Zoe's Kitchen, Inc.
Form 10-Q
August 22, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
þ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarter ended July 11, 2016
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File No. 001-36411
ZOE'S KITCHEN, INC.
(Exact name of registrant as specified in its charter)

Delaware	51-0653504
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
5760 State Highway 121, Suite 250 Plano, Texas	75024
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code:
(214) 436-8765

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 and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

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.

Large accelerated filer þ		Accelerated filer o
Non-accelerated filer o	(Do not check if a smaller reporting company)	Smaller reporting company o

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

On August 22, 2016, there were 19,458,314 shares of common stock outstanding.

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Part I - Financial Information

Item 1. Financial Statements

Zoe's Kitchen, Inc. and Subsidiaries
Unaudited Condensed Consolidated Balance Sheets
(in thousands, except share and per share data)

	July 11, 2016	December 28, 2015
Assets		
Current Assets:		
Cash and cash equivalents	$14,442	$ 19,131
Trade accounts receivable, net of allowance for doubtful accounts	1,212	853
Other accounts receivable	3,313	1,305
Inventory	1,897	1,660
Prepaid expenses and other	3,492	1,526
Assets held for sale	—	2,128
Total current assets	24,356	26,603
Property and equipment, net	149,579	131,819
Goodwill	29,528	29,528
Intangibles, net	8,695	9,568
Other long-term assets, net	489	476
Total long-term assets	188,291	171,391
Total assets	$212,647	$ 197,994
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$9,576	$ 6,418
Accrued expenses and other	14,472	12,918
Total current liabilities	24,048	19,336
Long-term liabilities:		
Deemed landlord financing	27,818	28,415
Deferred rent	25,046	20,264
Deferred income taxes	5,701	4,743
Other long-term liabilities, net	226	280
Total long-term liabilities	58,791	53,702
Total liabilities	82,839	73,038
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock: $0.01 par value, 135,000,000 shares authorized as of July 11, 2016 and December 28, 2015; 19,458,314 and 19,385,645 issued and outstanding as of July 11, 2016 and December 28, 2015, respectively.	$195	$ 194
Additional paid-in capital	147,530	145,276
Accumulated deficit	(17,917)	(20,514)
Total stockholders' equity	129,808	124,956
Total liabilities and stockholders' equity	$212,647	$ 197,994

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

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Zoe's Kitchen, Inc. and Subsidiaries
Unaudited Condensed Consolidated Statements of Operations
(in thousands, except share and per share data)

	Twelve Weeks Ended		Twenty-eight Weeks Ended	
	July 11, 2016	July 13, 2015	July 11, 2016	July 13, 2015
Revenue:				
Restaurant sales	$66,222	$54,424	$146,570	$117,373
Royalty fees	51	50	114	109
Total revenue	66,273	54,474	146,684	117,482
Operating expenses:				
Restaurant operating costs (excluding depreciation and amortization):				
Cost of sales	19,995	17,313	43,984	36,987
Labor	18,810	15,006	42,109	32,825
Store operating expenses	13,075	10,514	28,448	22,301
General and administrative expenses	7,270	6,261	16,715	13,503
Depreciation	3,292	2,587	7,284	5,779
Amortization	373	375	873	887
Pre-opening costs	552	637	1,292	1,485
Loss from disposal of equipment	100	100	337	147
Total operating expenses	63,467	52,793	141,042	113,914
Income from operations	2,806	1,681	5,642	3,568
Other income and expenses:				
Interest expense, net	861	711	1,983	1,682
Other income	(20)	(21)	(47)	(31)
Total other income and expenses	841	690	1,936	1,651
Income before provision for income taxes	1,965	991	3,706	1,917
Provision for income taxes	764	871	1,109	1,105
Net income	$1,201	$120	$2,597	$812
Earnings per share:				
Basic	$0.06	$0.01	$0.13	$0.04
Diluted	$0.06	$0.01	$0.13	$0.04
Weighted average shares of common stock outstanding:				
Basic	19,436,315	19,334,939	19,413,132	19,313,094
Diluted	19,631,272	19,557,645	19,595,542	19,535,948

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

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Zoe's Kitchen, Inc. and Subsidiaries
Unaudited Condensed Consolidated Statements of Cash Flows
(in thousands)

	Twenty-eight Weeks Ended July 11, 2016		July 13, 2015	
Cash flows from operating activities:				
Net income	$ 2,597		$ 812	
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	7,284		5,779	
Amortization of intangible assets	873		887	
Equity-based compensation	1,204		587	
Deferred income taxes	1,021		1,046	
Amortization of loan costs	12		10	
Bad debt expense	35		6	
Loss from disposal of equipment	337		147	
Accretion of deemed landlord financing	182		122	
Changes in operating assets and liabilities:				
Trade accounts receivable	(394	)	(459	)
Other accounts receivable	(1,958	)	(483	)
Inventory	(237	)	(226	)
Prepaid expenses and other	(1,982	)	(1,082	)
Accounts payable	1,528		1,255	
Accrued expenses and other	(417	)	1,232	
Deferred rent	4,823		4,026	
Net cash provided by operating activities	14,908		13,659	
Cash flows from investing activities:				
Purchase of property and equipment	(22,820	)	(20,223	)
Proceeds from sale-leaseback	2,089		—	

transactions		
Proceeds from sale of property and equipment	13	58
Net cash used in investing activities	(20,718)	(20,165)
Cash flows from financing activities:		
Proceeds from deemed landlord financing	71	162
Proceeds from exercise of stock options	1,050	1,248
Payments of loan acquisition fees	—	(97)
Net cash provided by financing activities	1,121	1,313
Net change in cash and cash equivalents	(4,689)	(5,193)
Cash and cash equivalents:		
Beginning of period	19,131	29,390
End of period	$ 14,442	$ 24,197

Supplemental disclosure of cash flow information:		
Cash paid for interest related to deemed landlord financing	1,984	1,700
Non-cash deemed landlord financing	(850)	3,850
Change in accrued purchases of property and equipment	3,504	1,836

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

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Zoe's Kitchen, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

1. Nature of Operations and Basis of Presentation

Nature of Operations

Zoe’s Kitchen, Inc. (the "Company", "Zoës", "we" or "us") primarily develops and operates fast-casual restaurants serving a distinct menu of freshly prepared Mediterranean-inspired dishes. As of July 11, 2016, we operated 183 Company-owned restaurants and three franchise restaurants in 19 states across the United States. We have determined that we have one operating and reportable segment. All of our revenues are derived in the United States. All of our assets are located in the United States.

Interim Financial Statements

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles and practices of the United States of America ("GAAP") for interim financial information. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair statement of the results for interim periods have been included.

Certain information and footnote disclosures normally included in audited consolidated financial statements presented in accordance with GAAP have been omitted pursuant to rules and regulations of the Securities and Exchange Commission (the "SEC"). Due to the seasonality of our business, results for any interim financial period are not necessarily indicative of the results that may be achieved for a full fiscal year. In addition, quarterly results of operations may be impacted by the timing and amount of sales and costs associated with the opening of new restaurants. These interim unaudited condensed consolidated financial statements do not represent complete financial statements and should be read in conjunction with our annual financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 2015 (the "2015 Form 10-K"). While the condensed consolidated balance sheet data as of December 28, 2015 was derived from audited financial statements, it does not include all disclosures required by GAAP.

Comprehensive Income (Loss)

Comprehensive income (loss) is the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Comprehensive income (loss) is the same as net income (loss) for all periods presented. Therefore, a separate statement of comprehensive income (loss) is not included in the accompanying condensed consolidated financial statements.

Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of Zoe’s Kitchen, Inc. and its wholly owned subsidiaries, Zoe’s Kitchen USA, LLC and Soho Franchising, LLC. All intercompany accounts and transactions have been eliminated in consolidation. The condensed consolidated financial statements presented herein reflect our financial position, results of operations and cash flows in conformity with GAAP.

Fiscal Year

We operate on a 52- or 53-week fiscal year that ends on the last Monday of the calendar year. Fiscal years ended December 26, 2016 and December 28, 2015 consist of 52 weeks. Our first fiscal quarter consists of 16 weeks, and each of our second, third and fourth fiscal quarters consists of 12 weeks, except for a 53-week year when the fourth quarter has 13 weeks.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions, such as valuation of long-lived, definite and indefinite-lived assets, estimated useful lives of assets, the reasonably assured lease terms of operating leases, the construction costs of leases where the Company is considered the owner during and after the construction period, allowance for doubtful accounts, the fair value and forfeiture rates related to equity-based compensation, the calculation of

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self-insurance reserves, and deferred tax valuation allowances, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Recently Issued Accounting Standards

In March 2016, the Financial Accounting Standard Board ("FASB") issued Accounting Standard Update ("ASU") No. 2016-09, “Compensation – Stock Compensation (Topic 718).” The pronouncement was issued to simplify the accounting for share-based payment transactions, including income tax consequences, the classification of awards as either equity or liabilities, and the classification on the statement of cash flows. This pronouncement is effective for reporting periods beginning after December 15, 2016. We are currently evaluating the impact of the adoption of ASU 2016-09 on our consolidated financial position or results of operations.

In March 2016, the FASB issued ASU No. 2016-04, "Liabilities - Extinguishments of Liabilities (Subtopic 405-20)", which amends subtopic 405-20 to provide a scope exception that requires breakage for prepaid stored-value product liabilities to be accounted for consistent with the breakage guidance in Topic 606. The amendment is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. We do not expect the adoption of ASU 2016-04 to have a material impact on our financial position or results of operations.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," which requires entities to recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. Previous lease accounting did not require certain lease types to be recognized on the balance sheet. This update is an amendment to the codification and is effective for fiscal years beginning after December 15, 2018 including interim periods within those fiscal years applied using a modified retrospective approach. Early adoption is permitted. We are currently evaluating the impact of the adoption of ASU 2016-02 on our consolidated financial position or results of operations.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." This update was issued to replace the current revenue recognition guidance, creating a more comprehensive revenue model. In August 2015, the FASB issued ASU 2015-14 to defer the effective date for adoption. The update is now effective for reporting periods beginning after December 15, 2017. In March 2016, April 2016 and May 2016, the FASB also issued ASU 2016-08, ASU 2016-10 and ASU 2016-12, respectively, to further clarify performance obligations and licensing implementation guidance and other general topics. We are currently evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial position or results of operations.

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2. Supplemental Information

Property and equipment, net consisted of the following (in thousands):

	July 11, 2016	December 28, 2015
Land	$822	$ —
Buildings under deemed landlord financing	22,250	23,100
Leasehold improvements	110,637	96,276
Machinery and equipment	28,532	23,894
Furniture and fixtures	5,875	5,150
Automobiles	4,024	3,985
Computer equipment	7,910	6,421
Construction in progress	9,611	6,805
Property and equipment, gross	189,661	165,631
Less: Accumulated depreciation	(40,082)	(33,812)
Total Property and equipment, net	$149,579	$ 131,819

Accrued expenses and other consisted of the following (in thousands):

	July 11, 2016	December 28, 2015
Accrued payroll and payroll taxes	$4,656	$ 5,365
Accrued capital purchases	3,277	1,403
Sales tax payable	2,372	1,274
Gift card payable	590	1,121
Other accrued expenses	3,577	3,755
Total Accrued expenses and other	$14,472	$ 12,918

3. Fair Value Measurements

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and all other current liabilities approximate fair values due to the short maturities of these instruments.

4. Bank Line of Credit and Term Loan

On February 6, 2015, we entered into a credit facility with Wells Fargo Bank, National Association (the "2015 Credit Facility"). The 2015 Credit Facility consists of a revolving loan commitment in the aggregate amount of $20.0 million, together with an incremental revolving credit commitment up to an aggregate amount of $30.0 million. The 2015 Credit Facility has a five year term and matures on February 6, 2020. As of July 11, 2016, we had no indebtedness under the 2015 Credit Facility.

Revolving credit loans under the 2015 Credit Facility bear interest, at the Company’s election, at either the base rate plus an applicable margin, or LIBOR plus an applicable margin. The base rate consists of the highest of the prime rate, the federal funds rate plus 0.5% and LIBOR plus 1.0%. The applicable margin and associated loan commitment fee consists of two pricing levels based on the Company’s consolidated total debt ratio. If this debt ratio is greater than or equal to 2.50 to 1, then the unused commitment fee is 0.15% per annum, and the applicable margin is LIBOR plus 1.5% or the base rate plus 0.5%. If this debt ratio is less than 2.50 to 1, then the unused commitment fee is 0.125% per annum and the applicable margin is LIBOR plus 1.0% or the base rate.

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The 2015 Credit Facility includes specific financial covenants such as a leverage ratio and an interest coverage ratio. We are also subject to other customary covenants, including limitations on additional borrowings, dividend payments and acquisitions. As of July 11, 2016, we were in compliance with these financial and other customary covenants.

5. Equity-based Compensation

In connection with our initial public offering in April 2014 (the "IPO"), we adopted the 2014 Omnibus Incentive Plan (the “2014 Incentive Plan”), which provides for grants of stock options, stock appreciation rights, restricted stock, other stock-based awards and other cash-based awards available to directors, officers and other employees of us and our subsidiaries, as well as others performing consulting or advisory services to us. The number of shares of common stock available for issuance under the 2014 Incentive Plan may not exceed 1,905,799.

The following table summarizes our stock option plan activity:

	Stock Options	Weighted Average Exercise Price
Outstanding as of December 28, 2015	712,165	$ 25.38
Granted	129,215	27.42
Exercised	(68,037)	15.43
Forfeited	(13,334)	30.70
Expired	(2,059)	26.88
Outstanding as of July 11, 2016	757,950	$ 26.52

There were 250,000 stock options granted that vested immediately upon completion of the IPO. All other options vest in four equal annual installments following the date of the grant with a contractual term of 10 years.

The following table reflects the weighted-average assumptions utilized in the Black-Scholes option-pricing model to value the stock options granted:

	Twenty-eight Weeks Ended July 11, 2016
Expected volatility (1)	31.8%
Risk-free rate of return	1.4%
Expected life (in years) (2)	6.3
Dividend yield	0%
Weighted-average fair value per share at date of grant	$9.29

(1) Expected volatility was based on competitors within the industry.

(2) Expected life was calculated using the simplified method, which is an average of the contractual term of the option and its ordinary vesting period, as we do not have sufficient historical data for determining the expected term of our stock option awards.

The following table summarizes our restricted stock unit plan activity:

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Non-vested at December 28, 2015	11,679	$ 27.12
Granted	77,815	28.40
Vested	(4,632)	25.18
Non-vested at July 11, 2016	84,862	28.40

The fair value of the non-vested restricted stock units is based on the closing price on the date of grant. All of our outstanding restricted stock units vest in three equal annual installments following the date of the grant.

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We recognized equity-based compensation as a component of general and administrative expenses of $0.5 million and $0.3 million during the twelve weeks ended July 11, 2016 and July 13, 2015, respectively, and $1.2 million and $0.6 million during the twenty-eight weeks ended July 11, 2016 and July 13, 2015, respectively. As of July 11, 2016, total unrecognized compensation expense related to non-vested stock awards, including an estimate for pre-vesting forfeitures, was $6.1 million, which is expected to be recognized over a weighted-average period of 2.7 years.

6. Earnings Per Share

Basic net income per share is calculated by dividing net income by the weighted average shares outstanding during the period, without consideration of common stock equivalents. Diluted net income per share is calculated by adjusting weighted average shares outstanding for the dilutive effect of common stock equivalents outstanding for the period, determined using the treasury-stock method.

The following table presents the computation of basic and diluted net income per share for the period indicated:

	Twelve Weeks Ended		Twenty-eight Weeks Ended	
	July 11, 2016	July 13, 2015	July 11, 2016	July 13, 2015
Net income (in thousands):	$1,201	$ 120	$2,597	$ 812
Shares:				
Basic weighted average shares outstanding	19,436,315	19,334,939	19,413,113	19,313,094
Diluted weighted average shares outstanding	19,631,272	19,557,645	19,595,542	19,535,948
Earnings per share:				
Basic EPS	$0.06	$ 0.01	$0.13	$ 0.04
Diluted EPS	$0.06	$ 0.01	$0.13	$ 0.04

During the twelve weeks ended July 11, 2016, there were 327,995 stock options and 300 restricted stock units excluded from the diluted earnings per share calculation because their inclusion would have been anti-dilutive. During the twelve weeks ended July 13, 2015, there were 339,143 stock options excluded from the diluted earnings per share calculation because their inclusion would have been anti dilutive.

During the twenty-eight weeks ended July 11, 2016, there were 387,556 stock options and 367 restricted stock units excluded from the diluted earnings per share calculation because their inclusion would have been anti-dilutive. During the twenty-eight weeks ended July 13, 2015, there were 258,906 stock options and 295 restricted stock units excluded from the diluted earnings per share calculation because their inclusion would have been anti-dilutive.

7. Income Taxes

Provision for income taxes was $0.8 million and $0.9 million for the twelve weeks ended July 11, 2016 and July 13, 2015, respectively, and $1.1 million for the twenty-eight weeks ended July 11, 2016 and July 13, 2015. The effective tax rate was 30% and 58% for the twenty-eight weeks ended July 11, 2016 and July 13, 2015, respectively. Our tax expense typically remains relatively constant as it primarily reflects the accrual of income tax expense related to a valuation allowance in connection with the tax amortization of the Company’s goodwill that was not available to offset existing deferred tax assets. Due to the uncertain timing of the reversal of this temporary difference, it cannot be considered as a source of future taxable income for purposes of determining a valuation allowance; therefore, the deferred tax liability cannot offset deferred tax assets. Our quarterly provision for income taxes is measured using an annual estimated effective tax rate for the full year applied to period earnings. The comparison of our effective tax rate between periods is significantly impacted by the level of pre-tax income earned and projected for the year.

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We continue to monitor and evaluate the rationale for recording a full valuation allowance for the net amount of the deferred tax assets which are in excess of the indefinite-lived intangible asset deferred tax liabilities. We intend to continue maintaining a full valuation allowance on these net deferred tax assets until there is sufficient evidence to support the reversal of all or some portion of these allowances. However, given our current earnings and anticipated future earnings, we believe that there is a reasonable possibility within the foreseeable future, sufficient positive evidence may become available to allow us to reach a conclusion that a significant portion of the valuation allowance will no longer be needed. Release of the valuation allowance would result in the recognition of certain deferred tax assets and a decrease to income tax expense for the period that the release is recorded. However, the exact timing and amount of the valuation allowance release are subject to change on the basis of the level of profitability that we are able to achieve.

8. Commitments and Contingencies

Franchise Agreement

Our Kentucky franchise agreement, which requires the franchisee to remit continuing royalty fees at a specificed percentage of the franchisee's gross sales revenue, provides that we as franchisor, or our authorized representative, will: (a) provide franchisee with written schedules of all foods, food products, beverages, and other items for sale, and the furniture, fixtures, supplies and equipment necessary and required for the operation of the restaurant; (b) provide franchisee with a list of approved suppliers for the products and services necessary and required for the restaurant; (c) upon the reasonable written request of franchisee, render reasonable advisory services by telephone or in writing pertaining to the operation of the restaurant; (d) provide franchisee with a sample of the standard Zoës Kitchen menu, and any modifications to the menu; (e) loan franchisee a copy of the system’s operating manual and any supplements to the manual that may be published by us; and (f) provide franchisee the opportunity to participate in group purchasing programs that we may use, develop, sponsor or provide on terms and conditions determined solely by us. In addition, as a condition to the commencement of business by the franchisee, the franchisee must attend and successfully complete our training program.

Litigation

On October 31, 2014, Forsyth Consulting, Inc. ("Forsyth"), a former music vendor for the Company, filed a complaint against the Company in the Circuit Court of Jefferson County, Alabama alleging breach of contract with respect to its prior music service contract. We have removed the action to federal court and, on December 19, 2014, we filed a counterclaim in the United States District Court for the Northern District of Alabama, alleging breach of contract and tortious interference with business relations claims against Forsyth. We do not anticipate the results of this proceeding to have a material effect on our results of operations.

We are currently involved in various claims and legal actions that arise in the ordinary course of our business, including claims resulting from employment related matters. None of these claims, most of which are covered by insurance, has had a material effect on us. As of the date of this report, other than as set forth above, we are not party to any material pending legal proceedings and are not aware of any claims that could have a material adverse effect on our business, financial condition, results of operations or cash flows. However, a significant increase in the number of these claims or an increase in amounts owing under successful claims could materially and adversely affect our business, financial condition, results of operations or cash flows.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

The following discussion summarizes the significant factors affecting our consolidated operating results, financial condition, liquidity and cash flows as of and for the periods presented below. The following discussion and analysis should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and related notes in Item 1 and with the audited consolidated financial statements and the related notes included in our 2015 Form 10-K.

In addition to historical information, this discussion and analysis contains forward-looking statements based on current expectations that involve risks, uncertainties and assumptions, such as our plans, objectives, expectations, and intentions set forth under the sections entitled "Risk Factors" and "Forward-Looking Statements" as filed in our 2015 Form 10-K.

Overview

Zoës Kitchen is a fast growing, fast-casual restaurant concept serving a distinct menu of fresh, wholesome, Mediterranean-inspired dishes delivered with Southern hospitality. Founded in 1995 by Zoë and Marcus Cassimus in Birmingham, Alabama, Zoës Kitchen is a natural extension of Zoë Cassimus' lifetime passion for cooking Mediterranean meals for family and friends. Since opening our first restaurant, we have never wavered from our commitment to make our food fresh daily and to serve our customers in a warm and welcoming environment. We believe our brand delivers on our customers' desire for freshly-prepared food, convenient, unique and high-quality experiences and their commitment to family, friends and enjoying every moment.

Growth Strategies and Outlook

We plan to execute the following strategies to continue to enhance our brand awareness and grow our revenue and achieve profitability:

- grow our restaurant base;
- increase our comparable restaurant sales; and
- improve our margins and leverage infrastructure.

We have expanded our restaurant base from 21 restaurants in seven states in 2008 to 186 restaurants in 19 states as of July 11, 2016, including three franchise restaurants. We opened 20 Company-owned restaurants during the twenty-eight weeks ended July 11, 2016 and reopened the restaurant in South Carolina damaged by a hurricane last year. We plan to open 35 to 36 restaurants in 2016, including the restaurants opened in the twenty-eight weeks ended July 11, 2016. In fiscal year 2016 we have opened 25 restaurants as of August 22, 2016 and reopened the restaurant in South Carolina damaged by a hurricane last year. We expect to double our restaurant base in the next five years. To increase comparable restaurant sales, we plan to heighten brand awareness to drive new customer traffic, increase existing customer frequency and grow our catering business. We believe we are well positioned for future growth with a developed infrastructure capable of supporting a restaurant base that is greater than our existing footprint. Additionally, we believe we have an opportunity to optimize costs and achieve profitability as we benefit from economies of scale.

Key Measures We Use to Evaluate Our Performance

In assessing the performance of our business, we consider a variety of performance and financial measures. The key measures used by our management for determining how our business is performing are restaurant sales, comparable restaurant sales growth, number of new restaurant openings, EBITDA and Adjusted EBITDA.

Restaurant Sales

Restaurant sales represents sales of food and beverages in Company-owned restaurants. Several factors affect our restaurant sales in any given period, including the number of restaurants in operation and per restaurant sales.

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Comparable Restaurant Sales Growth

Comparable restaurant sales refers to year-over-year sales comparisons for the comparable Company-owned restaurant base. We define the comparable restaurant base to include those restaurants open for 18 fiscal periods or longer. Each fiscal period consists of 28 days. As of July 11, 2016 and July 13, 2015, there were 134 and 105 restaurants, respectively, in our comparable Company-owned restaurant base. This measure highlights performance of existing restaurants, as the impact of new Company-owned restaurant openings is excluded.

Comparable restaurant sales growth is generated by an increase in transactions or changes in per customer spend. Per customer spend can be influenced by changes in menu prices and/or the mix and number of items sold per check. Measuring our comparable restaurant sales allows us to evaluate the performance of our existing restaurant base. Various factors impact comparable restaurant sales, including:

- consumer recognition of our brand and our ability to respond to changing consumer preferences;
- overall economic trends, particularly those related to consumer spending;
- our ability to operate restaurants effectively and efficiently to meet consumer expectations;
- pricing;
- customer demand;
- per-customer spend and average check amount;
- marketing and promotional efforts;
- local competition;
- trade area dynamics;
- introduction of new menu items; and
- opening of new restaurants in the vicinity of existing locations.

Consistent with common industry practice, we present comparable restaurant sales on a fiscal year basis that aligns current year sales weeks with comparable periods in the prior year, regardless of whether they belong to the same calendar period or not. Since opening new Company-owned restaurants will be a significant component of our revenue growth, comparable restaurant sales is only one measure of how we evaluate our performance.

Number of New Restaurant Openings

The number of Company-owned restaurant openings reflects the number of restaurants opened during a particular reporting period. Before we open new Company-owned restaurants, we incur pre-opening costs. Some of our restaurants open with an initial start-up period of higher than normal sales volumes, which subsequently decrease to stabilized levels. Typically, our new restaurants have stabilized sales after approximately 12 to 24 weeks of operation, at which time the restaurant's sales typically begin to grow on a consistent basis. In new markets, the length of time before average sales for new restaurants stabilize is less predictable and can be longer as a result of our limited knowledge of these markets and consumers' limited awareness of our brand. New restaurants may not be profitable, and their sales performance may not follow historical patterns. The number and timing of restaurant openings has had, and is expected to continue to have, an impact on our results of operations.

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The following table shows the growth in our Company-owned and franchise restaurant base:

	Twelve Weeks Ended		Twenty-eight Weeks Ended	
	July 11, 2016	July 13, 2015	July 11, 2016	July 13, 2015
Company-owned Restaurant Base				
Beginning of period	174	141	163	129
Openings	9	7	20	19
Restaurants at end of period	183	148	183	148
Franchise Restaurant Base				
Beginning of period	3	3	3	3
Restaurants at end of period	3	3	3	3
Total restaurants	186	151	186	151

Key Financial Definitions

Restaurant sales. Restaurant sales represent sales of food and beverages in Company-owned restaurants, net of promotional allowances and employee meals. Restaurant sales in a given period are directly impacted by the number of operating weeks in the period, the number of restaurants we operate and comparable restaurant sales growth.

Royalty fees. Royalty fees represent royalty income from the three franchised restaurants.

Cost of sales. Cost of sales consists primarily of food, beverage and packaging costs. The components of cost of sales are variable in nature, change with sales volume and are influenced by menu mix and subject to increases or decreases based on fluctuations in commodity costs.

Labor. Labor includes all restaurant-level management and hourly labor costs, including salaries, wages, benefits and bonuses, payroll taxes and other indirect labor costs.

Store operating expenses. Store operating expenses include all other restaurant-level operating expenses, such as supplies, utilities, repairs and maintenance, travel costs, credit card fees, recruiting, delivery service, restaurant-level marketing costs, security and occupancy expenses.

General and administrative expenses. General and administrative expenses include expenses associated with corporate and regional functions that support the development and operations of restaurants, including compensation and benefits, travel expenses, stock compensation costs, legal and professional fees, information systems, corporate office rent and other related corporate costs.

Depreciation. Depreciation consists of depreciation of fixed assets, including equipment and capitalized leasehold improvements.

Amortization. Amortization consists of amortization of certain intangible assets including franchise agreements, trademarks, reacquired rights and favorable leases.

Pre-opening costs. Pre-opening costs consist of expenses incurred prior to opening a new restaurant and are made up primarily of manager salaries, relocation costs, supplies, recruiting expenses, employee payroll and training costs. Pre-opening costs also include occupancy costs recorded during the period between date of possession and the restaurant's opening date.

Loss from disposal of equipment. Loss from disposal of equipment is composed of the loss on disposal of assets related to retirements and replacements of leasehold improvements or equipment. These losses are related to normal disposals in the ordinary course of business, along with disposals related to selected restaurant remodeling activities.

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Interest expense, net. Interest expense includes cash and imputed non-cash charges related to our deemed landlord financing, non-cash charges related to our residual value obligations, amortization of debt issue costs as well as cash payments and accrued charges related to our 2015 Credit Facility.

Provision for income taxes. Provision for income taxes represents federal, state and local current and deferred income tax expense.

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Consolidated Results of Operations

The following table summarizes key components of our results of operations for the periods indicated as a percentage of our total revenue, except for the components of restaurant operating costs, which are expressed as a percentage of restaurant sales.

	Twelve Weeks Ended		Twenty-eight Weeks Ended	
	July 11, 2016	July 13, 2015	July 11, 2016	July 13, 2015
Revenue:				
Restaurant sales	99.9 %	99.9 %	99.9 %	99.9 %
Royalty fees	0.1 %	0.1 %	0.1 %	0.1 %
Total revenue	100.0 %	100.0 %	100.0 %	100.0 %
Operating expenses:				
Restaurant operating costs (excluding depreciation and amortization) (1):				
Cost of sales	30.2 %	31.8 %	30.0 %	31.5 %
Labor	28.4 %	27.6 %	28.7 %	28.0 %
Store operating expenses	19.7 %	19.3 %	19.4 %	19.0 %
General and administrative expenses	11.0 %	11.5 %	11.4 %	11.5 %
Depreciation	5.0 %	4.7 %	5.0 %	4.9 %
Amortization	0.6 %	0.7 %	0.6 %	0.8 %
Pre-opening costs	0.8 %	1.2 %	0.9 %	1.3 %
Loss from disposal of equipment	0.2 %	0.2 %	0.2 %	0.1 %
Total operating expenses	95.8 %	96.9 %	96.2 %	97.0 %
Income from operations	4.2 %	3.1 %	3.8 %	3.0 %
Other income and expenses:				
Interest expense, net	1.3 %	1.3 %	1.4 %	1.4 %
Other income	(0.0)%	(0.0)%	(0.0)%	(0.0)%
Total other income and expenses	1.3 %	1.3 %	1.3 %	1.4 %
Income before provision for income taxes	3.0 %	1.8 %	2.5 %	1.6 %
Provision for income taxes	1.2 %	1.6 %	0.8 %	0.9 %
Net income	1.8 %	0.2 %	1.8 %	0.7 %

(1) As a percentage of restaurant sales.

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Twelve Weeks Ended July 11, 2016 compared to Twelve Weeks Ended July 13, 2015

The following table present selected consolidated comparative results of oeprations from our unaudited consolidated financial statements for the twelve weeks ended July 11, 2016 compared to the twelve weeks ended July 13, 2015 .

	Twelve Weeks Ended			
	July 11, 2016	July 13, 2015	Increase / (Decrease) Dollars	Percentage
	(Dollars in thousands)			
Consolidated Statement of Operations Data:				
Revenue				
Restaurant sales	$66,222	$54,424	$11,798	21.7 %
Royalty fees	51	50	1	2.0 %
Total revenue	66,273	54,474	11,799	21.7 %
Operating expenses:				
Restaurant operating costs (excluding depreciation and amortization):				
Cost of sales	19,995	17,313	2,682	15.5 %
Labor	18,810	15,006	3,804	25.3 %
Store operating expenses	13,075	10,514	2,561	24.4 %
General and administrative expenses	7,270	6,261	1,009	16.1 %
Depreciation	3,292	2,587	705	27.3 %
Amortization	373	375	(2)	(0.5)%
Pre-opening costs	552	637	(85)	(13.3)%
Loss from disposal of equipment	100	100	—	— %
Total operating expenses	63,467	52,793	10,674	20.2 %
Income from operations	2,806	1,681	1,125	66.9 %
Other expenses				
Interest expense, net	861	711	150	21.1 %
Other Income	(20)	(21)	1	(4.8)%
Total other expenses	841	690	151	21.9 %
Income before provision for income taxes	1,965	991	974	98.3 %
Provision for income taxes	764	871	(107)	(12.3)%
Net income	$1,201	$120	$1,081	900.8 %

* Not meaningful

Restaurant sales. The following table summarizes the growth in restaurant sales from the twelve weeks ended July 13, 2015 to the twelve weeks ended July 11, 2016 (dollars in thousands):

	Net Sales
Restaurant sales for twelve weeks ended July 13, 2015	$54,424
Incremental restaurant sales increase due to:	
Comparable restaurant sales	1,960
Restaurants not in comparable restaurant base	9,838
Restaurant sales for the twelve weeks ended July 11, 2016	$66,222

Restaurant sales increased by $11.8 million, or 21.7%, in the twelve weeks ended July 11, 2016 compared to the twelve weeks ended July 13, 2015. Restaurants not in the comparable restaurant base and other sales accounted for $9.8 million of this increase. The balance of the growth was due to an increase in comparable restaurant sales of $2.0 million, or 4.0%, in the twelve weeks ended July 11, 2016 comprised primarily of a 0.9% increase in transactions and product mix combined with a 3.1% increase in price.

Royalty fees. Royalty fees remained flat in the twelve weeks ended July 11, 2016 compared to the twelve weeks ended July 13, 2015

Cost of sales. Cost of sales increased $2.7 million in the twelve weeks ended July 11, 2016 compared to the twelve weeks ended July 13, 2015, due primarily to the increase in restaurant sales. As a percentage of restaurant sales, cost of sales decreased from 31.8% in the twelve weeks ended July 13, 2015 to 30.2% in the twelve weeks ended July 11, 2016. This decrease was primarily driven by lower costs in poultry and paper products.

Labor. Labor increased by $3.8 million in the twelve weeks ended July 11, 2016 compared to the twelve weeks ended July 13, 2015, due primarily to opening 35 new Company-owned restaurants. As a percentage of restaurant sales, labor increased from 27.6% in the twelve weeks ended July 13, 2015 to 28.4% in the twelve weeks ended July 11, 2016. The increase was primarily driven by an increase in wage rates and benefit costs as well as the dilutive effect on margins from our newest restaurants, which, on average, initially operate at less than system-wide average sales volumes.

Store operating expenses. Store operating expenses increased by $2.6 million in the twelve weeks ended July 11, 2016 compared to the twelve weeks ended July 13, 2015, due primarily to opening 35 new Company-owned restaurants. As a percentage of restaurant sales, store operating expense increased from 19.3% in the twelve weeks ended July 13, 2015 to 19.7% in the twelve weeks ended July 11, 2016. This increase was primarily attributable to the dilutive effect on margins from our newest restaurants, which, on average, initially operate at less than system-wide average sales volumes.

General and administrative expenses. General and administrative expenses increased by $1.0 million in the twelve weeks ended July 11, 2016 compared to the twelve weeks ended July 13, 2015. As a percentage of revenue, general and administrative expenses decreased from 11.5% in the twelve weeks ended July 13, 2015 to 11.0% in the twelve weeks ended July 11, 2016. The decrease is primarily driven by executive transition costs of $0.5 million in the prior year offset by increased corporate payroll and benefits costs associated with supporting an increased number of restaurants, incremental compliance costs as well as increased non-cash equity-based compensation due to headcount growth.

Depreciation. Depreciation increased by $0.7 million in the twelve weeks ended July 11, 2016 compared to the twelve weeks ended July 13, 2015, due primarily to opening 35 new Company-owned restaurants. As a percentage of revenue, depreciation increased from 4.7% in the twelve weeks ended July 13, 2015 to 5.0% in the twelve weeks ended July 11, 2016.

Amortization. Amortization remained flat in the twelve weeks ended July 11, 2016 compared to the twelve weeks ended July 13, 2015.

Pre-opening costs. Pre-opening costs decreased by $0.1 million in the twelve weeks ended July 11, 2016 compared to the twelve weeks ended July 13, 2015. As a percent of revenue, pre-opening costs decreased from 1.2% in the twelve weeks ended July 13, 2015 to 0.8% in the twelve weeks ended July 11, 2016 primarily due to timing of openings.

Interest expense. Interest expense increased by $0.2 million in the twelve weeks ended July 11, 2016 compared to the twelve weeks ended July 13, 2015, due primarily to increased interest from deemed landlord financing.

Provision for income taxes. Provision for income taxes decreased by $0.1 million in the twelve weeks ended July 11, 2016 compared to the twelve weeks ended July 13, 2015. Our tax expense typically remains relatively constant as it primarily reflects the accrual of income tax expense related to a valuation allowance in connection with the tax amortization of the Company's goodwill that was not available to offset existing deferred tax assets. Due to the uncertain timing of the reversal of this temporary difference, it cannot be considered as a source of future taxable income for purposes of determining a valuation allowance; therefore the deferred tax liability cannot offset deferred tax assets. The comparison of our effective tax rate between periods is significantly impacted by the level of pre-tax income earned and projected for the year.

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Twenty-eight Weeks Ended July 11, 2016 compared to Twenty-eight Weeks Ended July 13, 2015

The following table presents selected consolidated comparative results of operations from our unaudited condensed consolidated financial statements for the twenty-eight weeks ended July 11, 2016 compared to the twenty-eight weeks ended July 13, 2015:

	Twenty-eight Weeks Ended			
	July 11, 2016	July 13, 2015	Increase / (Decrease) Dollars	Percentage
	(Dollars in thousands)			
Consolidated Statement of Operations Data:				
Revenue:				
Restaurant sales	$146,570	$117,373	$29,197	24.9 %
Royalty fees	114	109	5	4.6 %
Total revenue	146,684	117,482	29,202	24.9 %
Operating expenses:				
Restaurant operating costs (excluding depreciation and amortization):				
Cost of sales	43,984	36,987	6,997	18.9 %
Labor	42,109	32,825	9,284	28.3 %
Store operating expenses	28,448	22,301	6,147	27.6 %
General and administrative expenses	16,715	13,503	3,212	23.8 %
Depreciation	7,284	5,779	1,505	26.0 %
Amortization	873	887	(14)	(1.6)%
Pre-opening costs	1,292	1,485	(193)	(13.0)%
Loss from disposal of equipment	337	147	190	129.3 %
Total operating expenses	141,042	113,914	27,128	23.8 %
Income from operations	5,642	3,568	2,074	58.1 %
Other income and expenses:				
Interest expense, net	1,983	1,682	301	17.9 %
Other income	(47)	(31)	(16)	51.6 %
Total other income and expenses	1,936	1,651	285	17.3 %
Income before provision for income taxes	3,706	1,917	1,789	93.3 %
Provision for income taxes	1,109	1,105	4	0.4 %
Net income	$2,597	$812	$1,785	219.8 %

Restaurant sales. The following table summarizes the growth in restaurant sales from the twenty-eight weeks ended July 13, 2015 to the twenty-eight weeks ended July 11, 2016 (dollars in thousands):

	Net Sales
Restaurant sales for the twenty-eight weeks ended July 13, 2015	$117,373
Incremental restaurant sales increase due to:	
Comparable restaurant sales	6,534
Restaurants not in comparable restaurant base	22,663
Restaurant sales for the twenty-eight weeks ended July 11, 2016	$146,570

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Restaurant sales increased by $29.2 million, or 24.9%, in the twenty-eight weeks ended July 11, 2016 compared to the twenty-eight weeks ended July 13, 2015. Restaurants not in the comparable restaurant base and other sales accounted for $22.7 million of this increase. The balance of the growth was due to an increase in comparable restaurant sales of $6.5 million, or 6.2%, in the twenty-eight weeks ended July 11, 2016 comprised primarily of a 3.7% increase in transactions and product mix combined with a 2.5% increase in price.

Royalty fees. Royalty fees remained flat in the twenty-eight weeks ended July 11, 2016 compared to the twenty-eight weeks ended July 13, 2015.

Cost of sales. Cost of sales increased $7.0 million in the twenty-eight weeks ended July 11, 2016 compared to the twenty-eight weeks ended July 13, 2015, due primarily to the increase in restaurant sales. As a percentage of restaurant sales, cost of sales decreased from 31.5% in the twenty-eight weeks ended July 13, 2015 to 30.0% in the twenty-eight weeks ended July 11, 2016. This decrease was primarily driven by lower costs in poultry and paper products.

Labor. Labor increased by $9.3 million in the twenty-eight weeks ended July 11, 2016 compared to the twenty-eight weeks ended July 13, 2015, due primarily to opening 35 new Company-owned restaurants. As a percentage of restaurant sales, labor increased from 28.0% in the twenty-eight weeks ended July 13, 2015 to 28.7% in the twenty-eight weeks ended July 11, 2016. The increase was primarily driven by an increase in wage rates and benefit costs as well as the dilutive effect on margins from our newest restaurants, which, on average, initially operate at less than system-wide average sales volumes.

Store operating expenses. Store operating expenses increased by $6.1 million in the twenty-eight weeks ended July 11, 2016 compared to the twenty-eight weeks ended July 13, 2015, due primarily to opening 35 new Company-owned restaurants. As a percentage of restaurant sales, store operating expense increased from 19.0% in the twenty-eight weeks ended July 13, 2015 to 19.4% in the twenty-eight weeks ended July 11, 2016. This increase was primarily attributable to the dilutive effect on margins from our newest restaurants, which, on average, initially operate at less than system-wide average sales volumes.

General and administrative expenses. General and administrative expenses increased by $3.2 million in the twenty-eight weeks ended July 11, 2016 compared to the twenty-eight weeks ended July 13, 2015. As a percentage of revenue, general and administrative expenses decreased from 11.5% in the twenty-eight weeks ended July 13, 2015 to 11.4% in the twenty-eight weeks ended July 11, 2016. The decrease is primarily driven by executive transition costs of $0.5 million in the prior year offset by increased corporate payroll and benefits costs associated with supporting an increased number of restaurants, incremental compliance costs as well as increased non-cash equity-based compensation due to headcount growth.

Depreciation. Depreciation increased by $1.5 million in the twenty-eight weeks ended July 11, 2016 compared to the twenty-eight weeks ended July 13, 2015, due primarily to opening 35 new Company-owned restaurants. As a percentage of revenue, depreciation increased from 4.9% in the twenty-eight weeks ended July 13, 2015 to 5.0% in the twenty-eight weeks ended July 11, 2016.

Amortization. Amortization remained flat in the twenty-eight weeks ended July 11, 2016 compared to the twenty-eight weeks ended July 13, 2015.

Pre-opening costs. Pre-opening costs decreased by $0.2 million in the twenty-eight weeks ended July 11, 2016 compared to the twenty-eight weeks ended July 13, 2015. As a percent of revenue, pre-opening costs decreased from 1.3% in the twenty-eight weeks ended July 13, 2015 to 0.9% in the twenty-eight weeks ended July 11, 2016 primarily due to timing of openings.

Interest expense. Interest expense increased by $0.3 million in the twenty-eight weeks ended July 11, 2016 compared to the twenty-eight weeks ended July 13, 2015, due primarily to increased interest from deemed landlord financing.

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Provision for income taxes. Provision for income taxes remained flat for the twenty-eight weeks ended July 11, 2016 compared to the twenty-eight weeks ended July 13, 2015. Our tax expense typically remains relatively constant as it primarily reflects the accrual of income tax expense related to a valuation allowance in connection with the tax amortization of the Company’s goodwill that was not available to offset existing deferred tax assets. Due to the uncertain timing of the reversal of this temporary difference, it cannot be considered as a source of future taxable income for purposes of determining a valuation allowance; therefore the deferred tax liability cannot offset deferred tax assets. The comparison of our effective tax rate between periods is significantly impacted by the level of pre-tax income earned and projected for the year.

Adjusted EBITDA

EBITDA is defined as net income before interest, income taxes and depreciation and amortization.

We define Adjusted EBITDA as EBITDA plus asset disposals, pre-opening costs and executive transition costs.

EBITDA and Adjusted EBITDA are intended as a supplemental measures of our performance that are not required by, or presented in accordance with, GAAP. We believe that EBITDA and Adjusted EBITDA provide useful information to management and investors regarding certain financial and business trends relating to our financial condition and operating results. Our management uses EBITDA and Adjusted EBITDA (i) as a factor in evaluating management's performance when determining incentive compensation and (ii) to evaluate the effectiveness of our business strategies.

We believe that the use of EBITDA and Adjusted EBITDA provides an additional tool for investors to use in evaluating ongoing operating results and trends and in comparing the Company's financial measures with other fast casual restaurants, which may present similar non-GAAP financial measures to investors. In addition, you should be aware when evaluating EBITDA and Adjusted EBITDA that in the future we may incur expenses similar to those excluded when calculating these measures. Our presentation of these measures should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Our computation of Adjusted EBITDA may not be comparable to other similarly titled measures computed by other companies, because all companies do not calculate Adjusted EBITDA in the same fashion.

Our management does not consider EBITDA or Adjusted EBITDA in isolation or as an alternative to financial measures determined in accordance with GAAP. The principal limitation of EBITDA and Adjusted EBITDA is that they exclude significant expenses and income that are required by GAAP to be recorded in the Company's financial statements. Some of these limitations are:

- Adjusted EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debts;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;
- Adjusted EBITDA does not reflect the impact of certain cash charges resulting from matters we consider not to be indicative of our ongoing operations; and
- other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, EBITDA and Adjusted EBITDA should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP. We compensate for these limitations by relying primarily on our GAAP results and using EBITDA and Adjusted EBITDA only supplementally. You should review the reconciliation of net income to EBITDA and Adjusted EBITDA below and not rely on any single financial measure to evaluate our business.

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The following table reconciles net income to EBITDA and Adjusted EBITDA:

	Twelve Weeks Ended		Twenty-eight Weeks Ended	
	July 11, 2016	July 13, 2015	July 11, 2016	July 13, 2015
	(Dollars in thousands)			
Adjusted EBITDA:				
Net income, as reported	$1,201	$120	$2,597	$812
Depreciation and amortization	3,665	2,962	8,157	6,666
Interest expense, net	861	711	1,983	1,682
Provision for income taxes	764	871	1,109	1,105
EBITDA	6,491	4,664	13,846	10,265
Asset disposals(1)	100	100	337	147
Pre-opening costs(2)	552	637	1,292	1,485
Executive transition costs (3)	—	549	—	549
Adjusted EBITDA	$7,143	$5,950	$15,475	$12,446

(1) Represents costs related to loss on disposal of equipment.
(2) Represents expenses directly associated with the opening of new restaurants that are incurred prior to opening, including pre-opening rent.
(3) Represents costs associated with our former CFO's departure pursuant to his employment and transition agreement.

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Liquidity and Capital Resources

Potential Impacts of Market Conditions on Capital Resources

We have continued to experience increases in comparable restaurant sales, operating cash flows and restaurant contribution margin; however, the restaurant industry continues to be highly competitive, and uncertainty exists as to the sustainability of these favorable trends. We have continued to implement various cost savings initiatives, including savings in our food costs through waste reduction and efficiency initiatives in our supply chain and labor costs. We have developed new menu items to appeal to consumers and used marketing campaigns to promote these items.

We believe that cash and cash equivalents and expected cash flow from operations are adequate to fund our operating lease obligations, capital expenditures and working capital obligations for the next 12 months. However, our ability to continue to meet these requirements and obligations will depend on, among other things, our ability to achieve anticipated levels of revenue and cash flow from operations and our ability to manage costs and working capital successfully.

Summary of Cash Flows

Following the IPO, our primary sources of liquidity and cash flows have been operating cash flows and the remaining net proceeds from the IPO. We are using these sources to fund capital expenditures for new Company-owned restaurant openings, reinvest in our existing restaurants, repurchase restaurants from our franchisees, invest in infrastructure and information technology and maintain working capital. Our working capital position benefits from the fact that we generally collect cash from sales to customers the same day, or in the case of credit or debit card transactions, within several days of the related sale, and we typically have at least 20 days to pay our vendors.

	Twenty-eight Weeks Ended	
	July 11, 2016	July 13, 2015
	(Dollars in thousands)	
Consolidated Statement of Cash Flows Data:		
Net cash provided by operating activities	$14,908	$13,659
Net cash used in investing activities	(20,718)	(20,165)
Net cash provided by financing activities	1,121	1,313

Cash Flows Provided by Operating Activities

Net cash provided by operating activities increased to $14.9 million for the twenty-eight weeks ended July 11, 2016 from $13.7 million for the twenty-eight weeks ended July 13, 2015. Net cash provided by operating activities consists primarily of net income, adjusted for non-cash expenses such as depreciation and amortization, and the net change in operating assets and liabilities. Net cash provided by operating activities for the twenty-eight weeks ended July 11, 2016 consisted primarily of net income adjusted for non-cash expenses and an increase in deferred rent related to new store openings.

Cash Flows Used in Investing Activities

Net cash used in investing activities increased to $20.7 million for the twenty-eight weeks ended July 11, 2016 from $20.2 million for the twenty-eight weeks ended July 13, 2015. The increase was primarily due to purchases of property and equipment offset by proceeds from a sale-leaseback transaction in the twenty-eight weeks ended July 11, 2016 of $2.1 million.

Cash Flows Provided by Financing Activities

Cash flows provided by financing activities decreased to $1.1 million for the twenty-eight weeks ended July 11, 2016 from $1.3 million for the twenty-eight weeks ended July 13, 2015, primarily due to less proceeds from the exercise of options.

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Credit Facility

On February 6, 2015, we entered into the 2015 Credit Facility with Wells Fargo Bank, National Association. The 2015 Credit Facility consists of a revolving loan commitment in the aggregate amount of $20.0 million, together with an incremental revolving credit commitment up to an aggregate amount of $30.0 million. The 2015 Credit Facility has a five year term and matures on February 6, 2020. As of July 11, 2016, we had no indebtedness under the 2015 Credit Facility.

Off-Balance Sheet Arrangements

As of July 11, 2016, we did not have any off-balance sheet arrangements.

Critical Accounting Policies and Estimates

Our discussion and analysis of operating results and financial condition are based upon our financial statements. The preparation of our financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures of contingent assets and liabilities. We base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis. Our critical accounting policies are those that materially affect our financial statements and involve difficult, subjective or complex judgments by management. Although these estimates are based on management's best knowledge of current events and actions that may impact us in the future, actual results may be materially different from the estimates.

We believe our critical accounting policies are affected by significant judgments and estimates used in the preparation of our consolidated financial statements and that the judgments and estimates are reasonable. Our critical accounting polices and estimates are described in our annual consolidated financial statements and the related notes in our 2015 Form 10-K.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

We are exposed to interest rate risk through fluctuations of interest rates on our investments and debt, as applicable. Changes in interest rates affect the interest income we earn, and therefore impact our cash flows and results of operations.

Commodity Price Risk

We are exposed to commodity price risks. Many of the ingredients we use to prepare our food, as well as our packaging materials, are commodities or ingredients that are affected by the price of other commodities, exchange rates, foreign demand, weather, seasonality, production, availability and other factors outside our control. We work closely with our suppliers and use a mix of forward pricing protocols under which we agree with our supplier on fixed prices for deliveries at some time in the future, fixed pricing protocols under which we agree on a fixed price with our supplier for the duration of that protocol, and formula pricing protocols under which the prices we pay are based on a specified formula related to the prices of the goods, such as spot prices. However, a majority of the dollar value of goods purchased by us is effectively at spot prices. Generally our pricing protocols with suppliers can remain in effect for periods ranging from one to 18 months, depending on the outlook for prices of the particular ingredient. We have tried to increase, where necessary, the number of suppliers for our ingredients, which we believe can help mitigate pricing volatility, and we follow industry news, trade issues, exchange rates, weather, crises and other world events that may affect our ingredient prices. Increases in ingredient prices could adversely affect our results if we choose for competitive or other reasons not to increase menu prices at the same rate at which ingredient costs increase, or if menu price increases result in customer resistance.

Inflation

The primary inflationary factors affecting our operations are food, labor costs, energy costs and materials used in the construction of new restaurants. Increases in the minimum wage directly affect our labor costs. Many of our leases require us to pay taxes, maintenance, repairs, insurance and utilities, all of which are generally subject to inflationary increases. Finally, the cost of constructing our restaurants is subject to inflationary increases in the costs of labor and material. Over the past five years, inflation has not significantly affected our operating results.

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Item 4. Controls and Procedures

As of July 11, 2016, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, pursuant to Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this report, our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, were effective to provide reasonable assurance that the information we are required to file under the Exchange Act is recorded and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There have been no changes in internal control over financial reporting during the quarter ended July 11, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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Part II - Other Information

Item 1. Legal Proceedings

Refer to Note 8, Commitments and Contingencies, of the Notes to the Unaudited Condensed Consolidated Financial Statements.

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 28, 2015.

Item 2. Unregistered Sales of Equity and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit Index

Exhibit Number	Description of Exhibit
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* This certification is deemed not filed for purposes of section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act.

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SIGNATURES

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

Date: August 22, 2016

ZOE'S KITCHEN, INC.

By: /s/ Kevin Miles
Name: Kevin Miles
Title: President and Chief Executive Officer

By: /s/ Sunil Doshi
Name: Sunil Doshi
Title: Chief Financial Officer