thirty-nine weeks ended September 24, 2023 March 31, 2024 as compared to the same periods period in the prior year was primarily due to (i) increased borrowings and (ii) higher interest rates, which was partially offset by the decrease in outstanding debt due to expected principal repayments.

rates.

### Other Income, Net

Other income, net includes items deemed to be non-operating based on management's assessment of the nature of the item in relation to our core operations.

(dollars in thousands)	THIRTEEN WEEKS ENDED			THIRTY-NINE WEEKS ENDED		
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change
Other income, net	\$ 771	\$ 116	n/m <sup>(1)</sup>	\$ 1,950	\$ 395	n/m <sup>(1)</sup>

(1) Not meaningful.

(in thousands)	THIRTEEN WEEKS ENDED		
	MARCH 31, 2024	MARCH 26, 2023	Change
Other income, net	\$ 326	\$ 494	(34.0)%

The increase decrease in Other income, net during the thirteen and thirty-nine weeks ended September 24, 2023 March 31, 2024 as compared to the same period in the prior year was primarily due to (i) insurance recoveries, net of costs incurred, in connection with Hurricane Ian and (ii) the increase in a debt refinancing loss partially offset by higher interest income.

### Income Tax Expense

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

(dollars in thousands)	THIRTEEN WEEKS ENDED			THIRTY-NINE WEEKS ENDED		
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change

THIRTEEN WEEKS ENDED								THIRTEEN WEEKS ENDED			
(in thousands)								(in thousands)			
								MARCH 31, 2024		MARCH 26, 2023	
										Change	
Income tax expense	Income tax expense	\$	(1,243)	\$	(1,329)	(6.5)%	\$ (7,833)	\$	(2,799)	\$	(4,558)
										(38.6)	(38.6) %
Effective income tax rate	Effective income tax rate		18.7 %		96.7 %	(78.0)%	25.6 %		28.0 %		32.7 %
										(14.4)	(14.4) %

The decrease in Income tax expense is primarily due to (i) lower pre-tax income and (ii) a change in the effective income tax rate for the thirteen and thirty-nine week period weeks ended September 24, 2023 March 31, 2024 as compared to the same periods period in the prior year. The change in effective income tax rate for the thirteen weeks ended March 31, 2024 as compared to the same period in the prior year was primarily due to (i) the change in the valuation allowance for federal on deferred tax assets, (ii) the decrease in the valuation allowance for state net operating loss carryforwards, (iii) the benefit of tax credits for FICA taxes on certain employees' tips (iv) and (iii) the impacts of executive stock-based compensation and (v) non-deductible costs associated with the secondary offerings. compensation.

#### Net Income

THIRTEEN WEEKS ENDED				THIRTY-NINE WEEKS ENDED			
(dollars in thousands)							
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	
Net income	\$ 5,418	\$ 46	n/m (1)	\$ 22,737	\$ 7,393	n/m (1)	
As a percentage of total revenues	2.5 %	— %	2.5 %	3.5 %	1.4 %	2.1 %	

(1) Not meaningful.

THIRTEEN WEEKS ENDED			
(in thousands)			
	MARCH 31, 2024	MARCH 26, 2023	Change
Net income	\$ 7,214	\$ 9,360	(22.9)%
As a percentage of total revenues	3.0 %	4.4 %	(1.4)%

The increase in net

Net income and netNet income margin during the thirteen and thirty-nine weeks ended September 24, 2023 as compared to the same periods in the prior year was primarily due to the increase in income from operations. This was partially offset by (i) the increase in interest expense and (ii) the increase in income tax expense.

#### Restaurant Level Operating Profit and Restaurant level Operating Profit Margin

THIRTEEN WEEKS ENDED				THIRTY-NINE WEEKS ENDED			
(dollars in thousands)							
	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	
Restaurant level operating profit	\$ 40,365	\$ 31,872	26.6 %	\$ 128,865	\$ 98,390	31.0 %	
Restaurant level operating profit margin	18.7 %	17.3 %	1.4 %	20.3 %	18.3 %	2.0 %	

Restaurant level operating profit margin during the thirteen and thirty-nine weeks ended September 24, 2023 increased March 31, 2024 decreased as compared to the same period in the prior year primarily due to (i) leveraging the decrease in income from operations and increase in restaurant interest expense. This was partially offset by the decrease in income tax expense.

#### Restaurant Level Operating Profit and Restaurant level Operating Profit Margin

THIRTEEN WEEKS ENDED			
(in thousands)			
	MARCH 31, 2024	MARCH 26, 2023	Change
Restaurant level operating profit	\$ 49,862	\$ 44,102	13.1 %
Restaurant level operating profit margin	20.8 %	21.2 %	(0.4)%

Restaurant level operating profit margin during the thirteen weeks ended March 31, 2024 decreased as compared to the same period in the prior year primarily due to sales growth associated with NROs and (ii) lower costs for pork, avocados restaurants acquired between March 26, 2023 and to-go supplies. March 31, 2024. This was partially offset by the



Restaurant level operating profit during for the thirteen and thirty-nine weeks ended September 24, 2023 March 31, 2024 increased as compared to the same periods period in the prior year primarily due to (i) same-restaurant sales growth driven by the increase in menu price increases, prices, as well as (ii) 31 40 NROs between September 25, 2022 March 26, 2023 and September 24, 2023, (iii) restaurants we had acquired from our franchisees and (iv) lower costs for commodities and to-go supplies, March 31, 2024. This was partially offset by (i) the an increase in operating costs and expenses driven by our restaurant growth and (ii) the increase in restaurant-level wages and staffing, staffing levels.

	THIRTEEN WEEKS ENDED		
(in thousands)	MARCH 31, 2024	MARCH 26, 2023	Change
Adjusted EBITDA	\$ 28,590	\$ 27,413	4.3 %
Adjusted EBITDA margin	11.8 %	13.0 %	(1.2)%

	THIRTEEN WEEKS ENDED			THIRTY-NINE WEEKS ENDED		
(dollars in thousands)	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	Change
Adjusted EBITDA	\$ 21,629	\$ 17,023	27.1 %	\$ 74,858	\$ 54,176	38.2 %
Adjusted EBITDA margin	9.9 %	9.1 %	0.8 %	11.6 %	10.0 %	1.6 %

Adjusted EBITDA margin declined primarily due to an increase in general and administrative expenses, occupancy and preopening expenses increasing as a percent of sales, partially offset by food and beverage costs decreasing as a percent of sales.

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

		THIRTY-NINE WEEKS ENDED			
		THIRTEEN WEEKS ENDED		THIRTEEN WEEKS ENDED	
		SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022
(dollars in thousands)					
THIRTEEN WEEKS ENDED				THIRTEEN WEEKS ENDED	
(in thousands)				(in thousands)	
		MARCH 31, 2024		MARCH 26, 2023	
Net income	Net income	\$ 5,418	\$ 46	\$ 22,737	\$ 7,393
Depreciation and amortization	Depreciation and amortization	10,434	8,679	28,992	25,302
Interest expense	Interest expense	1,848	1,362	5,792	3,494
Income taxes	Income taxes	1,243	1,329	7,833	4,942
EBITDA	EBITDA	18,943	11,416	65,354	41,131
Stock-based compensation <sup>(1)</sup>		1,764	2,719	5,386	7,821
Transaction expenses, net <sup>(2)</sup>		546	1,419	2,543	1,976
Strategic transition costs <sup>(3)</sup>		168	780	681	1,951
Delaware Voluntary Disclosure Agreement Program <sup>(4)</sup>		44	—	456	—
Strategic costs <sup>(1)</sup>					

Loss on extinguishment and modification of debt
Stock-based compensation (2)
Delaware Voluntary Disclosure Agreement Program (3)
Transaction expenses, net (4)

Insurance proceeds in connection with natural disasters, net (5)	Insurance proceeds in connection with natural disasters, net (5)	(326)	—	(621)	—
Impairments and loss on disposal of assets (6)	Impairments and loss on disposal of assets (6)	185	338	618	572
Recruiting and relocation costs (7)	Recruiting and relocation costs (7)	305	351	415	570
Severance costs (8)	Severance costs (8)	—	—	26	155
Adjusted EBITDA	Adjusted EBITDA \$	21,629	\$ 17,023	\$ 74,858	\$ 54,176
Total revenues	Total revenues \$	219,212	\$ 186,852	\$ 646,918	\$ 544,417

Total revenues	Total revenues				
Net income margin	Net income margin	2.5%	—%	3.5%	1.4%
Adjusted EBITDA margin	Adjusted EBITDA margin	9.9%	9.1%	11.6%	10.0%
Additional information	Additional information				
Deferred rent expense (9)	Deferred rent expense (9) \$	661	\$ 680	\$ 1,575	\$ 1,911
Deferred rent expense (9)	Deferred rent expense (9)				

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

(2) Represents costs incurred in connection with the secondary offerings by Advent and the acquisition of certain franchise-owned restaurants.

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

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

(3) Represents professional service costs incurred in connection with the Delaware Voluntary Disclosure Agreement Program related to unclaimed or abandoned property. These costs are recorded in General and administrative expenses on the Consolidated Statements of Operations and Comprehensive Income.

- (4) Represents costs incurred in connection with the acquisition of franchise-owned restaurants, expenses related to debt, secondary offering costs and, in 2024, an offsetting gain on release of contingent consideration liability.
- (5) Represents insurance recoveries, net of costs incurred, in connection with Hurricane Ian, hurricane damage, which were recorded in Other income, net on the Consolidated Statements of Operations and Comprehensive Income.
- (6) Represents costs related to the disposal of assets due to retirements, replacements or certain restaurant closures. There were no impairments recognized during the periods presented.
- (7) Represents costs incurred for hiring qualified individuals. These costs are recorded within General and administrative expenses on the Consolidated Statements of Operations and Comprehensive Income.
- (8) Severance costs are recorded in General and administrative expenses on the Consolidated Statements of Operations and Comprehensive Income.
- (9) Represents the non-cash portion of straight-line rent expense recorded within both Occupancy expenses and General and administrative expenses on the Consolidated Statements of Operations and Comprehensive Income.

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

		THIRTY-NINE WEEKS ENDED					
		THIRTEEN WEEKS ENDED		THIRTY-NINE WEEKS ENDED			
		SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022		
(dollars in thousands)							
THIRTEEN WEEKS ENDED						THIRTEEN WEEKS ENDED	
						MARCH 31, 2024	MARCH 26, 2023
(in thousands)						(in thousands)	
Income from operations	Income from operations	\$ 7,738	\$ 2,621	\$ 34,412	\$ 15,434		
Less: Franchise revenues	Less: Franchise revenues	(3,717)	(2,874)	(10,868)	(8,088)		
Add:	Add:						
General and administrative expenses	General and administrative expenses						
General and administrative expenses	General and administrative expenses						
General and administrative expenses	General and administrative expenses	25,179	21,689	73,168	63,194		
Depreciation and amortization	Depreciation and amortization	10,434	8,679	28,992	25,302		
Transaction expenses, net <sup>(1)</sup>	Transaction expenses, net <sup>(1)</sup>	546	1,419	2,543	1,976		
Impairments and loss on disposal of assets <sup>(2)</sup>	Impairments and loss on disposal of assets <sup>(2)</sup>	185	338	618	572		
Restaurant level operating profit	Restaurant level operating profit	\$ 40,365	\$ 31,872	\$ 128,865	\$ 98,390		
Restaurant sales	Restaurant sales	\$ 215,495	\$ 183,978	\$ 636,050	\$ 536,329		
Restaurant sales	Restaurant sales						
Income from operations margin	Income from operations margin	3.6 %	1.4 %	5.4 %	2.9 %	Income from operations margin	5.1 %
Restaurant level operating profit margin	Restaurant level operating profit margin	18.7 %	17.3 %	20.3 %	18.3 %	Restaurant level operating profit margin	21.2 %

Additional information	Additional information					
Additional information						
Additional information						
Deferred rent expense <sup>(3)</sup>	Deferred rent expense <sup>(3)</sup>	\$	611	\$	631	\$ 1,425 \$ 1,762
Deferred rent expense <sup>(3)</sup>						
Deferred rent expense <sup>(3)</sup>						

(1) Represents costs incurred in connection with the secondary offerings by Advent and the acquisition of certain franchise-owned restaurants. restaurants, expenses related to debt, secondary offering costs and, in 2024, an offsetting gain on release of contingent consideration liability.

(2) Represents costs related to the disposal of assets due to retirements, replacements or certain restaurant closures. There were no impairments recognized during the periods presented.

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

## Liquidity and Capital Resources

### Liquidity

As of September 24, 2023 March 31, 2024, we had cash and cash equivalents of \$39.9 million \$43.2 million and we had outstanding borrowings under the Credit Facility of \$122.5 million, excluding unamortized debt issuance costs and deferred issuance costs of \$95.0 million. costs. We had availability under our undrawn revolving credit facility of \$75.0 million \$102.5 million, of which \$1.7 million is reserved under letters of credit, and availability of \$125.0 million under our undrawn delayed draw term loan pursuant to our credit agreement, dated as of October 6, 2021 (the "Credit amended" ("Credit Agreement"). Our principal uses of cash include capital expenditures for the development, acquisition or remodeling of restaurants, lease obligations, debt service payments and strategic infrastructure investments. Our working capital requirements are low because our restaurants store very little inventory and our customers pay for their purchases at the time of the sale which frequently precedes our payment terms with suppliers.

We believe that our cash flow from operations, availability under our Credit Agreement and available cash and cash equivalents will be sufficient to meet our liquidity needs for at least the next 12 months. We anticipate that to the extent that we require additional liquidity, or should we decide to pursue one or more significant acquisitions, it will be funded first through additional indebtedness and thereafter through the issuance of equity. Although we believe that our current level of total available liquidity is sufficient to meet our short-term and long-term liquidity requirements, we regularly evaluate opportunities to improve our liquidity position in order to enhance financial flexibility.

We estimate that our capital expenditures will total approximately \$85.0 million \$125.0 million to \$90.0 million \$135.0 million in 2023, 2024, not including the capital allocated to franchise acquisitions, which will be invested primarily in new restaurant projects and planned remodels. We plan to fund the capital expenditures primarily with cash generated from our operating activities as well as with borrowings from our facilities pursuant to our Credit Agreement.

### Summary of Cash Flows

The following table presents a summary of our cash provided by (used in) operating, investing and financing activities for the thirty-nine thirteen weeks ended September 24, 2023 March 31, 2024 and September 25, 2022 March 26, 2023:

		THIRTY-NINE WEEKS ENDED				THIRTEEN WEEKS ENDED		THIRTEEN WEEKS ENDED	
(in thousands)	(in thousands)	SEPTEMBER 24, 2023	SEPTEMBER 25, 2022	(in thousands)	MARCH 31, 2024			MARCH 26, 2023	
Cash provided by operating activities	Cash provided by operating activities	\$ 73,044	\$ 46,644						
Cash used in investing activities	Cash used in investing activities	(82,633)	(45,700)						
Cash used in financing activities	Cash used in financing activities	(85)	(3,437)						
Net increase in cash and cash equivalents and restricted cash		\$ (9,674)	\$ (2,493)						

Cash  
provided  
by (used)  
in financing  
activities  
Net  
(decrease)  
increase in  
cash and  
cash  
equivalents  
and  
restricted  
cash

Cash provided by operating activities during the **thirty-nine** **thirteen** weeks ended **September 24, 2023** **March 31, 2024** increased to **\$73.0 million** **\$25.0 million** from **\$46.6 million** **\$21.1 million** during the **thirty-nine** **thirteen** weeks ended **September 25, 2022** **March 26, 2023** primarily due to (i) the **increase** **decrease** in net income of **\$15.3 million**, **\$(2.1) million**, (ii) the impact of non-cash charges **that increased by a net \$5.1 million** **of \$3.6 million** and (iii) the net change in operating assets and liabilities of **\$6.0 million** **\$2.4 million**. The **\$5.1 million** increase in **the** non-cash charges was primarily driven by **increases** **(i) the change in** **(i) deferred income taxes**, **(ii) depreciation and amortization** and **(iii) non-cash** **(ii) the change in** operating lease costs. This increase was partially offset by **a decrease** **the change in** stock-based compensation expense, **deferred income taxes**. The net change **of \$6.0 million** in operating assets and liabilities **of \$2.4 million** was primarily **a result driven by the timing of higher accrued compensation**.

**operational payments.**

Cash used in investing activities increased to **\$82.6 million** **\$(32.0) million** during the **thirty-nine** **thirteen** weeks ended **September 24, 2023** **March 31, 2024** from **\$45.7 million** **\$(14.4) million** during the **thirty-nine** **thirteen** weeks ended **September 25, 2022** **March 26, 2023** primarily as a result of (i) the increase in capital expenditures **to support our restaurant growth and new restaurant technology as well as** **of \$(14.1) million**, (ii) amounts paid during the **acquisition** **thirteen weeks ended March 31, 2024** for acquisitions, including contingent consideration payments, of certain restaurants from our franchisees.

**\$(3.4) million.**

Cash **used in** **provided by** financing activities **decreased to \$0.1 million** **of \$0.6 million** during the **thirty-nine** **thirteen** weeks ended **September 24, 2023** **March 31, 2024** increased from **\$3.4 million** **the \$(2.0) million** cash used during the **thirty-nine** **thirteen** weeks ended **September 25, 2022** **March 26, 2023** primarily due to the increased **March 26, 2023** as a result of (i) proceeds from the exercise of stock options, net of employee taxes paid, **which was partially** **of \$2.6 million**, (ii) proceeds from long-term debt, net of payments made, of **\$1.9 million**, (iii) **no** payments on the note payable during the thirteen weeks ended **March 31, 2024** versus **\$0.5 million** payments made during the thirteen weeks ended **March 26, 2023**, offset by **higher principal repayments** **(iv) \$(2.4) million** payments of **debt**.

**debt discount and deferred issuance costs during the thirteen weeks ended March 31, 2024.**

#### Critical Accounting Estimates

Our discussion and analysis of our financial condition and results of operations is based upon the accompanying unaudited interim consolidated financial statements and notes thereto, which have been prepared in accordance with GAAP. The preparation of these unaudited interim consolidated financial statements and related notes requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Certain of our accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on our historical experience, terms of existing contracts, our evaluation of trends in the industry and information available from other outside sources, as appropriate. We evaluate our estimates and judgments on an on-going basis. Our actual results may differ from these estimates. Judgments and uncertainties affecting the application of those policies may result in materially different amounts being reported under different conditions or using different assumptions. There have been no significant changes to our critical accounting policies as disclosed in "Critical Accounting Estimates" in the **2022** **2023** Form 10-K.

#### Recently Issued Accounting Pronouncements

For a discussion of recently issued accounting **pronouncements**, **pronouncements**, see Note 2, *Summary of Significant Accounting Policies*, in the accompanying notes to the unaudited interim consolidated financial statements.

#### Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to interest rate risk through fluctuations in interest rates on our debt obligations. On June 23, 2023, we entered into a variable-to-fixed interest rate swap agreement with two financial institutions to hedge \$90.0 million of the **\$95.0 million** **\$122.5 million** outstanding variable rate debt. Under the terms of the interest rate swap agreement, the Company will pay a weighted average fixed rate of 4.16% on the notional amount and will receive payments from the counterparties based on

the three-month secured overnight financing rate. Refer to Note 8, *Interest Rate Swaps*, in the accompanying notes to the unaudited interim consolidated financial statements. Except as described above, there have been no material changes to our exposure to market risks as disclosed in the 2022 2023 Form 10-K.

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

We are responsible for establishing and maintaining disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act, such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Disclosure controls and procedures also include, without limitation, controls and procedures that are designed to ensure that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Due to the material weaknesses in our internal control over financial reporting which were previously identified and disclosed in connection with our initial public offering and in our periodic reports filed with the SEC, discussed below, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 24, 2023 March 31, 2024, our disclosure controls and procedures were not effective. In light of this fact, our management has performed additional analyses, reconciliations, and other post-closing procedures and has concluded that, notwithstanding the material weaknesses in our internal control over financial reporting, the consolidated financial statements for the periods covered by and included in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with GAAP.

##### Previously Identified Material Weaknesses

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of annual or interim financial statements would not be prevented or detected on a timely basis.

Refer to the management report on internal control over financial reporting in Part II - Item 9A of the 2022 2023 Form 10-K filed with the SEC on March 7, 2023 March 5, 2024 for a discussion of the material weaknesses that continue to exist as of September 24, 2023 March 31, 2024.

##### Remediation Efforts

Management continues We continue to implement measures designed to improve the Company's internal control over financial reporting including disclosure controls and procedures, to address and remediate the previously identified material weaknesses. To date, such measures include the following:

- Hired new and reassigned existing financial reporting, accounting, and information technology leadership with public company experience to enhance public company financial reporting, technical accounting, and information technology services and solutions.
- Augmented financial reporting capabilities by staffing professionals with special skills knowledge and experience in income tax, internal audit, information technology, and legal.
- Established various policies, including a formal delegation of authority policy defining the protocols for reviewing and authorizing commitments, contracts, invoices, and transactions as well as a comprehensive set of information technology policies to govern the Company's information technology practices.
- Formalized certain roles and reviewed responsibilities, including ensuring appropriate segregation of duties.
- Designed and implemented period-end financial reporting controls, such as controls over the preparation and review of account reconciliations, financial statement disclosures, and the consolidated financial statements, including controls around classification of cash flows and disclosure of noncash items, as well as establishing a formal management Disclosure Committee to review the draft financial statements and disclosures prior to release, including a sub-certification process from various functional groups.

- Enhanced access restrictions for certain users over general ledger journal entries and designed new processes to further segregate journal entry creation from journal entry approval authority. In addition, we are designing new processes to review and approve journal entries.
- Designed and implemented controls over the accounting for income taxes to ensure the appropriate recording of deferred income taxes, income taxes and related disclosures.
- Designed sufficient user access controls to ensure appropriate segregation of duties and adequately restrict user and privileged access to financial applications, programs and data to appropriate Company personnel.
- Designed and implemented change management controls to ensure that information technology program and data changes affecting financial information technology applications and underlying accounting records are identified, tested, authorized, and implemented appropriately.
- Designed and implemented computer operation controls to ensure critical jobs are monitored and privileges are appropriately granted.
- Implemented a new backup and recovery platform to monitor data backups for all relevant systems in accordance with the applicable policy as well as manage a test recovery process.

While the material weaknesses previously disclosed have not yet been remediated as of September 24, 2023 March 31, 2024, management is devoting substantial resources to the ongoing remediation efforts. As we continue to evaluate and work to improve our internal control over financial reporting, we may take additional measures to address control deficiencies, or we may modify certain of the remediation measures described above. The material weaknesses will not be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are designed and operating effectively.

#### Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the fiscal quarter ended September 24, 2023 March 31, 2024 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## Part II - Other Information

### Item 1. Legal Proceedings

From time to time, we are involved in various claims and legal actions that arise in the ordinary course of business. We currently do not believe that the ultimate resolution of any of these actions, individually or taken in the aggregate, will have a material adverse effect on our financial position, results of operations, liquidity or capital resources. A significant increase in the number of claims or an increase in amounts owing under successful claims could materially adversely affect our business, financial condition, results of operations and cash flows. See Note 12, *Commitments and Contingencies*, in the accompanying notes to the unaudited interim consolidated financial statements.

### Item 1A. Risk Factors

In addition to the other information discussed in this report, please consider the factors described in Part I, Item 1A., "Risk Factors" in our 2022 2023 Form 10-K which could materially affect our business, financial condition or future results. There The information presented below updates, and should be read in conjunction with, the risk factors disclosed in our 2023 Form 10-K. We are making the below updates to reflect that, due to Advent's sales of our common stock on March 12, 2024, we are no longer considered a "controlled company" under Nasdaq listing rules. Except as presented below, there have been no material changes to the risk factors disclosed in our 2022 2023 Form 10-K, but these are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may adversely affect our business, financial condition or results of operations.

The following risk factor has been updated:

***If the ownership of our common stock continues to be highly concentrated, it may prevent you and other minority stockholders from influencing significant corporate decisions and may result in conflicts of interest. Although we are no longer a "controlled company" within the meaning of the rules of the Nasdaq, Advent will continue to exert substantial influence over us.***

Advent indirectly beneficially owns approximately 45% of our outstanding common stock. Although we are no longer a "controlled company" within the meaning of the Nasdaq listing rules, Advent indirectly beneficially owns shares sufficient to significantly influence all matters requiring stockholder votes, including: the election of directors; mergers, consolidations and acquisitions; the sale of all or substantially all of our assets and other decisions affecting our capital structure; amendments to our certificate of incorporation or our bylaws; and our winding up and dissolution.

This concentration of ownership may delay, deter or prevent acts that would be favored by our other stockholders. The interests of Advent may not always coincide with our interests or the interests of our other stockholders. This concentration of ownership may also have the effect of delaying, preventing or deterring a change in control of us. Also, Advent may seek to cause us to take courses of action that, in its judgment, could enhance its investment in us, but which might involve risks to our other stockholders or adversely affect us or

our other stockholders. As a result, the market price of our common stock could decline or stockholders might not receive a premium over the then-current market price of our common stock upon a change in control. In addition, this concentration of share ownership may adversely affect the trading price of our common stock because investors may perceive disadvantages in owning shares in a company with significant stockholders.

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

None None.

## Item 3. Defaults Upon Senior Securities

None None.

## Item 4. Mine Safety Disclosures

Not applicable applicable.

## Item 5. Other Information

### None Insider Adoption or Termination of Trading Arrangements:

During the fiscal quarter ended March 31, 2024, none of our directors or officers adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as those terms are defined in Regulation S-K, Item 408, except as described in the table below:

Name & Title	Date Adopted	Character of Trading Arrangement (1)	Aggregate Number of Shares of Common Stock to be Sold Pursuant to Trading Arrangement	Duration (2)
			Arrangement	
Christopher A. Tomasso, <i>President and Chief Executive Officer</i>	3/8/2024	Rule 10b5-1 Trading Arrangement	Up to 405,000 shares to be sold (3)	6/17/2025
Jay Wolszczak, <i>Chief Legal Officer, General Counsel &amp; Secretary</i>	3/6/2024	Rule 10b5-1 Trading Arrangement	Up to 45,000 shares to be sold (4)	3/6/2025

- (1) Each trading arrangement marked as a "Rule 10b5-1 Trading Arrangement" is intended to satisfy the affirmative defense of Rule 10b5-1(c), as amended (the "Rule").
- (2) Each trading arrangement permits transactions through and including the earliest to occur of (i) the completion of all purchases or sales or the expiration of all of the orders relating to such trades, or (ii) the date listed in the table. Trading arrangements marked as a "Rule 10b5-1 Trading Arrangement" only permits transactions upon the expiration of the applicable mandatory cooling-off period under the Rule.
- (3) Mr. Tomasso's trading plan provides for the sale of up to 405,000 shares on a quarterly basis as follows: (i) Up to 150,000 shares during the first quarterly period beginning on the later of June 17, 2024 or the end of the applicable mandatory cooling-off period and ending September 6, 2024, (ii) up to 150,000 shares during the second quarterly period beginning September 9, 2024 and ending December 9, 2024, (iii) up to 150,000 shares during the third quarterly period beginning December 10, 2024 and ending March 10, 2025, and (iv) up to 150,000 shares during the fourth quarterly period beginning March 11, 2025 and ending June 13, 2025. The sales in each quarterly period are subject to limit prices.
- (4) Mr. Wolszczak's trading plan provides for the sale of up to 45,000 shares after the applicable mandatory cooling-off period subject to limit prices.

## Item 6. Exhibits

The exhibits listed in the Exhibits index to this Form 10-Q are incorporated herein by reference.

Exhibit No.	Description	FILINGS REFERENCED FOR INCORPORATION BY REFERENCE
31.1	<a href="#">Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>	Filed herewith
31.2	<a href="#">Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>	Filed herewith
32.1*	<a href="#">Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>	Furnished herewith
101	The financial information from First Watch Restaurant Group, Inc's Quarterly Report on Form 10-Q for the <b>third</b> first fiscal quarter ended <b>September 24, 2023</b> March 31, 2024, filed on <b>November 1, 2023</b> May 7, 2024, formatted in Inline Extensible Business Reporting Language ("iXBRL")	Filed herewith
104	Cover Page Interactive Data File (formatted as iXBRL and contained in Exhibit 101)	Filed herewith



\* This certification is not deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section. This certification will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates them by reference.

## 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 on **November 1, 2023** **May 7, 2024**.

### FIRST WATCH RESTAURANT GROUP, INC.

By:	<u>/s/ Christopher A. Tomasso</u>
Name:	Christopher A. Tomasso
	President, Chief Executive Officer and Director (Principal Executive Officer)
Title:	
By:	<u>/s/ Mel Hope</u>
Name	Mel Hope
	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
Title:	

**39 35**

**Exhibit 31.1**

### Certification of Principal Executive Officer 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, Christopher A. Tomasso, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of First Watch Restaurant Group, 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** **registrant's** other certifying officer(s) 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** **registrant's** other certifying officer(s) 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 1, 2023** **May 7, 2024**

/s/ Christopher A. Tomasso  
Christopher A. Tomasso  
Chief Executive Officer  
(Principal Executive Officer)

**Exhibit 31.2**

**Certification of Principal Financial Officer 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, Mel Hope, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of First Watch Restaurant Group, 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** **registrant's** other certifying officer(s) 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(s) 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 1, 2023 May 7, 2024

/s/ Mel Hope  
Mel Hope  
Chief Financial Officer  
(Principal Financial Officer)

Exhibit 32.1

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER 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 of First Watch Restaurant Group, Inc. (the "Company") for the quarter period ended September 24, 2023 March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Christopher A. Tomasso, Chief Executive Officer of the Company, and Mel Hope, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to their knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, 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 1, 2023 May 7, 2024

/s/ Christopher A. Tomasso

Christopher A. Tomasso  
Chief Executive Officer  
(Principal Executive Officer)

/s/ Mel Hope

Mel Hope  
Chief Financial Officer  
(Principal Financial Officer)

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