

Edgar Filing: Shake Shack Inc. - Form 10-Q

Shake Shack Inc.  
Form 10-Q  
August 06, 2018

false--12-26Q2201810-Q0001620533YesLarge Accelerated

Filer6310003430000P5Y00000.0010.0010.0010.00120000000035000000200000000350000002652747710250007281063318

0001620533 2017-12-28 2018-06-27 0001620533 us-gaap:CommonClassAMember 2018-07-25 0001620533  
us-gaap:CommonClassBMember 2018-07-25 0001620533 2017-12-28 2018-03-28 0001620533  
us-gaap:CommonClassBMember 2017-12-27 0001620533 2017-12-27 0001620533 2018-06-27 0001620533  
us-gaap:CommonClassAMember 2017-12-27 0001620533 us-gaap:CommonClassAMember 2018-06-27 0001620533  
us-gaap:CommonClassBMember 2018-06-27 0001620533 2016-12-29 2017-06-28 0001620533 2017-03-30  
2017-06-28 0001620533 2018-03-29 2018-06-27 0001620533 us-gaap:AdditionalPaidInCapitalMember 2017-12-27  
0001620533 us-gaap:CommonClassBMember us-gaap:CommonStockMember 2017-12-28 2018-06-27 0001620533  
us-gaap:CommonClassBMember us-gaap:CommonStockMember 2017-12-27 0001620533  
us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-12-28 2018-06-27 0001620533  
us-gaap:NoncontrollingInterestMember 2017-12-28 2018-06-27 0001620533  
us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-12-27 0001620533  
us-gaap:AdditionalPaidInCapitalMember 2017-12-28 2018-06-27 0001620533 us-gaap:RetainedEarningsMember  
2018-06-27 0001620533 us-gaap:RetainedEarningsMember 2017-12-27 0001620533  
us-gaap:CommonClassAMember us-gaap:CommonStockMember 2017-12-28 2018-06-27 0001620533  
us-gaap:RetainedEarningsMember 2017-12-28 2018-06-27 0001620533  
us-gaap:NewAccountingPronouncementMember 2018-03-28 0001620533 us-gaap:CommonClassAMember  
us-gaap:CommonStockMember 2017-12-27 0001620533 us-gaap:NewAccountingPronouncementMember  
us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-03-28 0001620533  
us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-06-27 0001620533 us-gaap:CommonClassAMember  
us-gaap:CommonStockMember 2018-06-27 0001620533 us-gaap:CommonClassBMember  
us-gaap:CommonStockMember 2018-06-27 0001620533 us-gaap:AdditionalPaidInCapitalMember 2018-06-27  
0001620533 us-gaap:NewAccountingPronouncementMember us-gaap:AdditionalPaidInCapitalMember 2018-03-28  
0001620533 us-gaap:NoncontrollingInterestMember 2018-06-27 0001620533  
us-gaap:NewAccountingPronouncementMember us-gaap:NoncontrollingInterestMember 2018-03-28 0001620533  
us-gaap:NoncontrollingInterestMember 2017-12-27 0001620533 us-gaap:NewAccountingPronouncementMember  
us-gaap:RetainedEarningsMember 2018-03-28 0001620533 2016-12-28 0001620533 2017-06-28 0001620533  
us-gaap:FranchisedUnitsMember country:US 2018-06-27 0001620533 us-gaap:EntityOperatedUnitsMember  
country:US 2018-06-27 0001620533 us-gaap:FranchisedUnitsMember us-gaap:NonUsMember 2018-06-27  
0001620533 us-gaap:VariableInterestEntityPrimaryBeneficiaryMember 2018-06-27 0001620533  
us-gaap:VariableInterestEntityPrimaryBeneficiaryMember 2017-12-27 0001620533  
us-gaap:AccountingStandardsUpdate201409Member  
us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2017-12-28 0001620533  
us-gaap:AccountingStandardsUpdate201409Member  
us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member  
us-gaap:NoncontrollingInterestMember 2017-12-28 2017-12-28 0001620533  
us-gaap:AccountingStandardsUpdate201409Member  
us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member  
us-gaap:RetainedEarningsMember 2017-12-28 2017-12-28 0001620533  
us-gaap:AccountingStandardsUpdate201409Member  
us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2017-12-28 2017-12-28  
0001620533 us-gaap:AccountingStandardsUpdate201409Member 2017-12-28 2018-06-27 0001620533  
us-gaap:AccountingStandardsUpdate201409Member 2018-03-29 2018-06-27 0001620533  
shak:InitialTerritoryandOpeningFeesMember 2016-12-29 2017-06-28 0001620533 us-gaap:ProductMember  
2017-03-30 2017-06-28 0001620533 us-gaap:ProductMember 2016-12-29 2017-06-28 0001620533  
us-gaap:ProductMember 2018-03-29 2018-06-27 0001620533 shak:RoyaltyMember 2016-12-29 2017-06-28  
0001620533 shak:RoyaltyMember 2018-03-29 2018-06-27 0001620533 shak:RoyaltyMember 2017-12-28

Edgar Filing: Shake Shack Inc. - Form 10-Q

2018-06-27 0001620533 shak:InitialTerritoryandOpeningFeesMember 2017-12-28 2018-06-27 0001620533  
shak:RoyaltyMember 2017-03-30 2017-06-28 0001620533 us-gaap:ProductMember 2017-12-28 2018-06-27  
0001620533 shak:InitialTerritoryandOpeningFeesMember 2018-03-29 2018-06-27 0001620533  
shak:InitialTerritoryandOpeningFeesMember 2017-03-30 2017-06-28 0001620533 shak:FranchisorMember  
2017-12-28 0001620533 2017-12-28 0001620533 us-gaap:ProductMember 2018-06-27 0001620533  
shak:FranchisorMember 2018-06-27 0001620533 us-gaap:ProductMember 2017-12-28 0001620533  
us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member us-gaap:ProductMember 2017-12-28  
2018-06-27 0001620533 us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member  
shak:FranchisorMember 2018-03-29 2018-06-27 0001620533 us-gaap:AccountingStandardsUpdate201409Member  
us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member shak:FranchisorMember  
2017-12-28 2018-06-27 0001620533 us-gaap:AccountingStandardsUpdate201409Member  
us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2017-12-28 2018-06-27  
0001620533 us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member 2017-12-28 2018-06-27  
0001620533 us-gaap:AccountingStandardsUpdate201409Member  
us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member shak:FranchisorMember  
2018-03-29 2018-06-27 0001620533 us-gaap:AccountingStandardsUpdate201409Member  
us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2018-03-29 2018-06-27  
0001620533 us-gaap:AccountingStandardsUpdate201409Member  
us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member us-gaap:ProductMember  
2017-12-28 2018-06-27 0001620533 shak:FranchisorMember 2018-03-29 2018-06-27 0001620533  
us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member shak:FranchisorMember 2017-12-28  
2018-06-27 0001620533 us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member  
us-gaap:ProductMember 2018-03-29 2018-06-27 0001620533 us-gaap:AccountingStandardsUpdate201409Member  
us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member us-gaap:ProductMember  
2018-03-29 2018-06-27 0001620533 us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member  
2018-03-29 2018-06-27 0001620533 shak:FranchisorMember 2017-12-28 2018-06-27 0001620533  
us-gaap:CashMember 2018-06-27 0001620533 us-gaap:FairValueInputsLevel1Member us-gaap:MutualFundMember  
2018-06-27 0001620533 us-gaap:FairValueInputsLevel2Member us-gaap:CorporateDebtSecuritiesMember  
2018-06-27 0001620533 us-gaap:MoneyMarketFundsMember us-gaap:FairValueInputsLevel1Member 2018-06-27  
0001620533 us-gaap:FairValueInputsLevel2Member us-gaap:CorporateDebtSecuritiesMember 2017-12-27  
0001620533 us-gaap:CashMember 2017-12-27 0001620533 us-gaap:MoneyMarketFundsMember  
us-gaap:FairValueInputsLevel1Member 2017-12-27 0001620533 us-gaap:FairValueInputsLevel1Member  
us-gaap:MutualFundMember 2017-12-27 0001620533 2016-12-29 2017-12-27 0001620533  
us-gaap:AvailableforsaleSecuritiesMember 2017-12-28 2018-06-27 0001620533  
us-gaap:AvailableforsaleSecuritiesMember 2017-03-30 2017-06-28 0001620533  
us-gaap:AvailableforsaleSecuritiesMember 2016-12-29 2017-06-28 0001620533  
us-gaap:AvailableforsaleSecuritiesMember 2018-03-29 2018-06-27 0001620533  
us-gaap:CorporateDebtSecuritiesMember 2018-06-27 0001620533 us-gaap:MutualFundMember 2018-06-27  
0001620533 us-gaap:CorporateDebtSecuritiesMember 2017-12-27 0001620533 us-gaap:MutualFundMember  
2017-12-27 0001620533 shak:BeveragesMember 2017-12-27 0001620533 shak:FoodMember 2018-06-27  
0001620533 shak:BeveragesMember 2018-06-27 0001620533 shak:BeerMember 2018-06-27 0001620533  
shak:RetailMerchandiseMember 2017-12-27 0001620533 shak:WineMember 2018-06-27 0001620533  
shak:BeerMember 2017-12-27 0001620533 shak:FoodMember 2017-12-27 0001620533 shak:WineMember  
2017-12-27 0001620533 shak:RetailMerchandiseMember 2018-06-27 0001620533  
us-gaap:ComputerEquipmentMember 2017-12-27 0001620533 shak:BuildingsDeemedLandlordFinancingMember  
2018-06-27 0001620533 us-gaap:ConstructionInProgressMember 2017-12-27 0001620533  
us-gaap:EquipmentMember 2017-12-27 0001620533 us-gaap:EquipmentMember 2018-06-27 0001620533  
shak:BuildingsDeemedLandlordFinancingMember 2017-12-27 0001620533 us-gaap:FurnitureAndFixturesMember  
2017-12-27 0001620533 us-gaap:ConstructionInProgressMember 2018-06-27 0001620533  
us-gaap:FurnitureAndFixturesMember 2018-06-27 0001620533 us-gaap:LeaseholdImprovementsMember 2017-12-27  
0001620533 us-gaap:ComputerEquipmentMember 2018-06-27 0001620533 us-gaap:LeaseholdImprovementsMember

Edgar Filing: Shake Shack Inc. - Form 10-Q

2018-06-27 0001620533 shak:ThirdAmendedandRestatedCreditAgreementMember us-gaap:LineOfCreditMember  
us-gaap:MinimumMember us-gaap:PrimeRateMember 2017-09-27 2017-09-27 0001620533  
shak:ThirdAmendedandRestatedCreditAgreementMember us-gaap:LineOfCreditMember us-gaap:MinimumMember  
us-gaap:LondonInterbankOfferedRateLIBORMember 2017-09-27 2017-09-27 0001620533  
shak:ThirdAmendedandRestatedCreditAgreementMember us-gaap:LineOfCreditMember 2015-02-04 0001620533  
us-gaap:NotesPayableOtherPayablesMember 2018-06-27 0001620533  
shak:ThirdAmendedandRestatedCreditAgreementMember us-gaap:LineOfCreditMember us-gaap:MaximumMember  
us-gaap:LondonInterbankOfferedRateLIBORMember 2017-09-27 2017-09-27 0001620533  
us-gaap:LetterOfCreditMember shak:ThirdAmendedandRestatedCreditAgreementMember  
us-gaap:LineOfCreditMember 2015-02-04 0001620533 us-gaap:LetterOfCreditMember  
shak:ThirdAmendedandRestatedCreditAgreementMember us-gaap:LineOfCreditMember 2018-06-27 0001620533  
shak:ThirdAmendedandRestatedCreditAgreementMember us-gaap:LineOfCreditMember us-gaap:MaximumMember  
us-gaap:PrimeRateMember 2017-09-27 2017-09-27 0001620533  
shak:ThirdAmendedandRestatedCreditAgreementMember us-gaap:LineOfCreditMember 2018-06-27 0001620533  
shak:ThirdAmendedandRestatedCreditAgreementMember us-gaap:LineOfCreditMember 2015-02-04 2015-02-04  
0001620533 shak:RedemptionorExchangeofUnitsMember 2017-12-28 2018-06-27 0001620533  
us-gaap:EmployeeStockOptionMember 2017-12-28 2018-06-27 0001620533 us-gaap:EmployeeStockOptionMember  
2016-12-29 2017-06-28 0001620533 shak:RedemptionorExchangeofUnitsMember 2016-12-29 2017-06-28  
0001620533 shak:RedemptionorExchangeofUnitsMember 2017-03-30 2017-06-28 0001620533  
shak:RedemptionorExchangeofUnitsMember 2018-03-29 2018-06-27 0001620533  
us-gaap:EmployeeStockOptionMember 2017-03-30 2017-06-28 0001620533  
us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-03-29 2018-06-27 0001620533  
us-gaap:EmployeeStockOptionMember 2018-03-29 2018-06-27 0001620533  
us-gaap:AccumulatedOtherComprehensiveIncomeMember 2016-12-29 2017-06-28 0001620533  
us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-03-30 2017-06-28 0001620533  
us-gaap:RestrictedStockUnitsRSUMember 2017-12-28 2018-06-27 0001620533 us-gaap:PerformanceSharesMember  
2017-12-28 2018-06-27 0001620533 us-gaap:PerformanceSharesMember 2016-12-29 2017-06-28 0001620533  
us-gaap:PerformanceSharesMember 2017-03-30 2017-06-28 0001620533 us-gaap:RestrictedStockUnitsRSUMember  
2018-03-29 2018-06-27 0001620533 us-gaap:RestrictedStockUnitsRSUMember 2016-12-29 2017-06-28 0001620533  
us-gaap:RestrictedStockUnitsRSUMember 2017-03-30 2017-06-28 0001620533 us-gaap:PerformanceSharesMember  
2018-03-29 2018-06-27 0001620533 us-gaap:EmployeeStockOptionMember us-gaap:CommonStockMember  
2018-03-29 2018-06-27 0001620533 us-gaap:EmployeeStockOptionMember us-gaap:CommonStockMember  
2016-12-29 2017-06-28 0001620533 us-gaap:CommonClassBMember us-gaap:CommonStockMember 2017-03-30  
2017-06-28 0001620533 us-gaap:PerformanceSharesMember us-gaap:CommonStockMember 2017-03-30  
2017-06-28 0001620533 us-gaap:PerformanceSharesMember us-gaap:CommonStockMember 2016-12-29  
2017-06-28 0001620533 us-gaap:CommonClassBMember us-gaap:CommonStockMember 2016-12-29 2017-06-28  
0001620533 us-gaap:CommonClassBMember us-gaap:CommonStockMember 2018-03-29 2018-06-27 0001620533  
us-gaap:PerformanceSharesMember us-gaap:CommonStockMember 2018-03-29 2018-06-27 0001620533  
us-gaap:EmployeeStockOptionMember us-gaap:CommonStockMember 2017-12-28 2018-06-27 0001620533  
us-gaap:EmployeeStockOptionMember us-gaap:CommonStockMember 2017-03-30 2017-06-28 0001620533  
us-gaap:PerformanceSharesMember us-gaap:CommonStockMember 2017-12-28 2018-06-27 0001620533  
us-gaap:EmployeeStockOptionMember 2018-03-29 2018-06-27 0001620533 us-gaap:EmployeeStockOptionMember  
2016-12-29 2017-06-28 0001620533 us-gaap:EmployeeStockOptionMember 2017-12-28 2018-06-27 0001620533  
us-gaap:EmployeeStockOptionMember 2017-03-30 2017-06-28 0001620533 us-gaap:CommonClassAMember  
shak:RedemptionorExchangeofUnitsMember 2017-12-28 2018-06-27 0001620533 us-gaap:CommonClassBMember  
shak:RedemptionorExchangeofUnitsMember 2016-12-29 2017-06-28 0001620533 us-gaap:CommonClassBMember  
shak:RedemptionorExchangeofUnitsMember 2017-12-28 2018-06-27 0001620533 us-gaap:CommonClassAMember  
shak:RedemptionorExchangeofUnitsMember 2016-12-29 2017-06-28 0001620533 us-gaap:OfficeBuildingMember  
2017-09-30 0001620533 us-gaap:RetailSiteMember 2018-06-27 0001620533 us-gaap:OfficeBuildingMember  
2013-12-31 0001620533 us-gaap:OfficeBuildingMember 2017-12-28 2018-03-28 0001620533  
us-gaap:AffiliatedEntityMember 2017-12-28 2018-06-27 0001620533 shak:ShareOurStrengthMember 2018-03-29

Edgar Filing: Shake Shack Inc. - Form 10-Q

2018-06-27 0001620533 shak:MoboSystemsInc.Member us-gaap:BoardOfDirectorsChairmanMember 2018-03-29  
2018-06-27 0001620533 shak:ConcessionIncomeMember shak:SubsidiarytoAffiliatedEntityMember 2017-12-27  
0001620533 shak:ConcessionIncomeMember shak:SubsidiarytoAffiliatedEntityMember 2017-12-28 2018-06-27  
0001620533 shak:RentExpenseMember shak:EntitywithCommonManagementMember 2017-03-30 2017-06-28  
0001620533 shak:RentExpenseMember shak:EntitywithCommonManagementMember 2016-12-29 2017-06-28  
0001620533 shak:TenantImprovementAllowanceMember shak:EntitywithCommonManagementMember 2018-06-27  
0001620533 shak:ConcessionIncomeMember shak:SubsidiarytoAffiliatedEntityMember 2017-03-30 2017-06-28  
0001620533 us-gaap:AffiliatedEntityMember 2017-03-30 2017-06-28 0001620533 shak:RentExpenseMember  
shak:EntitywithCommonManagementMember 2017-12-28 2018-06-27 0001620533 shak:RentExpenseMember  
shak:EntitywithCommonManagementMember 2018-03-29 2018-06-27 0001620533 shak:MoboSystemsInc.Member  
us-gaap:BoardOfDirectorsChairmanMember 2017-03-30 2017-06-28 0001620533 shak:MoboSystemsInc.Member  
us-gaap:BoardOfDirectorsChairmanMember 2017-12-28 2018-06-27 0001620533 shak:ConcessionIncomeMember  
shak:SubsidiarytoAffiliatedEntityMember 2018-03-29 2018-06-27 0001620533 us-gaap:AffiliatedEntityMember  
2018-06-27 0001620533 shak:SubsidiarytoAffiliatedEntityMember 2017-12-28 2018-06-27 0001620533  
shak:ConcessionIncomeMember shak:SubsidiarytoAffiliatedEntityMember 2016-12-29 2017-06-28 0001620533  
shak:ShareOurStrengthMember 2017-03-30 2017-06-28 0001620533 shak:ConcessionIncomeMember  
shak:SubsidiarytoAffiliatedEntityMember 2018-06-27 0001620533 shak:RentExpenseMember  
shak:EntitywithCommonManagementMember 2018-06-27 0001620533 us-gaap:AffiliatedEntityMember 2016-12-29  
2017-06-28 0001620533 shak:MoboSystemsInc.Member us-gaap:BoardOfDirectorsChairmanMember 2016-12-29  
2017-06-28 0001620533 us-gaap:AffiliatedEntityMember 2018-03-29 2018-06-27 0001620533  
shak:MoboSystemsInc.Member us-gaap:BoardOfDirectorsChairmanMember 2018-06-27 0001620533  
shak:MoboSystemsInc.Member us-gaap:BoardOfDirectorsChairmanMember 2017-12-27 0001620533  
shak:ShareOurStrengthMember 2016-12-29 2017-06-28 0001620533 shak:ShareOurStrengthMember 2017-12-28  
2018-06-27 0001620533 us-gaap:AffiliatedEntityMember 2017-12-27 0001620533 shak:RentExpenseMember  
shak:EntitywithCommonManagementMember 2017-12-27 0001620533 shak:SubsidiarytoAffiliatedEntityMember  
2017-12-28 2018-03-28 0001620533 shak:TenantImprovementAllowanceMember  
shak:EntitywithCommonManagementMember 2017-12-27 shak:Restaurant xbrli:shares iso4217:USD xbrli:shares  
iso4217:USD xbrli:pure shak:renewal\_option

[Table of Contents](#)

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

## **FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 27, 2018

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: 001-36823

## **SHAKE SHACK INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**225 Varick Street, Suite 301  
New York, New York**

**47-1941186**

(IRS Employer  
Identification No.)

**10014**

Edgar Filing: Shake Shack Inc. - Form 10-Q

(Address of principal executive offices) (Zip Code)

**(646) 747-7200**

(Registrant's telephone number, including area code)

**Not applicable**

(Former name or former address, if changed since last report)

Indicate by check mark if 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 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

As of July 25, 2018, there were 29,214,077 shares of Class A common stock outstanding and 7,818,921 shares of Class B common stock outstanding.

**SHAKE SHACK INC.  
TABLE OF CONTENTS**

<b><u>Cautionary Note Regarding Forward-Looking Information</u></b>	<b>1</b>
<b><u>Part I</u></b>	<b>2</b>
<u>Item 1.</u>	<u>Financial Statements (Unaudited)</u> <b>2</b>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> <b>25</b>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> <b>38</b>
<u>Item 4.</u>	<u>Controls and Procedures</u> <b>38</b>
<b><u>Part II</u></b>	<b>39</b>
<u>Item 1.</u>	<u>Legal Proceedings</u> <b>39</b>
<u>Item 1A.</u>	<u>Risk Factors</u> <b>39</b>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> <b>39</b>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u> <b>39</b>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u> <b>39</b>
<u>Item 5.</u>	<u>Other Information</u> <b>39</b>
<u>Item 6.</u>	<u>Exhibits</u> <b>40</b>
<b><u>SIGNATURES</u></b>	<b>41</b>

---

Table of Contents

# Cautionary Note Regarding Forward-Looking Information

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. All statements other than statements of historical fact are forward-looking statements. Many of the forward-looking statements are located in Part I, Item 2 of this Form 10-Q under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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 historical or current facts. These statements may include words such as "aim," "anticipate," "believe," "estimate," "expect," "forecast," "outlook," "potential," "project," "projection," "plan," "intend," "seek," "may," "could," "would," "will," "should," "can," "can have," "likely," the negatives thereof and other similar expressions.

While we believe that our assumptions are reasonable, it is very difficult to predict the impact of known factors, and it is impossible to anticipate all factors that could affect our actual results. All forward-looking statements are expressly qualified in their entirety by these cautionary statements. You should evaluate all forward-looking statements made in this Form 10-Q in the context of the risks and uncertainties disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 27, 2017 filed with the U.S. Securities and Exchange Commission (the "SEC") under the heading "Risk Factors."

The forward-looking statements included in this Form 10-Q are made only as of the date hereof. 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.

Table of Contents

# **PART I – FINANCIAL INFORMATION**

## **Item 1. Financial Statements (Unaudited).**

	<b>Page</b>
<u>Condensed Consolidated Balance Sheets</u>	<u>3</u>
<u>Condensed Consolidated Statements of Income</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>5</u>
<u>Condensed Consolidated Statement of Stockholders' Equity</u>	<u>6</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>7</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>8</u>



Table of Contents

## SHAKE SHACK INC. CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands, except share and per share amounts)

	June 27 2018	December 27 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$30,879	\$ 21,507
Marketable securities	61,399	63,036
Accounts receivable	7,110	5,641
Inventories	1,238	1,258
Prepaid expenses and other current assets	1,474	1,757
Total current assets	102,100	93,199
Property and equipment, net	216,763	187,095
Deferred income taxes, net	214,037	185,914
Other assets	3,835	4,398
<b>TOTAL ASSETS</b>	<b>\$536,735</b>	<b>\$ 470,606</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$8,344	\$ 8,210
Accrued expenses	15,988	11,649
Accrued wages and related liabilities	6,815	6,228
Other current liabilities	7,655	7,937
Total current liabilities	38,802	34,024
Deemed landlord financing	18,340	14,518
Deferred rent	39,463	36,596
Liabilities under tax receivable agreement, net of current portion	176,427	158,436
Other long-term liabilities	7,256	2,553
Total liabilities	280,288	246,127
Commitments and contingencies		
Stockholders' equity:	—	—

Preferred stock, no par value—10,000,000 shares authorized; none issued and outstanding as of June 27, 2018 and December 27, 2017.		
Class A common stock, \$0.001 par value—200,000,000 shares authorized; 28,106,331 and 26,527,477 shares <sup>28</sup>	27	
issued and outstanding as of June 27, 2018 and December 27, 2017, respectively.		
Class B common stock, \$0.001 par value—35,000,000 shares authorized; 8,924,592 and 10,250,007 shares <sup>9</sup>	10	
issued and outstanding as of June 27, 2018 and December 27, 2017, respectively.		
Additional paid-in capital	177,650	153,105
Retained earnings	26,337	16,399
Accumulated other comprehensive income (loss)	—	(49 )
Total stockholders' equity attributable to Shake Shack Inc.	204,024	169,492
Non-controlling interests	52,423	54,987
Total equity	256,447	224,479
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$536,735</b>	<b>\$ 470,606</b>

*See accompanying Notes to Condensed Consolidated Financial Statements.*

Table of Contents

## SHAKE SHACK INC. CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share amounts)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 27 2018	June 28 2017	June 27 2018	June 28 2017
Shack sales	\$112,898	\$88,003	\$208,987	\$162,158
Licensing revenue	3,384	3,313	6,411	5,907
<b>TOTAL REVENUE</b>	116,282	91,316	215,398	168,065
Shack-level operating expenses:				
Food and paper costs	31,678	24,712	58,633	45,886
Labor and related expenses	29,732	22,426	56,419	42,886
Other operating expenses	12,281	8,486	23,040	16,151
Occupancy and related expenses	7,401	7,043	15,076	13,219
General and administrative expenses	12,587	9,678	24,396	18,148
Depreciation expense	6,968	5,258	13,466	10,006
Pre-opening costs	2,421	1,876	4,450	4,291
Loss on disposal of property and equipment	196	100	386	113
<b>TOTAL EXPENSES</b>	103,264	79,579	195,866	150,700
<b>OPERATING INCOME</b>	13,018	11,737	19,532	17,365
Other income, net	406	198	634	393
Interest expense	(613)	(366)	(1,178)	(669)
<b>INCOME BEFORE INCOME TAXES</b>	12,811	11,569	18,988	17,089
Income tax	2,240	3,385	3,438	5,043

expense				
<b>NET</b>				
<b>INCOME</b>	10,571	8,184	15,550	12,046
Less: net				
income				
attributable				
to	2,967	3,305	4,438	4,900
non-controlling				
interests				
<b>NET</b>				
<b>INCOME</b>				
<b>ATTRIBUTABLE</b>				
<b>TO</b>	\$7,604	\$4,879	\$11,112	\$7,146
<b>SHAKE</b>				
<b>SHACK</b>				
<b>INC.</b>				
Earnings				
per share of				
Class A				
common				
stock:				
Basic	\$0.27	\$0.19	\$0.41	\$0.28
Diluted	\$0.26	\$0.19	\$0.39	\$0.27
Weighted-average				
shares of				
Class A				
common				
stock				
outstanding:				
Basic	27,796	25,798	27,418	25,587
Diluted	28,754	26,312	28,288	26,133

*See accompanying Notes to Condensed Consolidated Financial Statements.*

Table of Contents

**SHAKE SHACK INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(UNAUDITED)**

*(in thousands)*

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 27	June 28	June 27	June 28
	2018	2017	2018	2017
Net income	\$10,571	\$8,184	\$15,550	\$12,046
Other comprehensive income (loss), net of tax:				
Available-for-sale securities <sup>(1)</sup> :				
Change in net unrealized holding gains (losses)	—	(8)	(3)	(17)
Less: reclassification adjustments for net realized losses included in net income	—	11	16	14
Net change	—	3	13	(3)
<b>OTHER COMPREHENSIVE INCOME</b>	—	3	13	(3)
<b>COMPREHENSIVE INCOME</b>	10,571	8,187	15,563	12,043
Less: comprehensive income attributable to non-controlling interest	2,967	3,306	4,441	4,899
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAKE SHACK INC.</b>	<b>\$7,604</b>	<b>\$4,881</b>	<b>\$11,122</b>	<b>\$7,144</b>

*(1) Net of tax benefit (expense) of \$0 for the thirteen and twenty-six weeks ended June 27, 2018 and June 28, 2017.*

*See accompanying Notes to Condensed Consolidated Financial Statements.*

Table of Contents

**SHAKE SHACK INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**(UNAUDITED)**

(in thousands, except share amounts)

	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non- Controlling Interest	Total Equity
	Shares	Amount	Shares	Amount					
<b>BALANCE, DECEMBER 27, 2017</b>	26,527,477	\$ 27	10,250,007	\$ 10	\$ 153,105	\$ 16,399	\$ (49 )	\$ 54,987	\$ 224,479
Cumulative effect of accounting changes						(1,174 )	39	(439 )	(1,574 )
Net income						11,112		4,438	15,550
Other comprehensive income:									
Net change related to available-for-sale securities							10	3	13
Equity-based compensation					2,873				2,873
Activity under stock compensation plans	253,439	—			2,103			1,463	3,566
Redemption of LLC Interests	1,325,415	1	(1,325,415 )	(1 )	7,359			(7,359 )	—
Establishment of liabilities under tax receivable agreement and related changes to deferred tax assets associated with increases in tax basis					12,210				12,210
Distributions paid to non-controlling interest holders								(670 )	(670 )
<b>BALANCE, JUNE 27, 2018</b>	28,106,331	\$ 28	8,924,592	\$ 9	\$ 177,650	\$ 26,337	\$ —	\$ 52,423	\$ 256,447

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

# SHAKE SHACK INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

### (UNAUDITED)

*(in thousands)*

	Twenty-Six Weeks Ended	
	June 27 2018	June 28 2017
<b>OPERATING ACTIVITIES</b>		
Net income (including amounts attributable to non-controlling interests)	\$ 15,550	\$ 12,046
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense	13,466	10,006
Equity-based compensation	2,834	2,534
Deferred income taxes	805	2,561
Non-cash interest expense	72	154
Loss on sale of marketable securities	16	15
Loss on disposal of property and equipment	386	113
Unrealized loss on available-for-sale securities	61	—
Net loss on sublease	672	—
Changes in operating assets and liabilities:		
Accounts receivable	1,777	3,964
Inventories	20	(162 )
Prepaid expenses and other current assets	105	2,310
Other assets	(487 )	(633 )
Accounts payable	188	1,024
Accrued expenses	2,590	1,324
	587	(1,326 )

Accrued wages and related liabilities		
Other current liabilities	(661 )	(1,390 )
Deferred rent	(71 )	603
Other long-term liabilities	2,964	587
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>40,874</b>	<b>33,730</b>
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(36,364 )	(24,986 )
Purchases of marketable securities	(570 )	(5,993 )
Sales of marketable securities	2,144	5,628
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(34,790 )</b>	<b>(25,351 )</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from deemed landlord financing	559	530
Payments on deemed landlord financing	(167 )	(101 )
Distributions paid to non-controlling interest holders	(670 )	(2,379 )
Payments under tax receivable agreement	—	(1,471 )
Proceeds from stock option exercises	3,566	6,187
Employee withholding taxes related to net settled equity awards	—	(316 )
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>3,288</b>	<b>2,450</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>9,372</b>	<b>10,829</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>21,507</b>	<b>11,607</b>



**CASH AND CASH  
EQUIVALENTS**    \$30,879    \$22,436  
**AT END OF  
PERIOD**

*See accompanying Notes to Condensed Consolidated Financial Statements.*

**Shake Shack Inc.** Form 10-Q | 7

---

Table of Contents

**SHAKE SHACK INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*(in thousands, except share and per share amounts)*

	<b>Page</b>
<u>Note 1 Nature of Operations</u>	<u>9</u>
<u>Note 2 Summary of Significant Accounting Policies</u>	<u>9</u>
<u>Note 3 Revenue</u>	<u>11</u>
<u>Note 4 Fair Value Measurements</u>	<u>13</u>
<u>Note 5 Inventories</u>	<u>15</u>
<u>Note 6 Property and Equipment</u>	<u>15</u>
<u>Note 7 Supplemental Balance Sheet Information</u>	<u>16</u>
<u>Note 8 Debt</u>	<u>16</u>
<u>Note 9 Non-Controlling Interests</u>	<u>17</u>
<u>Note 10 Equity-Based Compensation</u>	<u>18</u>
<u>Note 11 Income Taxes</u>	<u>18</u>
<u>Note 12 Earnings Per Share</u>	<u>20</u>
<u>Note 13 Supplemental Cash Flow Information</u>	<u>21</u>
<u>Note 14 Commitments and Contingencies</u>	<u>22</u>
<u>Note 15 Related Party Transactions</u>	<u>22</u>

Table of Contents

## **NOTE 1: NATURE OF OPERATIONS**

Shake Shack Inc. ("we," "us," "our," "Shake Shack" and the "Company") was formed on September 23, 2014 as a Delaware corporation for the purpose of facilitating an initial public offering and other related transactions in order to carry on the business of SSE Holdings, LLC and its subsidiaries ("SSE Holdings"). We are the sole managing member of SSE Holdings and, as sole managing member, we operate and control all of the business and affairs of SSE Holdings. As a result, we consolidate the financial results of SSE Holdings and report a non-controlling interest representing the economic interest in SSE Holdings held by the other members of SSE Holdings. As of June 27, 2018 we owned 75.9% of SSE Holdings. Unless the context otherwise requires, "we," "us," "our," "Shake Shack," the "Company" and other similar references, refer to Shake Shack Inc. and, unless otherwise stated, all of its subsidiaries, including SSE Holdings. We operate and license Shake Shack restaurants ("Shacks"), which serve hamburgers, chicken sandwiches, hot dogs, crinkle-cut fries, shakes, frozen custard, beer, wine and more. As of June 27, 2018, there were 179 Shacks in operation, system-wide, of which 100 were domestic company-operated Shacks, 10 were domestic licensed Shacks and 69 were international licensed Shacks.

## **NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements include the accounts of Shake Shack Inc. and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. These interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and on a basis consistent in all material respects with the accounting policies described in our Annual Report on Form 10-K for the fiscal year ended December 27, 2017 ("2017 Form 10-K"). In our opinion, all adjustments, which are normal and recurring in nature, necessary for a fair presentation of our financial position and results of operation have been included. Certain reclassifications have been made to prior period amounts to conform to the current year presentation. Operating results for interim periods are not necessarily indicative of the results that may be expected for a full fiscal year.

The accompanying Condensed Consolidated Balance Sheet as of December 27, 2017 has been derived from the audited financial statements at that date but does not include all of the disclosures required by GAAP. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in our 2017 Form 10-K.

SSE Holdings is considered a variable interest entity. Shake Shack Inc. is the primary beneficiary as we have the majority economic interest in SSE Holdings and, as the sole managing member, have decision making authority that significantly affects the economic performance of the entity, while the limited partners have no substantive kick-out or participating rights. As a result, we consolidate SSE Holdings. The assets and liabilities of SSE Holdings represent substantially all of our consolidated assets and liabilities with the exception of certain deferred taxes and liabilities under the Tax Receivable Agreement. As of June 27, 2018 and December 27, 2017, the net assets of SSE Holdings were \$217,822 and \$197,301, respectively. The assets of SSE Holdings are subject to certain restrictions in SSE Holdings' revolving credit agreements. See Note 8 for more information.

### **Fiscal Year**

We operate on a 52/53 week fiscal year ending on the last Wednesday in December. Fiscal 2018 contains 52 weeks and ends on December 26, 2018. Fiscal 2017 contained 52 weeks and ended on December 27, 2017. Unless otherwise stated, references to years in this report relate to fiscal years.

### **Use of Estimates**

The preparation of these condensed consolidated financial statements in conformity with GAAP requires us

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 financial statements, and the reported amounts of sales and expenses during the reporting period. Actual results could differ from those estimates.

Table of Contents**Recently Adopted Accounting Pronouncements**

We adopted the Accounting Standards Updates (“ASUs”) summarized below in fiscal 2018.

<b>Accounting Standards Update (“ASU”)</b>	<b>Description</b>	<b>Date Adopted</b>
Revenue from Contracts with Customers and related standards (ASU’s 2014-09, 2015-14, 2016-08, 2016-10, 2016-12, 2016-20)	<p>This standard supersedes the existing revenue recognition guidance and provides a new framework for recognizing revenue. The core principle of the standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The new standard also requires significantly more comprehensive disclosures than the existing standard. Guidance subsequent to ASU 2014-09 has been issued to clarify various provisions in the standard, including principal versus agent considerations, identifying performance obligations, licensing transactions, as well as various technical corrections and improvements.</p> <p>See Note 3 for more information.</p>	December 28, 2017
Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01)	<p>For public business entities, this standard requires: (i) certain equity investments to be measured at fair value with changes in fair value recognized in net income; (ii) a qualitative assessment to identify impairment of equity investments without readily determinable fair values; (iii) elimination of the requirement to disclose the method(s) and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet; (iv) use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (v) separate presentation in other comprehensive income of the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (vi) separate presentation of financial assets and liabilities by measurement category and form of financial asset in the financial statements; and (vii) an entity to evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity’s other deferred tax assets.</p>	December 28, 2017
Statement of Cash Flows: Classification of Certain Cash Receipts and Payments (ASU 2016-15)	<p>This standard provides guidance on eight specific cash flow issues with the objective of reducing diversity in practice.</p> <p>The adoption of this standard did not have a material impact to our consolidated financial statements.</p>	December 28, 2017

**Recently Issued Accounting Pronouncements**

<b>Accounting Standards Update (“ASU”)</b>	<b>Description</b>	<b>Expected Impact</b>	<b>Effective Date</b>
Leases (ASU’s 2016-02, 2018-01, 2018-10, 2018-11)	<p>This standard establishes a new lease accounting model, which introduces the recognition of lease assets and liabilities for those leases classified as operating leases under previous GAAP. It should be applied using a modified retrospective approach applied either at the beginning of the earliest period presented, or at the adoption date, with the option to elect various practical expedients. Early adoption is permitted.</p>	<p>We are currently evaluating the provisions of the standard, including optional practical expedients. We are assessing the impact to our accounting policies, processes, disclosures and internal control over financial reporting.</p> <p>We plan to adopt the standard on December 27, 2018. It is likely that the adoption will have a significant impact to our consolidated balance sheet given the number of real estate leases we have. We are still evaluating the expected impact to our consolidated statements of income and cash flows.</p>	December 27, 2018



Table of Contents**NOTE 3: REVENUE**

On December 28, 2017 we adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using the modified retrospective method applied to those contracts which were not completed as of December 28, 2017. We elected a practical expedient to aggregate the effect of all contract modifications that occurred before the adoption date, which did not have a material impact to our consolidated financial statements. Results for reporting periods beginning on or after December 28, 2017 are presented under Accounting Standards Codification Topic 606 ("ASC 606"). Prior period amounts were not revised and continue to be reported in accordance with ASC Topic 605 ("ASC 605"), the accounting standard then in effect.

Upon transition, on December 28, 2017, we recorded a decrease to opening equity of \$1,574, net of tax, of which \$1,135 was recognized in retained earnings and \$439 in non-controlling interest, with a corresponding increase of \$1,769 in other long-term liabilities, a decrease of \$68 in other current liabilities, and an increase of \$100 to accounts receivable.

**Revenue Recognition**

Revenue consists of Shack sales and licensing revenue. Generally, revenue is recognized as promised goods or services transfer to the guest or customer in an amount that reflects the consideration we expect to be entitled in exchange for those goods or services.

Revenue from Shack sales is presented net of discounts and recognized when food, beverage and retail products are sold. Sales tax collected from customers is excluded from Shack sales and the obligation is included in sales tax payable until the taxes are remitted to the appropriate taxing authorities. Revenue from our gift cards is deferred and recognized upon redemption.

Licensing revenues include initial territory fees, Shack opening fees, and ongoing sales-based royalty fees from licensed Shacks. Generally, the licenses granted to develop, open, and operate each Shack in a specified territory are the predominant goods or services transferred to the licensee in our contracts, and represent distinct performance obligations. Ancillary promised services, such as training and assistance during the initial opening of a Shack, are typically combined with the licenses and considered as one performance obligation per Shack. We determine the transaction price for each contract, which is comprised of the initial territory fee, and an estimate of the total Shack opening fees we expect to be entitled to. The calculation of total Shack opening fees included in the transaction price requires judgment, as it is based on an estimate of the number of Shacks we expect the licensee to open. The transaction price is then allocated equally to each Shack expected to open. The performance obligations are satisfied over time, starting when a Shack opens, through the end of the term of the license granted to the Shack. Because we are transferring licenses to access our intellectual property during a contractual term, revenue is recognized on a straight-line basis over the license term. Generally, payment for the initial territory fee is received upon execution of the licensing agreement, and payment for the restaurant opening fees are received either in advance of or upon opening the related restaurant. These payments are initially deferred and recognized as revenue as the performance obligations are satisfied, which occurs over a long-term period.

Revenue from sales-based royalties is recognized as the related sales occur.

Prior to the adoption of ASC 606, Shack opening fees were recorded as deferred revenue when received and proportionate amounts were recognized as revenue when a licensed Shack opened and all material services and conditions related to the fee were substantially performed. Territory fees were recorded as deferred revenue when received and recognized as revenue on a straight-line basis over the term of the license agreement, which generally began upon execution of the contract.

Table of Contents

Revenue recognized for the thirteen and twenty-six weeks ended June 27, 2018 under ASC 606 and revenue that would have been recognized for the thirteen and twenty-six weeks ended June 27, 2018 had ASC 605 been applied is as follows:

	Thirteen Weeks Ended June 27, 2018			Twenty-Six Weeks Ended June 27, 2018		
	As reported under ASC 606	If reported under ASC 605	Increase (decrease)	As reported under ASC 606	If reported under ASC 605	Increase (decrease)
Shack sales	\$ 112,898	\$ 112,898	\$ —	\$ 208,987	\$ 208,987	\$ —
Licensing revenue	3,384	3,524	(140)	6,411	6,672	(261)
<b>Total revenue</b>	<b>\$ 116,282</b>	<b>\$ 116,422</b>	<b>\$ (140)</b>	<b>\$ 215,398</b>	<b>\$ 215,659</b>	<b>\$ (261)</b>

Revenue recognized during the thirteen and twenty-six weeks ended June 27, 2018 (under ASC 606) and thirteen and twenty-six weeks ended June 28, 2017 (under ASC 605) disaggregated by type is as follows:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 27 2018	June 28 2017	June 27 2018	June 28 2017
Shack sales	\$ 112,898	\$ 88,003	\$ 208,987	\$ 162,158
Licensing revenue:				
Sales-based royalties	3,319	3,200	6,291	5,600
Initial territory and opening fees	65	113	120	307
<b>Total revenue</b>	<b>\$ 116,282</b>	<b>\$ 91,316</b>	<b>\$ 215,398</b>	<b>\$ 168,065</b>

The aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) as of June 27, 2018 is \$10,557. We expect to recognize this amount as revenue over a long-term period, as the license term for each Shack ranges from 10 to 20 years with renewals. This amount excludes any variable consideration related to sales-based royalties.

**Contract Balances**

Opening and closing balances of contract liabilities and receivables from contracts with customers is as follows:

	June 27 2018	December 28 2017
Shack receivables	\$ 2,184	\$ 2,184
Licensing receivables	2,933	1,522
Gift liability	1,472	1,472
Deferred revenue, current	265	265
Deferred revenue, long-term	3,742	3,742

Revenue recognized during the thirteen and twenty-six weeks ended June 27, 2018 that was included in their respective liability balances at the beginning of the period is as follows:

	Thirteen Weeks	Twenty-Six Weeks
--	----------------	------------------



	<b>Ended June 27 2018</b>	<b>Ended June 27 2018</b>
Gift card liability	\$ 102	\$ 408
Deferred revenue, current	63	118

Table of Contents**NOTE 4: FAIR VALUE MEASUREMENTS****Assets and Liabilities Measured at Fair Value on a Recurring Basis**

The following tables present information about our financial assets and liabilities measured at fair value on a recurring basis as of June 27, 2018 and December 27, 2017, and indicate the classification within the fair value hierarchy.

**Cash, Cash Equivalents and Marketable Securities**

The following tables summarize our cash, cash equivalents and marketable securities by significant investment categories as of June 27, 2018 and December 27, 2017:

	June 27, 2018					
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash and Cash Equivalents	Marketable Securities
Cash	\$25,875	\$ —	—\$ —	\$25,875	\$ 25,875	\$ —
Level 1:						
Money market funds	5,004	—	—	5,004	5,004	—
Mutual funds	61,521	—	(122 )	61,399	—	61,399
Level 2:						
Corporate debt securities <sup>(1)</sup>	—	—	—	—	—	—
<b>Total</b>	<b>\$92,400</b>	<b>\$ —</b>	<b>—\$ (122 )</b>	<b>\$92,278</b>	<b>\$ 30,879</b>	<b>\$ 61,399</b>
	December 27, 2017					
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash and Cash Equivalents	Marketable Securities
Cash	\$16,138	\$ —	\$ —	\$16,138	\$ 16,138	\$ —
Level 1:						
Money market funds	5,369	—	—	5,369	5,369	—
Mutual funds	60,985	—	(61 )	60,924	—	60,924
Level 2:						
Corporate debt securities <sup>(1)</sup>	2,125	2	(15 )	2,112	—	2,112
<b>Total</b>	<b>\$84,617</b>	<b>\$ 2</b>	<b>\$ (76 )</b>	<b>\$84,543</b>	<b>\$ 21,507</b>	<b>\$ 63,036</b>

<sup>(1)</sup> Corporate debt securities were measured at fair value using a market approach utilizing observable prices for identical securities or securities with similar characteristics and inputs that are observable or can be corroborated by observable market data.

On December 28, 2017, we adopted ASU 2016-01, which requires certain equity investments to be measured at fair value with changes in fair value recognized in net income. Net unrealized losses on available-for-sale equity securities totaling \$23 and \$61 were included on the Condensed Consolidated Statements of Income during the thirteen and twenty-six weeks ended June 27, 2018, respectively. Net unrealized losses on available-for-sale securities totaling \$74 were included in accumulated other comprehensive income (loss) on the Condensed Consolidated Balance Sheet as of December 27, 2017.

Table of Contents

The following tables summarize the gross unrealized losses and fair values for those investments that were in an unrealized loss position as of June 27, 2018 and December 27, 2017, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

	June 27, 2018					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Money market funds	\$—	\$ —	\$ —	\$ —	\$—	\$ —
Mutual funds	61,399	(122 )	—	—	61,399	(122 )
Corporate debt securities	—	—	—	—	—	—
<b>Total</b>	<b>\$61,399</b>	<b>\$ (122 )</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$61,399</b>	<b>\$ (122 )</b>
	December 27, 2017					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Money market funds	\$—	\$ —	\$—	\$ —	\$—	\$ —
Mutual funds	60,924	(61 )	—	—	60,924	(61 )
Corporate debt securities	1,675	(12 )	162	(3 )	1,837	(15 )
<b>Total</b>	<b>\$62,599</b>	<b>\$ (73 )</b>	<b>\$162</b>	<b>\$ (3 )</b>	<b>\$62,761</b>	<b>\$ (76 )</b>

A summary of other income from available-for-sale securities recognized during the thirteen and twenty-six weeks ended June 27, 2018 and June 28, 2017 is as follows:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 27, 2018	June 28, 2017	June 27, 2018	June 28, 2017
Available-for-sale securities:				
Dividend income	\$329	\$ 191	\$604	\$ 369
Interest income	—	19	7	39
Realized gain (loss) on sale of investments	—	(12 )	(16 )	(15 )
Unrealized gain (loss) on available-for-sale equity securities	(23 )	—	(61 )	—
<b>Total other income, net</b>	<b>\$306</b>	<b>\$ 198</b>	<b>\$534</b>	<b>\$ 393</b>

A summary of available-for-sale securities sold and gross realized gains and losses recognized during the thirteen and twenty-six weeks ended June 27, 2018 and June 28, 2017 is as follows:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 27, 2018	June 28, 2017	June 27, 2018	June 28, 2017
Available-for-sale securities:				
Gross proceeds from sales and redemptions	\$—	\$ 473	\$2,144	\$ 628
Cost basis of sales and redemptions	—	484	2,160	642
Gross realized gains included in net income	—	—	2	—
Gross realized losses included in net income	—	(12 )	(18 )	(15 )
Amounts reclassified out of accumulated other comprehensive loss	—	11	16	14

Table of Contents

Realized gains and losses are determined on a specific identification method and are included in other income, net on the Condensed Consolidated Statements of Income.

We periodically review our marketable securities for other-than-temporary impairment. We consider factors such as the duration, severity and the reason for the decline in value, the potential recovery period and our intent to sell. As of June 27, 2018 and December 27, 2017, the declines in the market value of our marketable securities investment portfolio were considered to be temporary in nature.

**Other Financial Instruments**

The carrying value of our other financial instruments, including accounts receivable, accounts payable, and accrued expenses as of June 27, 2018 and December 27, 2017 approximated their fair value due to the short-term nature of these financial instruments.

**Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis**

Assets and liabilities that are measured at fair value on a non-recurring basis include our long-lived assets and indefinite-lived intangible assets. There were no impairments recognized during the thirteen and twenty-six weeks ended June 27, 2018 and June 28, 2017.

**NOTE 5: INVENTORIES**

Inventories as of June 27, 2018 and December 27, 2017 consisted of the following:

	June 27 2018	December 27 2017
Food	\$ 873	\$ 874
Wine	66	69
Beer	82	85
Beverages	134	111
Retail merchandise	83	119
<b>Inventories</b>	<b>\$ 1,238</b>	<b>\$ 1,258</b>

**NOTE 6: PROPERTY AND EQUIPMENT**

Property and equipment as of June 27, 2018 and December 27, 2017 consisted of the following:

	June 27 2018	December 27 2017
Leasehold improvements	\$ 186,349	\$ 166,963
Landlord funded assets	12,117	7,472
Equipment	34,709	31,608
Furniture and fixtures	11,779	10,128
Computer equipment and software	14,504	12,721
Construction in progress (includes landlord funded assets under construction)	27,836	16,458
Property and equipment, gross	287,294	245,350
Less: accumulated depreciation	70,531	58,255
<b>Property and equipment, net</b>	<b>\$ 216,763</b>	<b>\$ 187,095</b>

Table of Contents**NOTE 7: SUPPLEMENTAL BALANCE SHEET INFORMATION**

The components of other current liabilities as of June 27, 2018 and December 27, 2017 are as follows:

	<b>June 27 2018</b>	<b>December 27 2017</b>
Sales tax payable	\$ 3,139	\$ 1,813
Current portion of liabilities under tax receivable agreement	943	937
Gift card liability	1,334	1,472
Other	2,239	3,715
<b>Other current liabilities</b>	<b>\$ 7,655</b>	<b>\$ 7,937</b>

**NOTE 8: DEBT**

In January 2015, we executed a Third Amended and Restated Credit Agreement, which became effective on February 4, 2015 (together with the prior agreements and amendments, and as further amended, the "Revolving Credit Facility"), which provides for a revolving total commitment amount of \$50,000, of which \$20,000 is available immediately. The Revolving Credit Facility will mature and all amounts outstanding will be due and payable five years from the effective date. The Revolving Credit Facility permits the issuance of letters of credit upon our request of up to \$10,000. Borrowings under the Revolving Credit Facility bear interest at either: (i) LIBOR plus a percentage ranging from 2.3% to 3.3% or (ii) the prime rate plus a percentage ranging from 0.0% to 0.8%, depending on the type of borrowing made under the Revolving Credit Facility. As of June 27, 2018 and December 27, 2017, there were no amounts outstanding under the Revolving Credit Facility. As of June 27, 2018, we had \$19,317 of availability under the Revolving Credit Facility, after giving effect to \$683 in outstanding letters of credit.

The Revolving Credit Facility is secured by a first-priority security interest in substantially all of the assets of SSE Holdings and the guarantors. The obligations under the Revolving Credit Facility are guaranteed by each of SSE Holdings' wholly-owned domestic subsidiaries (with certain exceptions).

The Revolving Credit Facility contains a number of covenants that, among other things, limit our ability to, subject to specified exceptions, incur additional debt; incur additional liens and contingent liabilities; sell or dispose of assets; merge with or acquire other companies; liquidate or dissolve ourselves; pay dividends or make distributions; engage in businesses that are not in a related line of business; make loans, advances or guarantees; engage in transactions with affiliates; and make investments. In addition, the Revolving Credit Facility contains certain cross-default provisions. We are required to maintain a specified consolidated fixed-charge coverage ratio and a specified funded net debt to adjusted EBITDA ratio, both as defined under the Revolving Credit Facility. As of June 27, 2018, we were in compliance with all covenants. As of June 27, 2018 and December 27, 2017 we had deemed landlord financing liabilities of \$18,340 and \$14,518, respectively, for certain leases where we are involved in the construction of leased assets and are considered the accounting owner of the construction project.

Total interest costs incurred were \$655 and \$1,264 for the thirteen and twenty-six weeks ended June 27, 2018, respectively, and \$409 and \$733 for the thirteen and twenty-six weeks ended June 28, 2017, respectively. Total amounts capitalized into property and equipment were \$42 and \$86 for the thirteen and twenty-six weeks ended June 27, 2018, respectively, and \$43 and \$64 for the thirteen and twenty-six weeks ended June 28, 2017, respectively.

Table of Contents**NOTE 9: NON-CONTROLLING INTERESTS**

We are the sole managing member of SSE Holdings and, as a result, consolidate the financial results of SSE Holdings. We report a non-controlling interest representing the economic interest in SSE Holdings held by the other members of SSE Holdings. The Third Amended and Restated Limited Liability Company Agreement, as further amended, (the "LLC Agreement") of SSE Holdings provides that holders of LLC Interests may, from time to time, require SSE Holdings to redeem all or a portion of their LLC Interests for newly-issued shares of Class A common stock on a one-for-one basis. In connection with any redemption or exchange, we will receive a corresponding number of LLC Interests, increasing our total ownership interest in SSE Holdings. Changes in our ownership interest in SSE Holdings while we retain our controlling interest in SSE Holdings will be accounted for as equity transactions. As such, future redemptions or direct exchanges of LLC Interests in SSE Holdings by the other members of SSE Holdings will result in a change in ownership and reduce the amount recorded as non-controlling interest and increase additional paid-in capital.

The following table summarizes the ownership interest in SSE Holdings as of June 27, 2018 and December 27, 2017.

	June 27, 2018		December 27, 2017		
	LLC Interests	Ownership%	LLC Interests	Ownership %	
Number of LLC Interests held by Shake Shack Inc.	28,106,331	75.9	% 26,527,477	72.1	%
Number of LLC Interests held by non-controlling interest holders	8,924,592	24.1	% 10,250,007	27.9	%
Total LLC Interests outstanding	37,030,923	100.0	% 36,777,484	100.0	%

The weighted average ownership percentages for the applicable reporting periods are used to attribute net income and other comprehensive income to Shake Shack Inc. and the non-controlling interest holders. The non-controlling interest holders' weighted average ownership percentage for the thirteen and twenty-six weeks ended June 27, 2018 was 24.8% and 25.6%, respectively. The non-controlling interest holders' weighted average ownership percentage for the thirteen and twenty-six weeks ended June 28, 2017 was 29.6% and 30.0%, respectively.

The following table summarizes the effects of changes in ownership of SSE Holdings on our equity during the thirteen and twenty-six weeks ended June 27, 2018 and June 28, 2017.

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 27 2018	June 28 2017	June 27 2018	June 28 2017
Net income attributable to Shake Shack Inc.	\$7,604	\$4,879	\$11,112	\$7,146
Other comprehensive income (loss):				
Net change related to available-for-sale securities	—	2	10	(2)
Transfers (to) from non-controlling interests:				
Increase in additional paid-in capital as a result of the redemption of LLC Interests	1,801	720	7,359	2,042
Increase in additional paid-in capital as a result of activity under stock compensation plans	1,237	632	2,103	3,502
<b>Total effect of changes in ownership interest on equity attributable to Shake Shack Inc.</b>	<b>\$10,642</b>	<b>\$6,233</b>	<b>\$20,584</b>	<b>\$12,688</b>

During the twenty-six weeks ended June 27, 2018 and June 28, 2017, an aggregate of 1,325,415 and 482,600 LLC Interests, respectively, were redeemed by non-controlling interest holders for newly-issued shares of Class A common stock, and we received 1,325,415 and 482,600 LLC Interests in connection with these redemptions for the twenty-six weeks ended June 27, 2018 and June 28, 2017, respectively, increasing our total ownership interest in SSE Holdings.

During the twenty-six weeks ended June 27, 2018 and June 28, 2017, we received an aggregate of 253,439 and 305,882 LLC Interests, respectively, in connection with the activity under our stock

compensation plan.

**Shake Shack Inc.** Form 10-Q | 17

---

Table of Contents**NOTE 10: EQUITY-BASED COMPENSATION**

A summary of equity-based compensation expense recognized during the thirteen and twenty-six weeks ended June 27, 2018 and June 28, 2017 is as follows:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 27 2018	June 28 2017	June 27 2018	June 28 2017
Stock options	\$ 773	\$ 863	\$ 1,600	\$ 1,827
Performance stock units	64	399	918	684
Restricted stock units	60	23	316	23
<b>Equity-based compensation expense</b>	<b>\$ 897</b>	<b>\$ 1,285</b>	<b>\$ 2,834</b>	<b>\$ 2,534</b>
<b>Total income tax benefit recognized related to equity-based compensation</b>	<b>\$ 44</b>	<b>\$ 80</b>	<b>\$ 80</b>	<b>\$ 95</b>

Amounts are included in general and administrative expense and labor and related expenses on the Condensed Consolidated Statements of Income.

**NOTE 11: INCOME TAXES**

We are the sole managing member of SSE Holdings and, as a result, consolidate the financial results of SSE Holdings. SSE Holdings is treated as a partnership for U.S. federal and most applicable state and local income tax purposes. As a partnership, SSE Holdings is not subject to U.S. federal and certain state and local income taxes. Any taxable income or loss generated by SSE Holdings is passed through to and included in the taxable income or loss of its members, including us, on a pro rata basis. We are subject to U.S. federal income taxes, in addition to state and local income taxes with respect to our allocable share of any taxable income or loss of SSE Holdings, as well as any stand-alone income or loss generated by Shake Shack Inc. We are also subject to withholding taxes in foreign jurisdictions.

**Income Tax Expense**

A reconciliation of income tax expense computed at the U.S. federal statutory income tax rate to the recognized income tax expense is as follows:

	Thirteen Weeks Ended				Twenty-Six Weeks Ended			
	June 27 2018	June 28 2017	June 27 2018	June 28 2017	June 27 2018	June 28 2017	June 27 2018	June 28 2017
Expected U.S. federal income taxes at statutory rate	\$2,690	21.0 %	\$4,050	35.0 %	\$3,987	21.0 %	\$5,982	35.0 %
State and local income taxes, net of federal benefit	830	6.5 %	659	5.7 %	1,242	6.5 %	1,008	5.9 %
Foreign withholding taxes	271	2.1 %	227	2.0 %	802	4.2 %	413	2.4 %
Tax credits	(920)	(7.2) %	(248)	(2.1) %	(1,197)	(6.3) %	(378)	(2.2) %
Non-controlling interest	(731)	(5.7) %	(1,303)	(11.3) %	(1,185)	(6.2) %	(1,982)	(11.6) %
Other	100	0.8 %	—	— %	(211)	(1.1) %	—	— %



Edgar Filing: Shake Shack Inc. - Form 10-Q

<b>Income tax expense</b>	\$2,240	17.5 %	\$3,385	29.3 %	\$3,438	18.1 %	\$5,043	29.5 %
---------------------------	---------	--------	---------	--------	---------	--------	---------	--------

Our effective income tax rates for the thirteen weeks ended June 27, 2018 and June 28, 2017 were 17.5% and 29.3%, respectively. The decrease was primarily driven by the reduction of the U.S. federal corporate income tax rate from 35% to 21% due to the enactment of the Tax Cuts and Jobs Act of 2017 (the "TCJA"), partially offset by the increase in our ownership interest in SSE Holdings, which increases our share of the taxable income of SSE Holdings, and higher foreign withholding taxes. Our weighted-average ownership interest in SSE Holdings was 75.2% and 70.4% for the thirteen weeks ended June 27, 2018 and June 28, 2017, respectively.

Table of Contents

Our effective income tax rates for twenty-six weeks ended June 27, 2018 and June 28, 2017 were 18.1% and 29.5%, respectively. The decrease was primarily driven by the reduction of the U.S. federal corporate income tax rate from 35% to 21% due to the enactment of the TCJA, partially offset by the increase in our ownership interest in SSE Holdings, which increases our share of the taxable income of SSE Holdings, and higher foreign withholding taxes. Our weighted-average ownership interest in SSE Holdings was 74.4% and 70.0% for the twenty-six weeks ended June 27, 2018 and June 28, 2017, respectively.

**Deferred Tax Assets and Liabilities**

During the twenty-six weeks ended June 27, 2018, we acquired an aggregate of 1,578,854 LLC Interests in connection with the redemption of LLC Interests and activity relating to our stock compensation plan. We recognized a deferred tax asset in the amount of \$16,831 associated with the basis difference in our investment in SSE Holdings upon acquisition of these LLC Interests. As of June 27, 2018, the total deferred tax asset related to the basis difference in our investment in SSE Holdings was \$160,314. However, a portion of the total basis difference will only reverse upon the eventual sale of our interest in SSE Holdings, which we expect would result in a capital loss. As of June 27, 2018, the total valuation allowance established against the deferred tax asset to which this portion relates was \$10,649.

During the twenty-six weeks ended June 27, 2018, we also recognized \$4,972 of deferred tax assets related to additional tax basis increases generated from expected future payments under the Tax Receivable Agreement and related deductions for imputed interest on such payments. See "—Tax Receivable Agreement" for more information.

We evaluate the realizability of our deferred tax assets on a quarterly basis and establish valuation allowances when it is more likely than not that all or a portion of a deferred tax asset may not be realized. As of June 27, 2018, we concluded, based on the weight of all available positive and negative evidence, that all of our deferred tax assets (except for those deferred tax assets described above relating to basis differences that are expected to result in a capital loss upon the eventual sale of our interest in SSE Holdings) are more likely than not to be realized. As such, no additional valuation allowance was recognized.

**Uncertain Tax Positions**

No uncertain tax positions existed as of June 27, 2018. Shake Shack Inc. was formed in September 2014 and did not engage in any operations prior to the IPO and related organizational transactions. Shake Shack Inc. first filed tax returns for tax year 2014, which is the first tax year subject to examination by taxing authorities for U.S. federal and state income tax purposes. Additionally, although SSE Holdings is treated as a partnership for U.S. federal and state income taxes purposes, it is still required to file an annual U.S. Return of Partnership Income, which is subject to examination by the Internal Revenue Service ("IRS"). The statute of limitations has expired for tax years through 2013 for SSE Holdings.

**Tax Receivable Agreement**

Pursuant to our election under Section 754 of the Internal Revenue Code (the "Code"), we expect to obtain an increase in our share of the tax basis in the net assets of SSE Holdings when LLC Interests are redeemed or exchanged by the other members of SSE Holdings. We plan to make an election under Section 754 of the Code for each taxable year in which a redemption or exchange of LLC Interest occurs. We intend to treat any redemptions and exchanges of LLC Interests as direct purchases of LLC Interests for U.S. federal income tax purposes. These increases in tax basis may reduce the amounts that we would otherwise pay in the future to various tax authorities. They may also decrease gains (or increase losses) on future dispositions of certain capital assets to the extent tax basis is allocated to those capital assets. On February 4, 2015, we entered into a tax receivable agreement with certain of the then-existing members of SSE Holdings (the "Tax Receivable Agreement") that provides for the payment by us of 85% of the amount of any tax benefits that we actually realize, or in some cases are deemed to realize, as a result of (i) increases in our share of the tax basis in the net assets of SSE Holdings resulting from any redemptions or exchanges of LLC Interests, (ii) tax basis increases attributable to payments made under the Tax

Receivable Agreement, and (iii) deductions attributable to imputed interest pursuant to the Tax Receivable Agreement (the "TRA Payments"). We expect to benefit from the remaining 15% of any tax benefits that we may actually realize. The TRA Payments are not conditioned upon any continued ownership interest in SSE Holdings or us. The rights of each member of SSE Holdings, that is a party to the Tax Receivable Agreement, are assignable to transferees of their respective LLC Interests.

During the twenty-six weeks ended June 27, 2018, we acquired an aggregate of 1,325,415 LLC Interests in connection with the redemption of LLC Interests, which resulted in an increase in the tax basis of our investment in SSE Holdings subject to the provisions of the Tax Receivable Agreement. We recognized an additional liability in the amount of \$17,992 for the TRA Payments due to the

Table of Contents

redeeming members, representing 85% of the aggregate tax benefits we expect to realize from the tax basis increases related to the redemption of LLC Interests, after concluding it was probable that such TRA Payments would be paid based on our estimates of future taxable income. No payments were made to the members of SSE Holdings pursuant to the Tax Receivable Agreement during the twenty-six weeks ended June 27, 2018. During the twenty-six weeks ended June 28, 2017, payments of \$1,471, inclusive of interest, were made to the members of SSE Holdings pursuant to the Tax Receivable Agreement. As of June 27, 2018, the total amount of TRA Payments due under the Tax Receivable Agreement, was \$177,370, of which \$943 was included in other current liabilities on the Condensed Consolidated Balance Sheet. See Note 14 for more information relating to our liabilities under the Tax Receivable Agreement.

**NOTE 12: EARNINGS PER SHARE**

Basic earnings per share of Class A common stock is computed by dividing net income attributable to Shake Shack Inc. by the weighted-average number of shares of Class A common stock outstanding during the period. Diluted earnings per share of Class A common stock is computed by dividing net income attributable to Shake Shack Inc. by the weighted-average number of shares of Class A common stock outstanding adjusted to give effect to potentially dilutive securities.

The following table sets forth reconciliations of the numerators and denominators used to compute basic and diluted earnings per share of Class A common stock for the thirteen and twenty-six weeks ended June 27, 2018 and June 28, 2017.

	<b>Thirteen Weeks Ended</b>		<b>Twenty-Six Weeks Ended</b>	
	<b>June 27</b>	<b>June 28</b>	<b>June 27</b>	<b>June 28</b>
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Numerator:				
Net income	\$ 10,571	\$ 8,184	\$ 15,550	\$ 12,046
Less: net income attributable to non-controlling interests	2,967	3,305	4,438	4,900
Net income attributable to Shake Shack Inc.	\$ 7,604	\$ 4,879	\$ 11,112	\$ 7,146
Denominator:				
Weighted-average shares of Class A common stock outstanding—basic	27,796	25,798	27,418	25,587
Effect of dilutive securities:				
Stock options	867	494	785	523
Performance stock units	68	20	68	23
Restricted stock units	23	—	17	—
Weighted-average shares of Class A common stock outstanding—diluted	28,754	26,312	28,288	26,133
Earnings per share of Class A common stock—basic	\$ 0.27	\$ 0.19	\$ 0.41	\$ 0.28
Earnings per share of Class A common stock—diluted	\$ 0.26	\$ 0.19	\$ 0.39	\$ 0.27

Shares of our Class B common stock do not share in the earnings or losses of Shake Shack and are therefore not participating securities. As such, separate presentation of basic and diluted earnings per share of Class B common stock under the two-class method has not been presented.



Table of Contents

The following table presents potentially dilutive securities excluded from the computations of diluted earnings per share of Class A common stock for the thirteen and twenty-six weeks ended June 27, 2018 and June 28, 2017.

	Thirteen Weeks Ended		Twenty-Six Weeks Ended		
	June 27	June 28	June 27	June 28	
	2018	2017	2018	2017	
Stock options		6,258	(1)—	6,258	(1)
Performance stock units	60,437	(2)84,755	(2)60,437	(2)84,755	(2)
Shares of Class B common stock	8,924,592	(3)10,770,992	(3)8,924,592	(3)10,770,992	(3)

(1) Excluded from the computation of diluted earnings per share of Class A common stock because the exercise price of the stock options exceeded the average market price of our Class A common stock during the period ("out-of-the-money").

(2) Excluded from the computation of diluted earnings per share of Class A common stock because the performance conditions associated with these awards were not met assuming the end of the reporting period was the end of the performance period.

(3) Shares of our Class B common stock are considered potentially dilutive shares of Class A common stock. Amounts have been excluded from the computations of diluted earnings per share of Class A common stock because the effect would have been anti-dilutive under the if-converted and two-class methods.

**NOTE 13: SUPPLEMENTAL CASH FLOW INFORMATION**

The following table sets forth supplemental cash flow information for the twenty-six weeks ended June 27, 2018 and June 28, 2017:

	Twenty-Six Weeks Ended	
	June 27	June 28
	2018	2017
Cash paid for:		
Income taxes, net of refunds	\$1,436	\$1,595
Interest, net of amounts capitalized	1,067	357
Non-cash investing activities:		
Accrued purchases of property and equipment	10,692	7,690
Capitalized landlord assets for leases where we are deemed the accounting owner	3,307	7,634
Accrued purchases of marketable securities	—	80
Capitalized equity-based compensation	39	78
Non-cash financing activities:		
Class A common stock issued in connection with the redemption of LLC Interests	1	—
Cancellation of Class B common stock in connection with the redemption of LLC Interests	(1)	—
Establishment of liabilities under tax receivable agreement	17,992	9,413

Table of Contents

## **NOTE 14: COMMITMENTS AND CONTINGENCIES**

### **Lease Commitments**

We are obligated under various operating leases for Shacks and our home office space, expiring in various years through 2035. Under certain of these leases, we are liable for contingent rent based on a percentage of sales in excess of specified thresholds and are typically responsible for our proportionate share of real estate taxes, common area maintenance charges and utilities.

As security under the terms of several of our leases, we are obligated under letters of credit totaling \$160 as of June 27, 2018. The letters of credit expire in April 2019 and February 2026. In addition, in December 2013, we entered into an irrevocable standby letter of credit in conjunction with our home office lease in the amount of \$80. The letter of credit expires in September 2018 and renews automatically for one-year periods through September 2019. In September 2017, we entered into an irrevocable standby letter of credit in conjunction with our new home office lease in the amount of \$603. The letter of credit expires in August 2018 and renews automatically for one-year periods through January 2034.

### **Purchase Commitments**

Purchase obligations include legally binding contracts, including commitments for the purchase, construction or remodeling of real estate and facilities, firm minimum commitments for inventory purchases, equipment purchases, marketing-related contracts, software acquisition/license commitments and service contracts. These obligations are generally short-term in nature and are recorded as liabilities when the related goods are received or services rendered. We also enter into long-term, exclusive contracts with certain vendors to supply us with food, beverages and paper goods, obligating us to purchase specified quantities.

### **Legal Contingencies**

We are subject to various legal and regulatory proceedings, claims and liabilities, such as employment-related claims and slip and fall cases, which arise in the ordinary course of business and are generally covered by insurance. As of June 27, 2018, the amount of ultimate liability with respect to these matters was not material.

### **Liabilities under Tax Receivable Agreement**

As described in Note 11, we are a party to the Tax Receivable Agreement under which we are contractually committed to pay certain of the members of SSE Holdings 85% of the amount of any tax benefits that we actually realize, or in some cases are deemed to realize, as a result of certain transactions. We are not obligated to make any payments under the Tax Receivable Agreement until the tax benefits associated with the transactions that gave rise to the payments are realized. Amounts payable under the Tax Receivable Agreement are contingent upon, among other things, (i) generation of future taxable income over the term of the Tax Receivable Agreement and (ii) future changes in tax laws. If we do not generate sufficient taxable income in the aggregate over the term of the Tax Receivable Agreement to utilize the tax benefits, then we would not be required to make the related TRA Payments. During the twenty-six weeks ended June 27, 2018 and June 28, 2017, we recognized liabilities totaling \$17,992 and \$9,413, respectively, relating to our obligations under the Tax Receivable Agreement, after concluding that it was probable that we would have sufficient future taxable income over the term of the Tax Receivable Agreement to utilize the related tax benefits. As of June 27, 2018 and December 27, 2017, our total obligations under the Tax Receivable Agreement, including accrued interest, were \$177,370 and \$159,373, respectively. There were no transactions subject to the Tax Receivable Agreement for which we did not recognize the related liability, as we concluded that we would have sufficient future taxable income to utilize all of the related tax benefits.

## **NOTE 15: RELATED PARTY TRANSACTIONS**

## **Union Square Hospitality Group**

The Chairman of our Board of Directors serves as the Chief Executive Officer of Union Square Hospitality Group, LLC. As a result, Union Square Hospitality Group, LLC and its subsidiaries, set forth below, are considered related parties.

### ***USHG, LLC***



## Table of Contents

Effective January 2015, we entered into an Amended and Restated Management Services Agreement with USHG, LLC ("USHG"), in which USHG provides reduced management services to SSE Holdings comprised of executive leadership from members of its senior management, advisory and development services and limited leadership development and human resources services. The initial term of the Amended and Restated Management Services Agreement is through December 31, 2019, with renewal periods.

No amounts were paid to USHG for general corporate expenses for the thirteen weeks ended June 27, 2018. Amounts paid to USHG for general corporate expenses were \$2 for the twenty-six weeks ended June 27, 2018. Amounts paid to USHG for general corporate expenses were \$1 and \$6 for the thirteen and twenty-six weeks ended June 28, 2017, respectively. These amounts are included in general and administrative expenses on the Condensed Consolidated Statements of Income.

No amounts were payable to USHG as of June 27, 2018 and December 27, 2017. No amounts were due from USHG as of June 27, 2018 and December 27, 2017.

### ***Hudson Yards Sports and Entertainment***

In fiscal 2011, we entered into a Master License Agreement (as amended, "MLA") with Hudson Yards Sports and Entertainment LLC ("HYSE") to operate Shake Shack branded limited menu concession stands in sports and entertainment venues within the United States. The agreement expires in January 2027 and includes five consecutive five-year renewal options at HYSE's option. As consideration for these rights, HYSE pays us a license fee based on a percentage of net food sales, as defined in the MLA. HYSE also pays us a percentage of profits on sales of branded beverages, as defined in the MLA. Amount paid to us by the HYSE for the thirteen and twenty-six weeks ended June 27, 2018 were \$64 and \$111, respectively. Amounts paid to us by HYSE for the thirteen and twenty-six weeks ended June 28, 2017 were \$115 and \$135, respectively. These amounts are included in licensing revenue on the Condensed Consolidated Statements of Income. Total amounts due from HYSE as of June 27, 2018 and December 27, 2017 were \$114 and \$18, respectively, which are included in prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets.

### **Madison Square Park Conservancy**

The Chairman of our Board of Directors serves as a director of the Madison Square Park Conservancy ("MSP Conservancy"), with which we have a license agreement and pay license fees to operate our Madison Square Park Shack. Amounts paid to MSP Conservancy as rent amounted to \$203 and \$470 for the thirteen and twenty-six weeks ended June 27, 2018, respectively. Amounts paid to MSP Conservancy as rent amounted to \$133 and \$332 for the thirteen and twenty-six weeks ended June 28, 2017, respectively. These amounts are included in occupancy and related expenses on the Condensed Consolidated Statements of Income. No amounts were due to MSP Conservancy as of June 27, 2018 and December 27, 2017.

No amounts were paid to us from MSP Conservancy during the thirteen and twenty-six weeks ended June 27, 2018. No amounts were paid to us from MSP Conservancy during the thirteen weeks ended June 28, 2017. Amounts paid to us during the twenty-six weeks ended June 28, 2017 totaled \$200. No amounts were due to us from MSP Conservancy as of June 27, 2018 and December 27, 2017.

### **Share Our Strength**

The Chairman of our Board of Directors serves as a director of Share Our Strength, for which Shake Shack holds the "Great American Shake Sale" every year during the month of May to raise money and awareness for childhood hunger. During the Great American Shake Sale, we encourage guests to donate money to Share Our Strength's No Kid Hungry campaign in exchange for a coupon for a free cake-themed shake. All of the guest donations we collect go directly to Share Our Strength.

During the thirteen and twenty-six weeks ended June 27, 2018 and June 28, 2017 the Great American Shake Sale raised \$343 and \$631, respectively, for Share Our Strength. All proceeds were remitted to Share Our Strength in the respective years. We incurred costs of approximately \$53 for both the thirteen

and twenty-six weeks ended June 27, 2018 and \$119 for both the thirteen and twenty-six weeks ended June 28, 2017. These costs represents the cost of the free shakes redeemed and are included in general and administrative expenses on the Condensed Consolidated Statements of Income.

### **Mobo Systems, Inc.**

The Chairman of our Board of Directors serves as a director of Mobo Systems, Inc. (also known as "Olo"), a platform we use in connection with our mobile ordering application. Amounts paid to Olo during the thirteen and twenty-six weeks ended June 27, 2018 were \$27 and \$52, respectively. Amounts paid to Olo during the thirteen and twenty-six weeks ended June 28, 2017 were \$20 and

## Table of Contents

\$38, respectively. These amounts are included in other operating expenses on the Condensed Consolidated Statements of Income. No amounts were payable to Olo as of June 27, 2018 and December 27, 2017.

### **Square, Inc.**

In July 2017, our Chief Executive Officer joined the Board of Directors of Square, Inc. ("Square"). We currently use certain point-of-sale applications, payment processing services, hardware and other enterprise platform services in connection with the processing of a limited amount of sales at certain of our Shacks, sales for certain off-site events and in connection with our kiosk technology. Additionally, we partnered with Caviar, Square's food ordering service for delivery services, in a number of cities for limited-time delivery promotions.

### **Tax Receivable Agreement**

As described in Note 11, we entered into a tax receivable agreement with certain members of SSE Holdings that provides for the payment by us of 85% of the amount of tax benefits, if any, that Shake Shack actually realizes or in some cases is deemed to realize as a result of certain transactions. No payments were made to the members of SSE Holdings pursuant to the Tax Receivable Agreement during the thirteen and twenty-six weeks ended June 27, 2018. No payments were paid to the members during the thirteen weeks ended June 28, 2017. During the twenty-six weeks ended June 28, 2017, payments totaling \$1,471, inclusive of interest, were made to the members of SSE Holdings pursuant to the Tax Receivable Agreement. As of June 27, 2018 and December 27, 2017, total amounts due under the Tax Receivable Agreement were \$177,370 and \$159,373, respectively.

### **Distributions to Members of SSE Holdings**

Under the terms of the SSE Holdings LLC Agreement, SSE Holdings is obligated to make tax distributions to its members. During the thirteen and twenty-six weeks ended June 27, 2018 distributions paid to non-controlling interest holders were \$587 and \$670, respectively. During the thirteen and twenty-six weeks ended June 28, 2017 distributions paid non-controlling interest holder were \$2,024 and \$2,379, respectively. No tax distributions were payable to non-controlling interest holders as of June 27, 2018 and December 27, 2017.

Table of Contents

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

*This section and other parts of this Quarterly Report on Form 10-Q ("Form 10-Q") contain 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. All statements other than statements of historical fact are forward-looking statements. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact, such as our expected financial outlook for fiscal 2018, expected Shack openings, expected same-Shack sales growth and trends in our business. Forward-looking statements can also be identified by words such as "aim," "anticipate," "believe," "estimate," "expect," "forecast," "future," "intend," "outlook," "plan," "potential," "predict," "project," "seek," "may," "can," "will," "would," "could," "should," the negatives thereof and other similar expressions. Forward-looking statements are not guarantees of future performance and actual results may differ significantly from the results discussed in the forward-looking statements. All forward-looking statements are expressly qualified in their entirety by these cautionary statements. Factors that might cause such differences include, but are not limited to, those discussed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 27, 2017 ("2017 Form 10-K") and Part II, Item 1A of this Form 10-Q. The following discussion should be read in conjunction with our 2017 Form 10-K and the condensed consolidated financial statements and notes thereto included in Part I, Item 1 of this Form 10-Q. 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. We undertake no obligation to revise or update any forward-looking statements for any reason, except as required by law.*

### OVERVIEW

Shake Shack is a modern day "roadside" burger stand serving a classic American menu of premium burgers, chicken sandwiches, hot dogs, crinkle cut fries, shakes, frozen custard, beer and wine. As of June 27, 2018, there were 179 Shacks in operation, system-wide, of which 100 were domestic company-operated Shacks, 10 were domestic licensed Shacks and 69 were international licensed Shacks.

#### Development Highlights

During the quarter, we opened five domestic company-operated Shacks, including our first Shacks in North Carolina at Charlotte's Park Road Shopping Center; in Ohio at Pinecrest, Cleveland's premier shopping, dining, entertainment and residential development; and at the Staten Island Mall in New York; as well as additional Shacks in the existing markets of Orlando and Connecticut. We also opened six international licensed Shacks, which included our first Shack in Hong Kong at the Central IFC Mall, as well as additional Shacks in the existing markets of South Korea, Japan and the Middle East.

#### Financial Highlights for the Second Quarter 2018:

Total revenue increased 27.3% to \$116.3 million.

Shack sales increased 28.3% to \$112.9 million.

Same-Shack sales increased 1.1%.

Operating income increased 10.9% to \$13.0 million, or 11.2% of total revenue.

Shack-level operating profit\*, a non-GAAP measure, increased 25.5% to \$31.8 million, or 28.2% of Shack sales. Excluding the impact from a one-time benefit to deferred rent related to certain historical leases with co-tenancy provisions, Shack-level operating profit would have been 27.5%.

Net income increased 29.2% to \$10.6 million and net income attributable to Shake Shack Inc. was \$7.6 million, or \$0.26 per diluted share.

Adjusted EBITDA\*, a non-GAAP measure, increased 12.9% to \$21.9 million.

Adjusted pro forma net income\*, a non-GAAP measure, increased 50.8% to \$11.0 million, or \$0.29 per fully exchanged and diluted share.

Eleven system-wide Shack openings, comprising five domestic company-operated Shacks and six licensed Shacks.

Table of Contents

\* *Shack-level operating profit, adjusted EBITDA and adjusted pro forma net income are non-GAAP measures. See "—Non-GAAP Financial Measures" for reconciliations of Shack-level operating profit to operating income, adjusted EBITDA to net income, and adjusted pro forma net income to net income attributable to Shake Shack Inc., the most directly comparable financial measures presented in accordance with GAAP.*

We continued to execute on our growth strategies in 2018 and the second quarter was positively impacted by (i) the incremental sales from the 25 new domestic company-operated Shacks opened between June 28, 2017 and June 27, 2018, and (ii) growth in same-Shack sales of 1.1%. These were partially offset by increased labor and related expenses resulting from ongoing increases in minimum wages, commissions paid as part of certain third-party delivery pilots and higher repair and maintenance costs related to some mature, high-volume Shacks.

Net income attributable to Shake Shack Inc. was \$7.6 million, or \$0.26 per diluted share, for the second quarter of 2018, compared to \$4.9 million, or \$0.19 per diluted share, for the same period last year. On an adjusted pro forma basis, which excludes certain non-recurring items and assumes that all outstanding LLC Interests were exchanged for shares of Class A common stock as of the beginning of the period, we would have recognized net income of \$11.0 million, or \$0.29 per fully exchanged and diluted share, for the second quarter of 2018 compared to \$7.3 million, or \$0.20 per fully exchanged and diluted share for the second quarter of 2017, an increase of 50.8%.

**FISCAL 2018 OUTLOOK**

For the fiscal year ending December 26, 2018, we have revised our financial outlook to the following:

	<b>Current Outlook</b>	<b>Previous Outlook</b>
Total revenue	\$446 to \$450 million	\$446 to \$450 million
Licensing revenue	\$12 to \$13 million	\$12 to \$13 million
Same-Shack sales growth (%)	0% to 1%	0% to 1%
Domestic company-operated Shack openings	32 to 35	32 to 35
Licensed Shack openings, net	16 to 18	16 to 18
Average annual sales volume for domestic company-operated Shacks	\$4.1 to \$4.2 million	\$4.1 to \$4.2 million
Shack-level operating profit margin	24.5% to 25.5%	24.5% to 25.5%
General and administrative expenses <sup>(1)</sup>	\$49 to \$51 million	\$49 to \$51 million
Depreciation expense	\$31 to \$32 million	\$32 million
Pre-opening costs	approximately \$13 million	\$12 to \$13 million
Interest expense	approximately \$2.5 million	\$2 to \$2.2 million
Adjusted pro forma effective tax rate (%)	26% to 27%	26% to 27%

*(1) Excludes approximately \$6 to \$8 million of estimated costs, across the remainder of this year and well into 2019, related to Project Concrete, our enterprise-wide system upgrade initiative.*

Table of Contents**RESULTS OF OPERATIONS**

The following table summarizes our results of operations for the thirteen and twenty-six weeks ended June 27, 2018 and June 28, 2017:

<i>(dollar amounts in thousands)</i>	<b>Thirteen Weeks Ended</b>				<b>Twenty-Six Weeks Ended</b>			
	<b>June 27 2018</b>		<b>June 28 2017</b>		<b>June 27 2018</b>		<b>June 28 2017</b>	
Shack sales	\$112,898	97.1 %	\$88,003	96.4 %	\$208,987	97.0 %	\$162,158	96.5 %
Licensing revenue	3,384	2.9 %	3,313	3.6 %	6,411	3.0 %	5,907	3.5 %
<b>TOTAL REVENUE</b>	<b>116,282</b>	<b>100.0 %</b>	<b>91,316</b>	<b>100.0 %</b>	<b>215,398</b>	<b>100.0 %</b>	<b>168,065</b>	<b>100.0 %</b>
Shack-level operating expenses <sup>(1)</sup> :								
Food and paper costs	31,678	28.1 %	24,712	28.1 %	58,633	28.1 %	45,886	28.3 %
Labor and related expenses	29,732	26.3 %	22,426	25.5 %	56,419	27.0 %	42,886	26.4 %
Other operating expenses	12,281	10.9 %	8,486	9.6 %	23,040	11.0 %	16,151	10.0 %
Occupancy and related expenses	7,401	6.6 %	7,043	8.0 %	15,076	7.2 %	13,219	8.2 %
General and administrative expenses	12,587	10.8 %	9,678	10.6 %	24,396	11.3 %	18,148	10.8 %
Depreciation expense	6,968	6.0 %	5,258	5.8 %	13,466	6.3 %	10,006	6.0 %
Pre-opening costs	2,421	2.1 %	1,876	2.1 %	4,450	2.1 %	4,291	2.6 %
Loss on disposal of property and equipment	196	0.2 %	100	0.1 %	386	0.2 %	113	0.1 %
<b>TOTAL EXPENSES</b>	<b>103,264</b>	<b>88.8 %</b>	<b>79,579</b>	<b>87.1 %</b>	<b>195,866</b>	<b>90.9 %</b>	<b>150,700</b>	<b>89.7 %</b>
<b>OPERATING INCOME</b>	<b>13,018</b>	<b>11.2 %</b>	<b>11,737</b>	<b>12.9 %</b>	<b>19,532</b>	<b>9.1 %</b>	<b>17,365</b>	<b>10.3 %</b>
Other income, net	406	0.3 %	198	0.2 %	634	0.3 %	393	0.2 %
Interest expense	(613)	(0.5 %)	(366)	(0.4 %)	(1,178)	(0.5 %)	(669)	(0.4 %)
<b>INCOME BEFORE INCOME TAXES</b>	<b>12,811</b>	<b>11.0 %</b>	<b>11,569</b>	<b>12.7 %</b>	<b>18,988</b>	<b>8.8 %</b>	<b>17,089</b>	<b>10.2 %</b>
Income tax expense	2,240	1.9 %	3,385	3.7 %	3,438	1.6 %	5,043	3.0 %
<b>NET INCOME</b>	<b>10,571</b>	<b>9.1 %</b>	<b>8,184</b>	<b>9.0 %</b>	<b>15,550</b>	<b>7.2 %</b>	<b>12,046</b>	<b>7.2 %</b>

Less: net income attributable to non-controlling interests	2,967	2.6	%	3,305	3.6	%	4,438	2.1	%	4,900	2.9	%
<b>NET INCOME ATTRIBUTABLE TO SHAKE SHACK INC.</b>	<b>\$7,604</b>	<b>6.5</b>	<b>%</b>	<b>\$4,879</b>	<b>5.3</b>	<b>%</b>	<b>\$11,112</b>	<b>5.2</b>	<b>%</b>	<b>\$7,146</b>	<b>4.3</b>	<b>%</b>

(1) As a percentage of Shack sales.

## Shack Sales

Shack sales represent the aggregate sales of food, beverages and Shake Shack branded merchandise at our domestic company-operated Shacks. Shack sales in any period are directly influenced by the number of operating weeks in such period, the number of open Shacks and same-Shack sales. Same-Shack sales means, for any reporting period, sales for the comparable Shack base, which we define as the number of domestic company-operated Shacks open for 24 months or longer.

Shack sales were \$112.9 million for the thirteen weeks ended June 27, 2018 compared to \$88.0 million for the thirteen weeks ended June 28, 2017, an increase of \$24.9 million or 28.3%. The growth in Shack sales was primarily driven by the opening of 25 new domestic company-operated Shacks between June 28, 2017 and June 27, 2018. Same-Shack sales increased \$0.7 million, or 1.1%. The increase in same-Shack sales, consisted of a combined increase in price and sales mix of 3.7% offset by a 2.6% decrease in guest traffic. For purposes of calculating same-Shack sales growth, Shack sales for 50 Shacks were included in the comparable Shack base.

Shack sales were \$209.0 million for the twenty-six weeks ended June 27, 2018 compared to \$162.2 million for the twenty-six weeks ended June 28, 2017, an increase of \$46.8 million or 28.9%. The increase is primarily due to the opening of 25 new domestic company-operated Shacks between June 28, 2017 and June 27, 2018. Same-Shack sales increased \$1.5 million, or 1.3%. The increase in same-Shack sales, consisted of a combined increase in price and sales mix of 4.6% offset by a 3.3% decrease in guest



Table of Contents

traffic. Excluding all transactions associated with the free burger promotion in the prior year, our same-Shack sales would have been 1.5% for the twenty-six weeks ended June 27, 2018, with traffic declining by 2.4%. For purposes of calculating same-Shack sales growth, Shack sales for 50 Shacks were included in the comparable Shack base.

**Licensing Revenue**

Licensing revenue is comprised of license fees, opening fees for certain licensed Shacks and territory fees. License fees are calculated as a percentage of sales and territory fees are payments for the exclusive right to develop Shacks in a specific geographic area.

Licensing revenue was \$3.4 million for the thirteen weeks ended June 27, 2018 compared to \$3.3 million for the thirteen weeks ended June 28, 2017, an increase of \$0.1 million or 2.1%. Licensing revenue was \$6.4 million for the twenty-six weeks ended June 27, 2018 compared to \$5.9 million for the twenty-six weeks ended June 28, 2017, an increase of \$0.5 million or 8.5%. The increase for the thirteen week period was primarily driven by 20 new licensed Shacks opened between June 28, 2017 and June 27, 2018, with strong performance in the Shacks throughout Asia, balanced by continued softness in the Middle East.

**Food and Paper Costs**

Food and paper costs include the direct costs associated with food, beverage and packaging of our menu items. The components of food and paper costs are variable by nature, changing with sales volume, and are impacted by menu mix and fluctuations in commodity costs.

Food and paper costs were \$31.7 million for the thirteen weeks ended June 27, 2018 compared to \$24.7 million for the thirteen weeks ended June 28, 2017, an increase of \$7.0 million or 28.2%. Food and paper costs were \$58.6 million for the twenty-six weeks ended June 27, 2018 compared to \$45.9 million for the twenty-six weeks ended June 28, 2017, an increase of \$12.7 million or 27.8%. The increases for the thirteen and twenty-six week periods were primarily due to the opening of 25 new domestic company-operated Shacks between June 28, 2017 and June 27, 2018.

As a percentage of Shack sales, food and paper costs remained constant at 28.1% for the thirteen weeks ended June 27, 2018 and June 28, 2017, which was a result of higher beef costs, offset by sponsorship receipts for our biennial leadership retreat. As a percentage of Shack sales, food and paper costs decreased to 28.1% from 28.3% for the twenty-six weeks ended June 27, 2018 and June 28, 2017, respectively. This decrease was the result of a number of factors including efficiencies in our remaining basket of food, the menu price increase we implemented in December 2017 and sponsorship receipts for our biennial leadership retreat, offset by rising beef costs and costs associated with the free burger promotion related to the launch of our mobile app.

**Labor and Related Expenses**

Labor and related expenses include domestic company-operated Shack-level hourly and management wages, bonuses, payroll taxes, equity-based compensation, workers' compensation expense and medical benefits. As we expect with other variable expense items, we expect labor costs to grow as our Shack sales grow. Factors that influence labor costs include minimum wage and payroll tax legislation, health care costs and the performance of our domestic company-operated Shacks.

Labor and related expenses were \$29.7 million for the thirteen weeks ended June 27, 2018 compared to \$22.4 million for the thirteen weeks ended June 28, 2017, an increase of \$7.3 million or 32.6%. Labor and related expenses were \$56.4 million for the twenty-six weeks ended June 27, 2018 compared to \$42.9 million for the twenty-six weeks ended June 28, 2017, an increase of \$13.5 million or 31.6%. These increases for the thirteen and twenty-six week periods were primarily due to the opening of 25 new domestic company-operated Shacks between June 28, 2017 and June 27, 2018.

As a percentage of Shack sales, labor and related expenses increased to 26.3% and 27.0% for the thirteen and twenty-six weeks ended June 27, 2018, respectively, compared to 25.5% and 26.4% for the thirteen and twenty-six weeks ended June 28, 2017, respectively. The increases for the thirteen and twenty-six week periods were primarily due to ongoing increases to hourly minimum wages, the entry of lower volume

Shacks into the system, as well as the timing of new Shack openings which typically carry higher labor costs initially.

Table of Contents**Other Operating Expenses**

Other operating expenses consist of Shack-level marketing expenses, utilities and other operating expenses incidental to operating our domestic company-operated Shacks, such as non-perishable supplies, credit card fees, property insurance and the costs of repairs and maintenance.

Other operating expenses were \$12.3 million for the thirteen weeks ended June 27, 2018 compared to \$8.5 million for the thirteen weeks ended June 28, 2017, an increase of \$3.8 million or 44.7%. Other operating expenses were \$23.0 million for the twenty-six weeks ended June 27, 2018 compared to \$16.2 million for the twenty-six weeks ended June 28, 2017, an increase of \$6.8 million or 42.7%. The increases for the thirteen and twenty-six week periods were primarily due to the opening of 25 new domestic company-operated Shacks between June 28, 2017 and June 27, 2018.

As a percentage of Shack sales, other operating expenses increased to 10.9% and 11.0% for the thirteen and twenty-six weeks ended June 27, 2018, respectively, compared to 9.6% and 10.0% for the thirteen and twenty-six weeks ended June 28, 2017, respectively. The increase was due to higher repair and maintenance costs related to some mature, high-volume Shacks and delivery commissions paid as part of the integrated pilots during the year.

**Occupancy and Related Expenses**

Occupancy and related expenses consist of Shack-level occupancy expenses (including rent, common area expenses and certain local taxes), and exclude occupancy expenses associated with unopened Shacks which are recorded separately in pre-opening costs.

Occupancy and related expenses were \$7.4 million for the thirteen weeks ended June 27, 2018 compared to \$7.0 million for the thirteen weeks ended June 28, 2017, an increase of \$0.4 million or 5.1%. Occupancy and related expenses were \$15.1 million for the twenty-six weeks ended June 27, 2018 compared to \$13.2 million for the twenty-six weeks ended June 28, 2017, an increase of \$1.9 million or 14.0%. The increases for the thirteen and twenty-six week periods were primarily due to the opening of 25 new domestic company-operated Shacks between June 28, 2017 and June 27, 2018, offset by the impact from a one-time benefit to deferred rent related to certain historical leases with co-tenancy provisions.

As a percentage of Shack sales, occupancy and related expenses decreased to 6.6% and 7.2% for the thirteen and twenty-six weeks ended June 27, 2018, respectively, compared to 8.0% and 8.2% for the thirteen and twenty-six weeks ended June 28, 2017, respectively. The decreases primarily due to the increased number of leases where we are deemed to be the accounting owner and for which less rent expense is recognized and the impact from a one-time benefit to deferred rent related to certain historical leases with co-tenancy provisions, partially offset by the introduction of Shacks at various volumes into the system.

**General and Administrative Expenses**

General and administrative expenses consist of costs associated with corporate and administrative functions that support Shack development and operations, as well as equity-based compensation expense.

General and administrative expenses were \$12.6 million for the thirteen weeks ended June 27, 2018 compared to \$9.7 million for the thirteen weeks ended June 28, 2017, an increase of \$2.9 million or 30.1%. General and administrative expenses were \$24.4 million for the twenty-six weeks ended June 27, 2018 compared to \$18.1 million for the twenty-six weeks ended June 28, 2017, an increase of \$6.3 million or 34.4%. The increase for the thirteen week period was primarily driven by higher payroll expenses from increased headcount at our Home Office to support our ongoing growth. The increase for the twenty-six week period was primarily driven by the aforementioned costs as well as costs related to the relocation of our new Home Office, including duplicative non-cash deferred rent, a net loss on the sublease of our old Home Office and the disposal of certain fixed assets.

As a percentage of total revenue, general and administrative expenses increased to 10.8% and 11.3% for the thirteen and twenty-six weeks ended June 27, 2018, respectively, from 10.6% and 10.8% for the thirteen and twenty-six weeks ended June 28, 2017, respectively. These increases were primarily due to

the aforementioned items.

### **Depreciation Expense**

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

Depreciation expense was \$7.0 million for the thirteen weeks ended June 27, 2018 compared to \$5.3 million for the thirteen weeks ended June 28, 2017, an increase of \$1.7 million or 32.5%. Depreciation expense was \$13.5 million for the twenty-six weeks ended June 27, 2018 compared to \$10.0 million for the twenty-six weeks ended June 28, 2017, an increase of \$3.5 million or 34.6%. The

Table of Contents

increases for the thirteen and twenty-six week periods were primarily due to incremental depreciation of capital expenditures related to the opening of 25 new domestic company-operated Shacks between June 28, 2017 and June 27, 2018.

As a percentage of total revenue, depreciation expense increased to 6.0% and 6.3% for the thirteen and twenty-six weeks ended June 27, 2018, respectively, compared to 5.8% and 6.0% for the thirteen and twenty-six weeks ended June 28, 2017, respectively, primarily due to the entry of Shacks at various volumes into the system.

### **Pre-Opening Costs**

Pre-opening costs consist primarily of legal fees, rent, managers' salaries, training costs, employee payroll and related expenses, costs to relocate and compensate Shack management teams prior to an opening and wages, travel and lodging costs for our opening training team and other supporting team members. All such costs incurred prior to the opening of a domestic company-operated Shack are expensed in the period in which the expense was incurred. Pre-opening costs can fluctuate significantly from period to period, based on the number and timing of domestic company-operated Shack openings and the specific pre-opening costs incurred for each domestic company-operated Shack. Additionally, domestic company-operated Shack openings in new geographic market areas may initially experience higher pre-opening costs than our established geographic market areas, such as the New York City metropolitan area, where we have greater economies of scale and incur lower travel and lodging costs for our training team.

Pre-opening costs were \$2.4 million for the thirteen weeks ended June 27, 2018 compared to \$1.9 million for the thirteen weeks ended June 28, 2017, an increase of \$0.5 million or 29.1%. Pre-opening costs were \$4.5 million for the twenty-six weeks ended June 27, 2018 compared to \$4.3 million for the twenty-six weeks ended June 28, 2017, an increase of \$0.2 million or 3.7%. These increases were due to the timing and total number of new domestic company-operated Shacks expected to open.

### **Loss on Disposal of Property and Equipment**

Loss on disposal of property and equipment represents the net book value of assets that have been retired and consists primarily of furniture and fixtures that were replaced in the normal course of business.

The loss on disposal of property and equipment for the thirteen and twenty-six weeks ended June 27, 2018 was \$0.2 million and \$0.4 million, respectively, compared to \$0.1 million for the thirteen and twenty-six weeks ended June 28, 2017.

### **Other Income, Net**

Other income, net consists of interest income, dividend income and net realized gains and losses from the sale of marketable securities.

Other income, net for the thirteen and twenty-six weeks ended June 27, 2018 was \$0.4 million and \$0.6 million, respectively, compared to \$0.2 million and \$0.4 million for the thirteen and twenty-six weeks ended June 28, 2017, respectively, which primarily consisted of dividend income related to the investments in marketable securities.

### **Interest Expense**

Interest expense primarily consists of amortization of deferred financing costs, imputed interest on deferred compensation, interest on the current portion of our liabilities under the Tax Receivable Agreement, imputed interest on our deemed landlord financing liability as well as interest and fees on our Revolving Credit Facility.

Interest expense for the thirteen and twenty-six weeks ended June 27, 2018 was \$0.6 million and \$1.2 million, respectively, compared to \$0.4 million and \$0.7 million for the thirteen and twenty-six weeks ended June 28, 2017, respectively. These increases were primarily due to the increased number of leases where we are deemed to be the accounting owner.

### **Income Tax Expense**

We are the sole managing member of SSE Holdings, which is treated as a partnership for U.S. federal and most applicable state and local income tax purposes. As a partnership, SSE Holdings is not subject to U.S. federal and certain state and local income taxes. Any taxable income or loss generated by SSE Holdings is passed through to and included in the taxable income or loss of its members, including us, on a pro rata basis. We are subject to U.S. federal income taxes, in addition to state and local income taxes with respect to our allocable share of any taxable income or loss generated by SSE Holdings.

In December 2017, the TCJA was enacted into law. The TCJA provides for significant changes to the U.S. Internal Revenue Code of 1986, as amended, including the reduction of the U.S. federal corporate income tax rate from 35% to 21%, among other provisions.

Table of Contents

Income tax expense was \$2.2 million for the thirteen weeks ended June 27, 2018 compared to \$3.4 million for the thirteen weeks ended June 28, 2017. Our effective income tax rate decreased to 17.5% for the thirteen weeks ended June 27, 2018 from 29.3% for the thirteen weeks ended June 28, 2017. The decrease in income tax expense is primarily driven by the aforementioned rate reduction resulting from the enactment of the TCJA, partially offset by the increase in our ownership interest in SSE Holdings, which increases our share of the taxable income of SSE Holdings, and higher foreign withholding taxes.

Income tax expense was \$3.4 million for the twenty-six weeks ended June 27, 2018 compared to \$5.0 million for the twenty-six weeks ended June 28, 2017. Our effective income tax rate decreased to 18.1% for the twenty-six weeks ended June 27, 2018 from 29.5% for the twenty-six weeks ended June 28, 2017.

As our ownership interest in SSE Holdings increases, our share of the taxable income of SSE Holdings will also increase. When compared to consolidated pre-tax income, this will result in increases to our effective income tax rate. Our weighted-average ownership interest in SSE Holdings increased to 75.2% and 74.4% for the thirteen and twenty-six weeks ended June 27, 2018, respectively, compared to 70.4% and 70.0% for the thirteen and twenty-six weeks ended June 28, 2017, respectively.

### **Net Income Attributable to Non-Controlling Interests**

We are the sole managing member of SSE Holdings and have the sole voting power in, and control the management of, SSE Holdings. Accordingly, we consolidate the financial results of SSE Holdings and report a non-controlling interest on our Condensed Consolidated Statements of Income, representing the portion of net income attributable to the other members of SSE Holdings. The Third Amended and Restated Limited Liability Company Agreement of SSE Holdings provides that holders of LLC Interests may, from time to time, require SSE Holdings to redeem all or a portion of their LLC Interests for newly-issued shares of Class A common stock on a one-for-one basis. In connection with any redemption or exchange, we will receive a corresponding number of LLC Interests, increasing our total ownership interest in SSE Holdings. The weighted average ownership percentages for the applicable reporting periods are used to attribute net income and other comprehensive income to Shake Shack Inc. and the non-controlling interest holders.

Net income attributable to non-controlling interests was \$3.0 million and \$3.3 million for the thirteen weeks ended June 27, 2018 and June 28, 2017, respectively, a decrease of \$0.3 million or 10.2%. This decrease was primarily driven by the decrease in the non-controlling interest holders' weighted average ownership, which was 24.8% and 29.6% for the thirteen weeks ended June 27, 2018 and June 28, 2017, respectively.

Net income attributable to non-controlling interests was \$4.4 million and \$4.9 million for the twenty-six weeks ended June 27, 2018 and June 28, 2017, respectively, a decrease of \$0.5 million or 9.4%. This decrease was primarily driven by a decrease in the non-controlling interest holders' weighted average ownership, which was 25.6% and 30.0% for the twenty-six weeks ended June 27, 2018 and June 28, 2017, respectively.

Table of Contents

## **NON-GAAP FINANCIAL MEASURES**

To supplement the consolidated financial statements, which are prepared and presented in accordance with U.S. generally accepted accounting principles (“GAAP”), we use the following non-GAAP financial measures: Shack-level operating profit, Shack-level operating profit margin, EBITDA, adjusted EBITDA, adjusted EBITDA margin, adjusted pro forma net income and adjusted pro forma earnings per fully exchanged and diluted share (collectively the “non-GAAP financial measures”).

### **Shack-Level Operating Profit**

Shack-level operating profit is defined as Shack sales less Shack-level operating expenses including food and paper costs, labor and related expenses, other operating expenses and occupancy and related expenses.

#### ***How This Measure Is Useful***

When used in conjunction with GAAP financial measures, Shack-level operating profit and Shack-level operating profit margin are supplemental measures of operating performance that we believe are useful measures to evaluate the performance and profitability of our Shacks. Additionally, Shack-level operating profit and Shack-level operating profit margin are key metrics used internally by our management to develop internal budgets and forecasts, as well as assess the performance of our Shacks relative to budget and against prior periods. It is also used to evaluate employee compensation as it serves as a metric in certain of our performance-based employee bonus arrangements. We believe presentation of Shack-level operating profit and Shack-level operating profit margin provides investors with a supplemental view of our operating performance that can provide meaningful insights to the underlying operating performance of our Shacks, as these measures depict the operating results that are directly impacted by our Shacks and exclude items that may not be indicative of, or are unrelated to, the ongoing operations of our Shacks. It may also assist investors to evaluate our performance relative to peers of various sizes and maturities and provides greater transparency with respect to how our management evaluates our business, as well as our financial and operational decision-making.

#### ***Limitations of the Usefulness of this Measure***

Shack-level operating profit and Shack-level operating profit margin may differ from similarly titled measures used by other companies due to different methods of calculation. Presentation of Shack-level operating profit and Shack-level operating profit margin is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. Shack-level operating profit excludes certain costs, such as general and administrative expenses and pre-opening costs, which are considered normal, recurring cash operating expenses and are essential to support the operation and development of our Shacks. Therefore, this measure may not provide a complete understanding of the operating results of our company as a whole and Shack-level operating profit and Shack-level operating profit margin should be reviewed in conjunction with our GAAP financial results. A reconciliation of Shack-level operating profit to operating income, the most directly comparable GAAP financial measure, is as follows.



Table of Contents

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 27 2018	June 28 2017	June 27 2018	June 28 2017
<i>(dollar amounts in thousands)</i>				
Operating income	\$13,018	\$11,737	\$19,532	\$17,365
Less:				
Licensing revenue	3,384	3,313	6,411	5,907
Add:				
General and administrative expenses	12,587	9,678	24,396	18,148
Depreciation expense	6,968	5,258	13,466	10,006
Pre-opening costs	2,421	1,876	4,450	4,291
Loss on disposal of property and equipment	196	100	386	113
Shack-level operating profit	\$31,806	\$25,336	\$55,819	\$44,016
Total revenue	\$116,282	\$91,316	\$215,398	\$168,065
Less: licensing revenue	3,384	3,313	6,411	5,907
Shack sales	\$112,898	\$88,003	\$208,987	\$162,158
Shack-level operating profit margin	28.2	% 28.8	% 26.7	% 27.1

**EBITDA and Adjusted EBITDA**

EBITDA is defined as net income before interest expense (net of interest income), income tax expense and depreciation and amortization expense. Adjusted EBITDA is defined as EBITDA (as defined above) excluding equity-based compensation expense, deferred rent expense, losses on the disposal of property and equipment, as well as certain non-recurring items that we don't believe directly reflect our core operations and may not be indicative of our recurring business operations.

***How These Measures Are Useful***

When used in conjunction with GAAP financial measures, EBITDA and adjusted EBITDA are supplemental measures of operating performance that we believe are useful measures to facilitate comparisons to historical performance and competitors' operating results. Adjusted EBITDA is a key metric used internally by our management to develop internal budgets and forecasts and also serves as a metric in our performance-based equity incentive programs and certain of our bonus arrangements. We believe presentation of EBITDA and adjusted EBITDA provides investors with a supplemental view of our operating performance that facilitates analysis and comparisons of our ongoing business operations because they exclude items that may not be indicative of our ongoing operating performance.

***Limitations of the Usefulness of These Measures***

EBITDA and adjusted EBITDA may differ from similarly titled measures used by other companies due to different methods of calculation. Presentation of EBITDA and adjusted EBITDA is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. EBITDA and adjusted EBITDA exclude certain normal recurring expenses. Therefore, these measures may not provide a complete understanding of our performance and should be reviewed in conjunction with our GAAP financial measures. A reconciliation of EBITDA and adjusted EBITDA to net income, the most directly comparable GAAP measure, is as follows.

Table of Contents

	<b>Thirteen Weeks Ended</b>		<b>Twenty-Six Weeks Ended</b>	
(in thousands)	<b>June 27 2018</b>	<b>June 28 2017</b>	<b>June 27 2018</b>	<b>June 28 2017</b>
Net income	\$10,571	\$8,184	\$15,550	\$12,046
Depreciation expense	6,968	5,258	13,466	10,006
Interest expense, net	347	347	1,171	630
Income tax expense	2,240	3,385	3,438	5,043
<b>EBITDA</b>	<b>17,174</b>	<b>17,174</b>	<b>33,625</b>	<b>27,725</b>
Equity-based compensation	1,303	1,285	2,740	2,534
Deferred rent	(361)	302	(292)	527
Loss on disposal of property and equipment	196	100	386	113
Executive and management transition costs <sup>(1)</sup>	248	517	248	651
Project Concrete <sup>(2)</sup>	—	—	316	—
Costs related to relocation of Home Office <sup>(3)</sup>	—	—	1,017	—
<b>Adjusted EBITDA</b>	<b>\$21,874</b>	<b>\$19,378</b>	<b>\$38,040</b>	<b>\$31,550</b>
<b>Adjusted EBITDA margin</b>	<b>% 21.2</b>	<b>% 21.2</b>	<b>% 17.7</b>	<b>% 18.8</b>

For the thirteen and twenty-six weeks ended June 27, 2018, represents fees paid in connection with the search for our open executive and key management positions, and other transition costs, including related equity-based compensation. For the

(1) thirteen and twenty-six weeks ended June 28, 2017, represents fees paid to an executive recruiting firm and a non-recurring signing bonus paid upon the hiring of our chief financial officer.

(2) Represents consulting and advisory fees related to our enterprise-wide system upgrade initiative called Project Concrete.

(3) Costs incurred in connection with our relocation to a new Home Office, which is comprised of: (i) \$326 of duplicative non-cash deferred rent, (ii) \$672 net loss on the sublease of our prior Home Office, including the write-off of certain fixed assets and (iii) \$19 of administrative cost.

## Adjusted Pro Forma Net Income and Adjusted Pro Forma Earnings Per Fully Exchanged and Diluted Share

Adjusted pro forma net income represents net income attributable to Shake Shack Inc. assuming the full exchange of all outstanding SSE Holdings, LLC membership interests ("LLC Interests") for shares of Class A common stock, adjusted for certain non-recurring items that we don't believe directly reflect our core operations and may not be indicative of our recurring business operations. Adjusted pro forma earnings per fully exchanged and diluted share is calculated by dividing adjusted pro forma net income by the weighted-average shares of Class A common stock outstanding, assuming the full exchange of all outstanding LLC Interests, after giving effect to the dilutive effect of outstanding equity-based awards.

### **How These Measures Are Useful**

When used in conjunction with GAAP financial measures, adjusted pro forma net income and adjusted pro forma earnings per fully exchanged and diluted share are supplemental measures of operating performance that we believe are useful measures to evaluate our performance period over period and relative to our competitors. By assuming the full exchange of all outstanding LLC Interests, we believe these measures facilitate comparisons with other companies that have different organizational and tax structures, as well as comparisons period over period because it eliminates the effect of any changes in net income attributable to Shake Shack Inc. driven by increases in our ownership of SSE Holdings, which are unrelated to our operating performance, and excludes items that are non-recurring or may not be indicative of our ongoing operating performance.

### **Limitations of the Usefulness of These Measures**

Adjusted pro forma net income and adjusted pro forma earnings per fully exchanged and diluted share may differ from similarly titled measures used by other companies due to different methods of calculation. Presentation of adjusted pro forma net income and adjusted pro forma earnings per fully exchanged and diluted share should not be considered alternatives to net income and earnings per share, as determined under GAAP. While these measures are useful in evaluating our performance, it does not account for the earnings attributable to the non-controlling interest holders and therefore does not provide a complete understanding of the net income attributable to Shake Shack Inc. Adjusted pro forma net income and adjusted pro forma earnings per fully exchanged

Table of Contents

and diluted share should be evaluated in conjunction with our GAAP financial results. A reconciliation of adjusted pro forma net income to net income attributable to Shake Shack Inc., the most directly comparable GAAP measure, and the computation of adjusted pro forma earnings per fully exchanged and diluted share are set forth below.

	<b>Thirteen Weeks Ended</b>		<b>Twenty-Six Weeks Ended</b>	
	<b>June 27 2018</b>	<b>June 28 2017</b>	<b>June 27 2018</b>	<b>June 28 2017</b>
<i>(in thousands, except per share amounts)</i>				
<b>Numerator:</b>				
Net income attributable to Shake Shack Inc.	\$7,604	\$4,879	\$11,112	\$7,146
<b>Adjustments:</b>				
Reallocation of net income attributable to non-controlling interests from the assumed exchange of LLC Interests <sup>(1)</sup>	2,967	3,305	4,438	4,900
Executive and management transition costs <sup>(2)</sup>	248	517	248	651
Project Concrete <sup>(3)</sup>	77	—	316	—
Costs related to relocation of Home Office <sup>(4)</sup>	19	—	1,017	—
Tax effect of change in tax basis related to the adoption of ASC 606	—	—	(311 )	—
Income tax expense <sup>(5)</sup>	47	(1,432 )	(199 )	(1,753 )
Adjusted pro forma net income	\$10,962	\$7,269	\$16,621	\$10,944
<b>Denominator:</b>				
Weighted-average shares of Class A common stock outstanding—diluted	28,754	26,312	28,288	26,133
<b>Adjustments:</b>				
Assumed exchange of LLC Interests for shares of Class A common stock <sup>(1)</sup>	9,144	10,869	9,452	10,977
Adjusted pro forma fully exchanged weighted-average shares of Class A common stock outstanding—diluted	37,898	37,181	37,740	37,110
Adjusted pro forma earnings per fully exchanged share—diluted	\$0.29	\$0.20	\$0.44	\$0.29

<sup>(1)</sup> Assumes the exchange of all outstanding LLC Interests for shares of Class A common stock, resulting in the elimination of the non-controlling interest and recognition of the net income attributable to non-controlling interests.

<sup>(2)</sup> For the thirteen and twenty-six weeks ended June 27, 2018, represents fees paid in connection with the search for our open executive and key management positions, and other transition costs, including related equity-based compensation. For the

thirteen and twenty-six weeks ended June 28, 2017, represents fees paid to an executive recruiting firm and a non-recurring signing bonus paid upon the hiring of our chief financial officer.

<sup>(3)</sup> Represents consulting and advisory fees related to our enterprise-wide system upgrade initiative called Project Concrete.

<sup>(4)</sup> Costs incurred in connection with our relocation to a new Home Office, which is comprised of: (i) \$326 of duplicative non-cash deferred rent, (ii) \$672 net loss on the sublease of our prior Home Office, including the write-off of certain fixed assets and (iii) \$19 of administrative costs.

<sup>(5)</sup> Represents the tax effect of the aforementioned adjustments and pro forma adjustments to reflect corporate income taxes at assumed effective tax rates of 16.7% and 19.2% for thirteen and twenty-six weeks ended June 27, 2018, respectively, and 39.9% and 38.3% for the thirteen and twenty-six weeks ended June 28, 2017, respectively. Amounts include provisions for U.S. federal and certain state and local income taxes, assuming the highest statutory rates apportioned to each applicable state and local jurisdiction.

Table of Contents**LIQUIDITY AND CAPITAL RESOURCES****Sources and Uses of Cash**

Our primary sources of liquidity are cash from operations, cash and cash equivalents on hand, short-term investments and availability under our Revolving Credit Facility. As of June 27, 2018, we maintained a cash and cash equivalents balance of \$30.9 million, a short-term investments balance of \$61.4 million and had \$19.3 million of availability under our Revolving Credit Facility.

Our primary requirements for liquidity are to fund our working capital needs, operating lease obligations, capital expenditures, deemed landlord financing obligations and general corporate needs. Our requirements for working capital are not significant because our guests pay for their food and beverage purchases in cash or on debit or credit cards at the time of the sale and we are able to sell many of our inventory items before payment is due to the supplier of such items. Our ongoing capital expenditures are principally related to opening new Shacks, existing Shack capital investments (both for remodels and maintenance), as well as investments in our corporate infrastructure.

In addition, we are obligated to make payments to certain members of SSE Holdings under the Tax Receivable Agreement. As of June 27, 2018, such obligations totaled \$177.4 million. Amounts payable under the Tax Receivable Agreement are contingent upon, among other things, (i) generation of future taxable income over the term of the Tax Receivable Agreement and (ii) future changes in tax laws. If we do not generate sufficient taxable income in the aggregate over the term of the Tax Receivable Agreement to utilize the tax benefits, then we would not be required to make the related TRA Payments. Although the amount of any payments that must be made under the Tax Receivable Agreement may be significant, the timing of these payments will vary and will generally be limited to one payment per member per year. The amount of such payments are also limited to the extent we utilize the related deferred tax assets. The payments that we are required to make will generally reduce the amount of overall cash flow that might have otherwise been available to us or to SSE Holdings, but we expect the cash tax savings we will realize from the utilization of the related deferred tax assets to fund the required payments.

We believe that cash provided by operating activities, cash on hand and availability under the Revolving Credit Facility will be sufficient to fund our operating lease obligations, capital expenditures, deemed landlord financing obligations and working capital needs for at least the next 12 months and the foreseeable future.

**Summary of Cash Flows**

The following table presents a summary of our cash flows from operating, investing and financing activities.

	<b>Twenty-Six Weeks Ended</b>	
	<b>June 27 2018</b>	<b>June 28 2017</b>
<i>(in thousands)</i>		
Net cash provided by operating activities	\$40,874	\$33,730
Net cash used in investing activities	(34,790 )	(25,351 )
Net cash provided by financing activities	3,288	2,450
Increase in cash	9,372	10,829
Cash at beginning of period	21,507	11,607
Cash at end of period	\$30,879	\$22,436

**Operating Activities**

For the twenty-six weeks ended June 27, 2018 net cash provided by operating activities was \$40.9 million compared to \$33.7 million for the twenty-six weeks ended June 28, 2017, an increase of \$7.2 million. This increase was primarily driven by the opening of 25 new domestic company-operated Shacks.

**Investing Activities**

For the twenty-six weeks ended June 27, 2018 net cash used in investing activities was \$34.8 million compared to \$25.4 million for the twenty-six weeks ended June 28, 2017, an increase of \$9.4 million. This increase was primarily due to an increase in capital expenditures partially offset by an increase in net sales

of marketable securities.

36 | **Shake Shack Inc.** Form 10-Q

---

## Table of Contents

### ***Financing Activities***

For the twenty-six weeks ended June 27, 2018 net cash provided by financing activities was \$3.3 million compared to \$2.5 million for the twenty-six weeks ended June 28, 2017, an increase of \$0.8 million. This increase is primarily due to lower payments made under the Tax Receivable Agreement and distributions to our non-controlling interest holders in current quarter as compared to prior year, partially offset by lower proceeds from the exercise of employee stock options.

### **Revolving Credit Facility**

We maintain a Revolving Credit Facility that provides for a revolving total commitment amount of \$50.0 million, of which \$20.0 million is available immediately. The Revolving Credit Facility will mature and all amounts outstanding will be due and payable in February 2020. The Revolving Credit Facility permits the issuance of letters of credit upon our request of up to \$10.0 million. Borrowings under the Revolving Credit Facility bear interest at either: (i) LIBOR plus a percentage ranging from 2.3% to 3.3% or (ii) the prime rate plus a percentage ranging from 0.0% to 0.8%, depending on the type of borrowing made under the Revolving Credit Facility. As of June 27, 2018, there were no amounts outstanding under the Revolving Credit Facility. We had \$19.3 million of availability, as of June 27, 2018, after giving effect to \$0.7 million in outstanding letters of credit.

The Revolving Credit Facility is secured by a first-priority security interest in substantially all of the assets of SSE Holdings and the guarantors. The obligations under the Revolving Credit Facility are guaranteed by each of SSE Holdings' wholly-owned domestic subsidiaries (with certain exceptions).

The Revolving Credit Facility contains a number of covenants that, among other things, restrict our ability to, subject to specified exceptions, incur additional debt; incur additional liens and contingent liabilities; sell or dispose of assets; merge with or acquire other companies; liquidate or dissolve ourselves; pay dividends or make distributions; engage in businesses that are not in a related line of business; make loans, advances or guarantees; engage in transactions with affiliates; and make investments. In addition, the Revolving Credit Facility contains certain cross-default provisions. We are required to maintain a specified consolidated fixed-charge coverage ratio and a specified funded net debt to adjusted EBITDA ratio, both as defined under the Revolving Credit Facility. As of June 27, 2018, we were in compliance with all covenants.

## **CONTRACTUAL OBLIGATIONS**

There have been no material changes to the contractual obligations as disclosed in our Annual Report on Form 10-K for the fiscal year ended December 27, 2017, other than those made in the ordinary course of business.

## **OFF-BALANCE SHEET ARRANGEMENTS**

There have been no other material changes to our off-balance sheet arrangements as disclosed in our Annual Report on Form 10-K for the fiscal year ended December 27, 2017.

Table of Contents

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our discussion and analysis of our consolidated financial condition and results of operations is based upon the accompanying condensed consolidated financial statements and notes thereto, which have been prepared in accordance with GAAP. The preparation of the condensed consolidated financial statements requires us to make estimates, judgments and assumptions, which we believe to be reasonable, based on the information available. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. Variances in the estimates or assumptions used to actual experience could yield materially different accounting results. On an ongoing basis, we evaluate the continued appropriateness of our accounting policies and resulting estimates to make adjustments we consider appropriate under the facts and circumstances. There have been no significant changes to our critical accounting policies as disclosed in our Annual Report on Form 10-K for the fiscal year ended December 27, 2017, except for those made in connection with the adoption of ASC 606. See "Note 3: Revenue" under Part I, Item 1 of this Form 10-Q.

### **Recently Issued Accounting Pronouncements**

See "Note 2: Summary of Significant Accounting Policies—Recently Issued Accounting Pronouncements" under Part I, Item 1 of this Form 10-Q.

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

There have been no material changes to our exposure to market risks as described in Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended December 27, 2017.

## **Item 4. Controls and Procedures. DISCLOSURE CONTROLS AND PROCEDURES**

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of such date. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

## **CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

There were no changes to our internal control over financial reporting that occurred during the quarter ended June 27, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



Table of Contents

## **PART II – OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

The information required by this Item is incorporated by reference to Part I, Item 1, Note 14: Commitments and Contingencies—Legal Contingencies.

### **Item 1A. Risk Factors.**

There have been no material changes with respect to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 27, 2017.

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

None.

### **Item 3. Defaults Upon Senior Securities.**

None.

### **Item 4. Mine Safety Disclosures.**

Not applicable.

### **Item 5. Other Information.**

None.

Table of Contents**Item 6. Exhibits.**

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Exhibit	Filing Date	
<u>3.1</u>	<u>Amended and Restated Certificate of Incorporation of Shake Shack Inc., effective February 4, 2015</u>	8-K	3.1	2/10/2015	
<u>3.2</u>	<u>Amended and Restated Bylaws of Shake Shack Inc., dated February 4, 2015</u>	8-K	3.2	2/10/2015	
<u>4.1</u>	<u>Form of Class A Common Stock Certificate</u>	S-1/A	4.1	1/28/2015	
<u>31.1</u>	<u>Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>				*
<u>31.2</u>	<u>Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>				*
<u>32</u>	<u>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</u>				#
101.INS	XBRL Instance Document - the instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document.				*
101.SCH	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				*
	<i>#Furnished herewith.</i>				

Table of Contents

# 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.

**Shake Shack Inc.**  
(Registrant)

Date: August 6, 2018 By: /s/ Randy Garutti  
Randy Garutti  
Chief Executive Officer  
(Principal Executive Officer and Duly Authorized Officer)

Date: August 6, 2018 By: /s/ Tara Comonte  
Tara Comonte  
Chief Financial Officer  
(Principal Financial Officer and Duly Authorized Officer)