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Habit Restaurants, Inc.  
Form 10-Q  
October 31, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 25, 2018

OR

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

Commission file number: 001-36749

THE HABIT RESTAURANTS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware 36-4791171  
(State or Other Jurisdiction of (I.R.S. Employer

Incorporation or Organization) Identification No.)  
17320 Red Hill Avenue, Suite 140, Irvine, CA 92614

(Address of Principal Executive Offices and Zip Code)

(949) 851-8881

(Registrant's Telephone Number, Including Area Code)

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer”, “accelerated filer”, “smaller reporting company”, and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

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

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

As of October 29, 2018, there were 20,651,872 shares of the Registrant’s Class A common stock, par value \$0.01 per share, outstanding and 5,397,396 shares of the Registrant’s Class B common stock, par value \$0.01 per share, outstanding.

THE HABIT RESTAURANTS, INC.

TABLE OF CONTENTS

	<u>PART I – FINANCIAL INFORMATION</u>	Page
ITEM 1.	<u>Financial Statements</u>	3
	<u>Condensed Consolidated Balance Sheets (Unaudited)</u>	3
	<u>Condensed Consolidated Statements of Operations (Unaudited)</u>	4
	<u>Condensed Consolidated Statement of Changes in Stockholders' Equity (Unaudited)</u>	5
	<u>Condensed Consolidated Statements of Cash Flows (Unaudited)</u>	6
	<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	7
ITEM 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
ITEM 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	31
ITEM 4.	<u>Controls and Procedures</u>	31
	<u>PART II – OTHER INFORMATION</u>	33
ITEM 1.	<u>Legal Proceedings</u>	33
ITEM 1A.	<u>Risk Factors</u>	33
ITEM 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	33
ITEM 3.	<u>Defaults Upon Senior Securities</u>	33
ITEM 4.	<u>Mine Safety Disclosures</u>	33
ITEM 5.	<u>Other Information</u>	33
ITEM 6.	<u>Exhibits</u>	34
	<u>Signatures</u>	35

## PART I-FINANCIAL INFORMATION

## ITEM 1. Financial Statements

## THE HABIT RESTAURANTS, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	September 25, 2018	December 26, 2017
(in thousands, except share data)		
<b>ASSETS</b>		
Cash and cash equivalents	\$ 30,524	\$ 28,277
Accounts receivable	8,083	8,278
Inventory	1,801	1,733
Prepaid expenses and other current assets	2,362	1,845
Total current assets	42,770	40,133
Property and equipment, net	156,609	139,956
Tradenames	12,500	12,500
Goodwill	9,967	9,967
Deposits and other assets, net	3,692	3,395
Deferred tax assets	88,286	86,173
Total long-term assets	271,054	251,991
Total assets	\$ 313,824	\$ 292,124
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Accounts payable	\$ 14,176	\$ 12,976
Employee-related accruals	15,277	7,464
Accrued expenses	6,951	6,908
Income tax payable	139	153
Amounts payable to related parties under Tax Receivable Agreement,		
current portion	1,242	1,908
Sales taxes payable	3,114	2,750
Deferred rent, current portion	1,793	1,283
Deferred franchise income, current portion	733	149
Total current liabilities	43,425	33,591
Deferred rent, net of current portion	20,454	19,043
Deemed landlord financing	17,988	13,700
Deferred franchise income, net of current portion	740	1,788
Amounts payable to related parties under Tax Receivable Agreement,		
net of current portion	82,744	79,853
Total liabilities	165,351	147,975
Commitments and contingencies (Note 8)		
Stockholders' equity		
	206	204

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Class A common stock, par value \$0.01 per share; 70,000,000 shares authorized and 20,644,982 shares issued and outstanding at September 25, 2018 and 20,378,452 shares issued and outstanding at December 26, 2017.

Class B common stock, par value \$0.01 per share; 70,000,000 shares authorized and 5,403,729 shares issued and outstanding at September 25, 2018 and 5,646,572 shares issued and outstanding at December 26, 2017.

	54	56
Additional paid-in capital	116,481	113,475
Retained earnings	6,235	4,144
The Habit Restaurants, Inc. stockholders' equity	122,976	117,879
Non-controlling interests	25,497	26,270
Total stockholders' equity	148,473	144,149
Total liabilities and stockholders' equity	\$ 313,824	\$ 292,124

See notes to condensed consolidated financial statements (unaudited).

## THE HABIT RESTAURANTS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	13 Weeks Ended		39 Weeks Ended	
	September	September	September	September
	25,	26,	25,	26,
	2018	2017	2018	2017
(amounts in thousands except share and per share data)				
Revenue	\$ 104,639	\$ 84,610	\$ 299,439	\$ 246,537
Operating expenses				
Restaurant operating costs (excluding depreciation and amortization)				
Food and paper cost	30,992	26,861	89,524	75,955
Labor and related expenses	35,133	28,532	101,122	81,566
Occupancy and other operating expenses	19,436	14,781	53,174	41,469
General and administrative expenses	9,843	8,281	28,590	24,369
Exchange related expenses	—	155	130	390
Depreciation and amortization expense	6,348	4,777	17,952	13,492
Pre-opening costs	658	813	2,384	1,943
Asset impairment	3,082	—	3,082	—
Loss on disposal of assets	46	19	59	43
Total operating expenses	105,538	84,219	296,017	239,227
Income (loss) from operations	(899 )	391	3,422	7,310
Other expenses				
Tax Receivable Agreement liability adjustment	—	688	1,473	688
Interest expense, net	272	185	749	381
Income (loss) before income taxes	(1,171 )	(482 )	1,200	6,241
Provision (benefit) for income taxes	(307 )	(906 )	(1,454 )	1,397
Net income (loss)	\$(864 )	\$424	\$2,654	\$4,844
Less: net income (loss) attributable to non-controlling interests	244	(56 )	(563 )	(1,561 )
Net income (loss) attributable to The Habit Restaurants, Inc.	\$(620 )	\$368	\$2,091	\$3,283
Net income (loss) attributable to The Habit Restaurants, Inc. per share				
Class A common stock:				
Basic	\$(0.03 )	\$0.02	\$0.10	\$0.16
Diluted	\$(0.03 )	\$0.02	\$0.10	\$0.16
Weighted average shares of Class A common stock outstanding:				
Basic	20,552,532	20,329,919	20,498,945	20,259,507
Diluted	20,552,532	20,386,655	20,577,722	20,311,264
See notes to condensed consolidated financial statements (unaudited).				



## THE HABIT RESTAURANTS, INC.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

	Common Stock A		Common Stock B		Additional Paid-	Non-controlling		
(amounts in thousands except share data)	Shares	Amounts	Shares	Amounts	in Capital	Retained Earnings	Interests	Total
Stockholders' equity at								
December 26, 2017	20,378,452	\$ 204	5,646,572	\$ 56	\$ 113,475	\$ 4,144	\$ 26,270	\$ 144,149
Net income	—	—	—	—	—	2,091	563	2,654
Deferred tax assets	—	—	—	—	(92 )	—	—	(92 )
Tax distributions	—	—	—	—	—	—	(130 )	(130 )
Other distributions	—	—	—	—	—	—	(132 )	(132 )
Exchanges	211,765	2	(211,765 )	(2 )	—	—	—	—
Restricted stock units vested	54,765	1	—	—	(1 )	—	—	—
Non-controlling interests								
adjustment	—	—	—	—	1,484	—	(1,484 )	—
Forfeiture of Class B								
common stock	—	—	(31,078 )	—	—	—	—	—
Stock-based								
compensation	—	—	—	—	1,615	—	410	2,025
Stockholders' equity at								
September 25, 2018	20,644,982	\$ 206	5,403,729	\$ 54	\$ 116,481	\$ 6,235	\$ 25,497	\$ 148,473

See notes to condensed consolidated financial statements (unaudited).



## THE HABIT RESTAURANTS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	39 Weeks Ended	
	September 25, 2018	September 26, 2017
(amounts in thousands)		
Cash flows from operating activities:		
Net income	\$2,654	\$4,844
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	17,952	13,492
Amortization of financing fees	99	20
Stock-based compensation	2,025	1,846
Tax Receivable Agreement liability adjustment	1,473	688
Asset impairment	3,082	—
Loss on disposal of assets	59	43
Deferred income taxes	(1,454 )	1,397
Deferred rent	(273 )	362
Changes in assets and liabilities:		
Accounts receivable	2,388	1,305
Inventory	(69 )	(38 )
Prepaid expenses	(516 )	58
Deposits and other assets	(396 )	(199 )
Accounts payable	1,423	1,444
Employee-related accruals	7,813	3,230
Accrued expenses	300	1,160
Income taxes payable	(15 )	(6 )
Sales taxes payable	365	323
Net cash provided by operating activities	36,910	29,969
Cash flows from investing activities:		
Purchase of property and equipment	(34,243 )	(30,648 )
Proceeds on sale of assets	—	12
Net cash used in investing activities	(34,243 )	(30,636 )
Cash flows from financing activities:		
Tax distributions to LLC members	(130 )	(921 )
Other distributions to LLC members	(132 )	(190 )
Payments on deemed landlord financing	(158 )	(63 )
Financing fees on long-term debt	—	(262 )
Net cash used in financing activities	(420 )	(1,436 )
Net change in cash and cash equivalents	\$2,247	\$ (2,103 )
Cash and cash equivalents, beginning of period	28,277	44,192
Cash and cash equivalents, end of period	\$30,524	\$42,089
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid for interest	\$735	\$637
Cash paid for income taxes	\$15	\$6

NON-CASH FINANCING

Deemed landlord financing	\$4,446	\$ 5,946
Unpaid purchase of property and equipment	\$3,107	\$ 5,104

See notes to condensed consolidated financial statements (unaudited).

THE HABIT RESTAURANTS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1—Nature of Operations and Basis of Presentation

The condensed consolidated financial statements of The Habit Restaurants, Inc. include the accounts of The Habit Restaurants, LLC and its subsidiaries (collectively the “Company”). All significant intercompany balances and transactions have been eliminated in consolidation. The Habit Restaurants, Inc. was formed as a Delaware corporation on July 24, 2014, as a holding company for the purposes of facilitating an initial public offering (the “IPO”) of shares of Class A common stock. The Company acquired, by merger, entities that were members of The Habit Restaurants, LLC. The Company accounted for the merger as a non-substantive transaction in a manner similar to a transaction between entities under common control pursuant to Accounting Standards Codification (“ASC”) ASC 805-50 Transactions between Entities under Common Control, and as such, recognized the assets and liabilities transferred at their carrying amounts on the date of transfer. The Habit Restaurants, Inc. is a holding company with no direct operations that holds as its principal assets an equity interest in The Habit Restaurants, LLC and shares of subsidiaries, each of which in turn holds as its principal asset an equity interest in The Habit Restaurants, LLC, and relies on The Habit Restaurants, LLC to provide the Company with funds necessary to meet any financial obligations. As such, the Company has no independent means of generating revenue. In February 2013, HBG Franchise, LLC (“Franchise”), a wholly-owned subsidiary of The Habit Restaurants, LLC and a Delaware limited liability company, was formed to begin franchising the Company’s restaurant concept.

During the 39-week period ended September 25, 2018, 211,765 common units in The Habit Restaurants, LLC (“LLC Units”) were exchanged by the existing owners of The Habit Restaurants, LLC (the “Continuing LLC Owners”) for shares of Class A common stock, and a corresponding number of shares of Class B common stock were cancelled in connection with such exchanges. In addition, during the 39-week period ended September 25, 2018, 54,765 restricted stock units vested, 31,078 LLC Units were forfeited, and a corresponding number of shares of Class B common stock were then cancelled in connection with the forfeitures. As a result of these exchanges, vesting of restricted stock units and forfeitures, as of September 25, 2018, The Habit Restaurants, Inc. directly or indirectly held 20,644,982 LLC Units, representing a 79.3% economic interest in The Habit Restaurants, LLC, and continues to exercise exclusive control over the Habit Restaurants, LLC, as its sole managing member.

In connection with the Company’s recapitalization and IPO, The Habit Restaurants, LLC limited liability company agreement (the “LLC Agreement”) was amended and restated to, among other things, create a single new class of non-voting LLC Units. The existing owners of The Habit Restaurants, LLC continue to hold LLC Units, and such existing owners (other than The Habit Restaurants, Inc. and its wholly-owned subsidiaries) were issued a number of shares of our Class B common stock equal to the number of LLC Units held by them. These LLC Units continue to be subject to any vesting, forfeiture, repurchase or similar provisions pursuant to the Pre-IPO agreement. Each share of Class B common stock provides its holder with no economic rights but entitles the holder to one vote on matters presented to The Habit Restaurants, Inc.’s stockholders. Holders of Class A common stock and Class B common stock generally vote together as a single class on all matters presented to our stockholders for their vote or approval, except as otherwise required by applicable law. The Class B common stock is not publicly traded and does not entitle its holders to receive dividends or distributions upon a liquidation, dissolution or winding up of The Habit Restaurants, Inc.

As the sole managing member of The Habit Restaurants, LLC, the Company has the right to determine when distributions will be made to the unit holders of The Habit Restaurants, LLC, and the amount of any such distributions

(in each case subject to the requirements with respect to the tax distributions described below). If The Habit Restaurants, Inc. authorizes a distribution, such distribution will be made to the unit holders of The Habit Restaurants, LLC, including The Habit Restaurants, Inc., pro rata in accordance with their respective ownership of the LLC Units (other than, for clarity, certain non-pro rata distributions to the Company to satisfy certain of the Company's obligations). Notwithstanding the foregoing, The Habit Restaurants, LLC bears the cost of or reimburses The Habit Restaurants, Inc. for certain expenses incurred by The Habit Restaurants, Inc. The Company also entered into a tax receivable agreement ("TRA").

The Habit Restaurants, LLC is treated by its members as a partnership for federal and applicable state income tax purposes and, as such, generally is not expected to be subject to income tax (except that it may be required to withhold and remit tax as a withholding agent). Instead, taxable income is allocated to holders of LLC Units, including the Company. Accordingly, the Company incurs income taxes on its allocable share of any net taxable income of The Habit Restaurants, LLC and also incurs expenses related to its operations. Pursuant to the LLC Agreement, The Habit Restaurants, LLC is required to make tax distributions to the holders of LLC Units, except that The Habit Restaurants, LLC's ability to make such distributions may be subject to various limitations and restrictions, including the operating results of its subsidiaries, its cash requirements and financial condition, the applicable provisions of Delaware law that may limit the amount of funds available for distribution to its members, compliance by The Habit Restaurants, LLC and its subsidiaries with restrictions, covenants and financial ratios related to existing or future indebtedness, and other agreements entered into by The Habit Restaurants, LLC or its subsidiaries with third parties. In addition to tax expenses, The Habit Restaurants, Inc. incurs expenses related to its operations, plus payments under the TRA, which the Company expects will be significant. The Company intends to cause The Habit Restaurants, LLC to make distributions or, in the case of certain expenses, payments in an amount sufficient to allow The Habit Restaurants, Inc. to pay its taxes and operating expenses, including distributions to fund any ordinary course payments due under the TRA. Under the terms of the Company's LLC Agreement, no member shall be obligated personally for any debt, obligation, or liability of the Company.

The Company is headquartered in Irvine, California, and, as of September 25, 2018, managed and operated 219 fast casual restaurants as "The Habit Burger Grill" in California, Arizona, Utah, New Jersey, Florida, Idaho, Virginia, Maryland and Pennsylvania. The restaurant's menu includes charbroiled hamburgers, specialty sandwiches, fresh salads, and shakes and malts.

Additionally, with the formation of Franchise, the Company began franchising its restaurant concept. Franchise's future operations are dependent upon the success of the Company's restaurant concept. The Company entered into a new license agreement and two new franchise agreements during the quarter and as of September 25, 2018 had five licensing and seven franchise agreements. The Company had four licensed locations and 19 franchised locations from which it generates revenues as of September 25, 2018, which operate in California, Arizona, Nevada, Washington, the United Arab Emirates and China.

The accompanying condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles in the United States ("GAAP") for complete financial statements. It is the Company's opinion that all adjustments considered necessary for the fair presentation of its results of operations, financial position, and cash flows for the periods presented have been included and are of a normal, recurring nature. The results of operations for interim periods are not necessarily indicative of the results to be expected for a full year. These financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 26, 2017, included in the Company's annual report on Form 10-K. The Company uses a 52 or 53-week fiscal year ending on the last Tuesday of the calendar year. In a 52-week fiscal year, each quarter includes 13 weeks of operations. In a 53-week fiscal year, the first, second and third quarters each include 13 weeks of operations and the fourth quarter includes 14 weeks of operations. Fiscal year 2017, which ended on December 26, 2017, was a 52-week fiscal year. Fiscal year 2018, which will end on December 25, 2018, is also a 52-week fiscal year.

#### Note 2—Summary of Significant Accounting Policies

**Use of Estimates**—The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The Company's significant estimates include

estimates for impairment of property and equipment, workers' compensation insurance reserves and income tax receivable liabilities.

**Concentration of Credit Risk**—Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of cash and cash equivalents. At September 25, 2018 and December 26, 2017, the Company maintained approximately \$15.2 million and \$7.2 million, respectively, of its day-to-day operating cash balances with a major financial institution, of which \$0.2 million and \$0.2 million, respectively, represents restricted cash in an impound account for franchisees in the state of Washington. The remaining \$15.3 million and \$21.1 million at September 25, 2018 and December 26, 2017, respectively, was invested with a major financial institution and consisted entirely of U.S. Treasury instruments with a maturity of three months or less at the date of purchase. At September 25, 2018 and December 26, 2017 and at various times during the periods then ended, cash and cash equivalents balances were in excess of Federal Depository Insurance Corporation insured limits. While the Company monitors the cash balances in its operating accounts on a daily basis and adjusts the cash balances as appropriate, these cash balances could be impacted if the underlying financial institutions fail or are subject to other adverse conditions in the financial markets. To date, the Company has experienced no loss or lack of access to cash in its operating accounts.

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

**Impairment of Long-lived Assets**—The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related assets to its estimated fair value. Fair value is generally based on an undiscounted cash flow analysis. Based on its review, the Company determined that the carrying value of three restaurants in the Orlando, Florida market were not recoverable, and as a result, recorded a non-cash impairment charge of \$3.1 million in the third quarter of 2018.

**Self-insurance Program**—Beginning in fiscal year 2018, the Company began a modified self-insurance workers' compensation program. In order to minimize the exposure under the self-insurance program, the Company purchased stop-loss coverage both on a per-occurrence and on an aggregate basis. The self-insured losses under the program are accrued based on the Company's estimate of the expected liability for both claims incurred and incurred but not reported basis. The accruals for the modified self-insurance program involve certain management judgments and assumptions regarding the frequency and severity of claims, recent historical patterns of claim development, independent actuarial assessments, and the Company's experience with claim-reserve management and settlement practices. These accruals are included in employee-related accruals in the accompanying condensed consolidated balance sheet for the fiscal 2018 year. As of September 25, 2018, the accrual related to the self-insurance workers' compensation program was \$2.5 million. The Company's actual losses may be significantly different than the estimates currently recorded.

**Income Taxes**—The Company records a tax provision for the anticipated tax consequences of the reported results of operations. The provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities, and for operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets are expected to be realized or settled. The Company may record a valuation allowance, if conditions are applicable, to reduce deferred tax assets to the amount that is believed more likely than not to be realized.

**Non-controlling Interests**—The non-controlling interests on the condensed consolidated statements of operations represents the portion of earnings or loss before income taxes attributable to the economic interest in the Company's subsidiary, The Habit Restaurants, LLC, held by the Continuing LLC Owners. Non-controlling interests on the condensed consolidated balance sheet represents the portion of net assets of the Company attributable to the non-controlling Continuing LLC Owners, based on the portion of the LLC Units owned by such unit holders. As of September 25, 2018 and September 26, 2017, the non-controlling interest was 20.7% and 21.8%, respectively.

Earnings per Share—Basic earnings per share (“basic EPS”) is computed by dividing net income attributable to The Habit Restaurants, Inc. by the weighted average number of shares outstanding for the reporting period. Diluted earnings per share (“diluted EPS”) gives effect during the reporting period to all dilutive potential shares outstanding resulting from employee stock-based awards.

The following table sets forth the calculation of basic and diluted earnings per share for the 13 and 39 weeks ended September 25, 2018 and September 26, 2017, respectively:

	13 Weeks Ended		39 Weeks Ended	
	September	September	September	September
(amounts in thousands, except share and per share data)	25,	26,	25,	26,
	2018	2017	2018	2017
Numerator:				
Net income (loss) attributable to controlling and				
non-controlling interests	\$ (864	) \$ 424	\$ 2,654	\$ 4,844
Less: net income (loss) attributable to non-controlling				
interests	\$ 244	\$ (56	) \$ (563	) \$ (1,561
Net income (loss) attributable to The Habit Restaurants, Inc.	\$ (620	) \$ 368	\$ 2,091	\$ 3,283
Denominator:				
Weighted average shares of Class A common stock				
outstanding				
Basic	20,552,532	20,329,919	20,498,945	20,259,507
Diluted	20,552,532	20,386,655	20,577,722	20,311,264
Net income (loss) attributable to The Habit Restaurants, Inc.				
per share Class A common stock				
Basic	\$ (0.03	) \$ 0.02	\$ 0.10	\$ 0.16
Diluted	\$ (0.03	) \$ 0.02	\$ 0.10	\$ 0.16
Below is a reconciliation of basic and diluted				
share counts				
Basic	20,552,532	20,329,919	20,498,945	20,259,507
Dilutive effect of stock options and restricted stock units	—	56,736	78,777	51,757
Diluted	20,552,532	20,386,655	20,577,722	20,311,264

Diluted earnings per share of Class A common stock is computed similarly to basic earnings per share except the weighted average shares outstanding are increased to include additional shares from the assumed exercise of any common stock equivalents using the treasury method, if dilutive. The Company’s Class B common stock represent voting interests and do not participate in the earnings of the Company. Accordingly, there is no earnings per share related to the Company’s Class B common stock. The Company’s LLC Units are considered common stock equivalents for this purpose. The number of additional shares of Class A common stock related to these common stock equivalents



is calculated using the if-converted method. The potential impact of the exchange of the 5,403,729 LLC Units on the diluted EPS had no impact and were therefore excluded from the calculation.

As of September 25, 2018, there were 2,525,275 options authorized under our 2014 Omnibus Incentive Plan of which 1,870,309 and 1,275,013 had been granted as of September 25, 2018 and September 26, 2017, respectively. See Note 9 - Management Incentive Plans for additional information. The number of dilutive shares of Class A common stock related to these options was calculated using the treasury stock method and 2,274 and 1,409 shares and 27,036 and 42,927 shares have been excluded from the diluted EPS for the 13 and 39 weeks ended September 25, 2018 and September 26, 2017, respectively, because they were anti-dilutive.

**Recent Accounting Pronouncements**—In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02 Leases, which supersedes ASC 840 Leases and creates a new topic, ASC 842 Leases. This update requires lessees to recognize a lease liability and a right-of-use asset for all leases, including operating leases, with an expected term greater than 12 months on its balance sheet. The update also expands the required quantitative and qualitative disclosures surrounding leases. This update is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, with early adoption permitted. In July 2018, the FASB issued ASU 2018-11 which provides an alternative transition method that allows entities to apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. This transition method option is in addition to the existing transition method of using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company will use the cumulative-effect transition method. The Company anticipates taking advantage of the practical expedient options which allows an entity to not reassess whether any existing or expired contracts contain leases, not reassess lease classifications for existing or expired leases, and an entity does not need to reassess initial direct costs for any existing leases. The Company’s operating lease obligations as of September 25, 2018 were approximately \$256.3

million. The discounted minimum remaining operating lease obligations will be the starting point for determining the right-of-use asset and lease liability. The Company expects that adoption of the new guidance will have a material impact on its consolidated balance sheets due to recognition of the right-of-use asset and lease liability related to current operating leases and the derecognition of the buildings that the Company has determined that it is the accounting owner of under build-to-suit lease guidance contained in ASC 840. The Company is using their current lease software, which has been enhanced to account for ASC 842, and is continuing the process of validating occupancy information in preparation for the new reporting, disclosure and audit for this standard update on its consolidated financial statements.

**Recently Adopted Accounting Pronouncements—** In March 2016, the FASB issued ASU No. 2016-04, “Liabilities – Extinguishment of Liabilities: Recognition of Breakage for Certain Prepaid Stored-Value Products,” which is intended to eliminate current and future diversity in practice related to derecognition of prepaid stored-value product liability in a way that aligns with the new revenue recognition guidance. The update is effective for fiscal years beginning after December 15, 2017; with early adoption permitted. The Company adopted this ASU in the first quarter of fiscal 2018 and there was no impact on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. This ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. This update is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company adopted this ASU in the first quarter of fiscal 2018 using the full retrospective approach and accordingly, has adjusted all prior periods reported for the effect of this new guidance. The new revenue guidance does not have an impact on the recognition of revenue from company-operated restaurants or royalty revenue and development fees from franchisees and licensees. Additionally, the new revenue guidance does not impact the revenue recognized from gift cards. The new guidance does impact the revenue recognition of initial franchise and license fees. Previously, the Company recognized the initial franchise or license fee as revenue when the restaurant opened. Under the new guidance, the Company has identified separate performance obligations over the term of the contract and will recognize revenue as those performance obligations are satisfied. These performance obligations include rights to use trademarks and intellectual property, initial training and other operational support visits. The Company recognized a reduction of \$0.4 million to retained earnings as the cumulative effect of adoption of this accounting change as of December 26, 2017 with a corresponding increase of deferred franchise income on the condensed consolidated balance sheet. The Company also recognized a decrease in revenue of \$29,000 and \$70,000, as previously reported, for the 13 and 39 weeks ended September 26, 2017, respectively, as a result of the adoption of this new standard. The Company also recognized a decrease of \$0.01 in basic and diluted earnings per share for the 39 weeks ended September 26, 2017 as a result of the revenue adjustments made related to the adoption of this new standard.

#### Note 3—Non-controlling Interests

Pursuant to the LLC Agreement, the Continuing LLC Owners have the right to exchange their LLC Units, together with a corresponding number of shares of Class B common stock (which will be cancelled in connection with any such exchange) for, generally, at the option of the Company (such determination to be made by the disinterested members of our board of directors), (i) shares of our Class A common stock on a one-for-one basis, subject to customary conversion rate adjustments for stock splits, stock dividends and reclassifications or (ii) cash consideration. At any time that an effective registration statement is on file with the SEC with respect to the shares of Class A Common Stock to be issued upon an exchange, The Habit Restaurants, Inc. may not provide cash consideration upon an exchange to a Continuing LLC Owner without the Continuing LLC Owner’s prior consent. The Company amended its LLC Agreement in May 2016, pursuant to which the Company processes exchange requests every other week, rather than weekly, effective in June 2016. The Company further amended its LLC Agreement in March 2017,

pursuant to which the Company processes exchange requests monthly, effective in May 2017.

The non-controlling interests represents the portion of earnings or loss attributable to the economic interest held by the non-controlling Continuing LLC Owners. The non-controlling interests upon the completion of the IPO was 65.5%. Upon completion of the follow-on offering in April 2015, the non-controlling interests portion was 47.1%. The non-controlling interests portion changes as Continuing LLC Owners exchange their LLC Units, together with a corresponding number of shares of Class B common stock, for Class A common stock. The non-controlling interests on the condensed consolidated balance sheet were adjusted to reflect the non-controlling interests portion as of September 25, 2018, which was 20.7%. The amounts of these changes are reflected in the condensed consolidated statements of stockholders' equity. The amount recorded in equity for the 39 weeks ended September 25, 2018 was \$1.5 million. Net income attributable to non-controlling interests is calculated based on the non-controlling interests ownership percentage in effect at that time. The following table represents the weighted average non-controlling interests for the periods presented (dollar amounts in thousands):

	13 Weeks Ended September 25, 2018		39 Weeks Ended September 26, 2017	
Income (loss) before income taxes of The Habit Restaurants, LLC and its subsidiaries	\$ (1,184)	\$ 226	\$ 2,622	\$ 6,949
Weighted average non-controlling interests ownership percentage	20.6 %	24.8 %	21.5 %	22.5 %
Net income (loss) attributable to non-controlling interests	\$ (244 )	\$ 56	\$ 563	\$ 1,561

#### Note 4—Fair Value Measurements

Fair value measurements enable the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The Company classifies and discloses assets and liabilities carried at fair value in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The fair values of the Company's investments in marketable securities are based on quoted prices in active markets for identical assets. The fair value of the investments in marketable securities was approximately \$15.3 million and \$21.1 million at September 25, 2018 and December 26, 2017, respectively, and the Company classified such investments as Level 1. These investments consist entirely of U.S. Treasury instruments with a maturity of three months or less at the date of purchase and the interest income received from these instruments is included in interest expense, net in the condensed consolidated statements of operations. These amounts are included in cash and cash equivalents in the accompanying condensed consolidated balance sheets.

#### Note 5—Property and Equipment, net

Property and equipment consists of the following (amounts in thousands):

	September 25, 2018	December 26, 2017
Leasehold improvements	\$ 115,289	\$ 96,318
Equipment	64,589	53,563
Furniture and fixtures	27,849	24,702

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Buildings under deemed landlord financing	17,688	13,966
Smallwares	2,212	1,899
Vehicles	2,378	2,209
Construction in progress	10,060	13,700
	240,065	206,357
Less: Accumulated depreciation and amortization	(83,456 )	(66,401 )
	\$ 156,609	\$ 139,956

Depreciation expense was \$6.3 million and \$4.8 million and \$18.0 million and \$13.5 million for the 13 and 39 weeks ended September 25, 2018 and September 26, 2017, respectively.

Based on the Company's review of its long-lived assets for impairment, the Company recorded a non-cash impairment charge of \$3.1 million for the 13 and 39 weeks ended September 25, 2018. No impairment was recorded in the prior year comparable periods.

As a result of the application of build-to-suit lease guidance contained in ASC 840-40-55 Costs Incurred by a Lessee Prior to Entering into a Lease Agreement, the Company has determined that it was the accounting owner of a total of 29 buildings under deemed landlord financing as of September 25, 2018 and the accounting owner of a total of 25 buildings under deemed landlord financing as of December 26, 2017, and they are included in the Company's property and equipment, respectively. Included in the buildings under deemed landlord financing is the estimated construction costs of the landlord for the shell building.

## Note 6—Income Taxes

The Habit Restaurants, Inc. is subject to U.S. federal and state income taxation on its allocable portion of the income of The Habit Restaurants, LLC. The “Provision for income taxes” in the accompanying condensed consolidated statements of operations for the 39 weeks ended September 25, 2018 and September 26, 2017 is based on an estimate of the Company’s annualized effective income tax rate. The Habit Restaurants, LLC operates as a limited liability company which is not itself subject to federal income tax. Accordingly, the portion of the Company’s subsidiary earnings attributable to the non-controlling interests are subject to tax when reported as a component of the non-controlling interests’ taxable income.

As a result of the recapitalization and the IPO that occurred in fiscal year 2014, the portion of The Habit Restaurants, LLC’s income attributable to The Habit Restaurants Inc. is now subject to U.S. federal, state and local income taxes and is taxed at the prevailing corporate tax rates. The income tax provision reflects a tax rate of (121.26)% and 22.38% for the 39 weeks ended September 25, 2018 and September 26, 2017, respectively. The effective tax rate varies significantly from the federal statutory rate due to the income attributable to the non-controlling interests which is not taxed at the entity level. The change in tax rate for the 39 weeks ended September 25, 2018 and September 26, 2017 is a result of the changes in annual taxable income and related state income taxes (and forecasts thereof which are used to calculate the tax provision during interim periods). The income tax provision would reflect an effective tax rate of 29.97% and 42.00% for the 39 week periods ended September 25, 2018 and September 26, 2017, respectively, if all of the income was taxed at Habit Restaurants, Inc. and the impact of discrete items and the non-controlling interests was disregarded.

## Effects of the Tax Cuts and Jobs Act

Tax legislation, commonly referred to as the Tax Cuts and Jobs Act (the Act), was enacted on December 22, 2017. ASC 740, Accounting for Income Taxes, requires companies to recognize the effect of tax law changes in the period of enactment even though the effective date for most provisions was for tax years beginning after December 31, 2017. Given the significance of the legislation, the SEC staff issued Staff Accounting Bulletin No. 118 (SAB 118), which allows registrants to record provisional amounts during a one year “measurement period” similar to that used when accounting for business combinations. However, the measurement period is deemed to have ended earlier when the registrant has obtained, prepared and analyzed the information necessary to finalize its accounting. During the measurement period, impacts of the law are expected to be recorded at the time a reasonable estimate for all or a portion of the effects can be made, and provisional amounts can be recognized and adjusted as information becomes available, prepared or analyzed. SAB 118 summarizes a three-step process to be applied at each reporting period to account for and qualitatively disclose: (1) the effects of the change in tax law for which accounting is complete; (2) provisional amounts (or adjustments to provisional amounts) for the effects of the tax law where accounting is not complete, but that a reasonable estimate has been determined; and (3) a reasonable estimate cannot yet be made and therefore taxes are reflected in accordance with law prior to the enactment of the Act.

As of September 25, 2018, the Company’s accounting for the Act is complete. As noted at the fiscal year ended December 26, 2017, the Company was able to reasonably estimate certain effects related to the reduction in the U.S. corporate income tax rate to 21%, including the impact of the Company’s assessment of 100% bonus depreciation for qualified assets placed in service after September 27, 2017 and the inclusion of performance based compensation in determining the excessive compensation limitation. Therefore, the Company recorded provisional adjustments associated with these items during the fiscal year ended December 26, 2017. During the first quarter of fiscal 2018, the Company updated its provision adjustments as related to the bonus depreciation for qualified assets and the impact related to the TRA payments, resulting in a reduction in the current portion of the Tax Receivable Agreement liability of \$0.7 million that did not impact the Company’s effective tax rate. The Company did not adjust its provisional adjustments during the second and third quarters of fiscal 2018. As of September 25, 2018, the Company has made a

reasonable estimate with respect to the limitation on future entertainment and certain employee fringe benefits in accordance with the enactment of the Act that could potentially change the timing of future TRA payments. The Company has applied the limitation to costs applicable under the new limitation. The Company has analyzed the impacts of the legislative change for expected changes to the Company's policies and do not expect any further changes to its previous estimates.

## Tax Receivable Agreement

In connection with the IPO that occurred in fiscal year 2014, the Company entered into a TRA. Under the TRA, the Company generally will be required to pay to the Continuing LLC Owners 85% of the amount of cash savings, if any, in U.S. federal, state or local tax that the Company actually realizes directly or indirectly (or are deemed to realize in certain circumstances) as a result of (i) certain tax attributes created as a result of the IPO and any sales or exchanges (as determined for U.S. federal income tax purposes) to or with the Company of their interests in The Habit Restaurants, LLC for shares of our Class A common stock or cash, including any basis adjustment relating to the assets of The Habit Restaurants, LLC and (ii) tax benefits attributable to payments made under the TRA (including imputed interest). The Habit Restaurants, Inc. generally will retain 15% of the applicable tax savings. The amount payable to the Continuing LLC Owners under the TRA is disclosed in the accompanying condensed consolidated balance sheets. In addition, the TRA provides for interest, at a rate equal to one year LIBOR, accrued from the due date (without extensions) of the corresponding tax return to the date of payment specified by the TRA. To the extent that the Company is unable to timely make payments under the TRA for any reason, such payments will be deferred and will accrue interest at a rate equal to one year LIBOR plus 200 basis points until paid (although a rate equal to one year LIBOR will apply if the inability to make payments under the TRA is due to limitations imposed on the Company or any of our subsidiaries by a debt agreement in effect on the date of the IPO). The Company's ability to make payments under the TRA and to pay its tax liabilities to taxing authorities generally will depend on our receipt of cash distributions from The Habit Restaurants, LLC.

Pursuant to the LLC Agreement, the Continuing LLC Owners have the right to exchange their LLC Units, together with a corresponding number of shares of Class B common stock (which will be cancelled in connection with any such exchange) for, generally, at the option of The Habit Restaurants, Inc. (such determination to be made by the disinterested members of our board of directors), (i) shares of our Class A common stock on a one-for-one basis, subject to customary conversion rate adjustments for stock splits, stock dividends and reclassifications or (ii) cash consideration (generally calculated based on the volume-weighted average price of the Class A common stock of The Habit Restaurants, Inc., as displayed under the heading Bloomberg VWAP on the Bloomberg page designated for the Class A common stock of The Habit Restaurants, Inc. for the 15 trading days immediately prior to the delivery date of a notice of exchange). At any time that an effective registration statement is on file with the SEC with respect to the shares of Class A common stock to be issued upon an exchange, The Habit Restaurants, Inc. may not provide cash consideration upon an exchange to a Continuing LLC Owner without the Continuing LLC Owner's prior consent. These exchanges are expected to result in increases in the tax basis of the assets of The Habit Restaurants, LLC that otherwise would not have been available. Increases in tax basis resulting from such exchanges may reduce the amount of tax that The Habit Restaurants, Inc. would otherwise be required to pay in the future. This tax basis may also decrease gains (or increase losses) on future dispositions of certain assets to the extent tax basis is allocated to those assets.

If the IRS or a state or local taxing authority challenges the tax basis adjustments that give rise to payments under the TRA and the tax basis adjustments are subsequently disallowed, the recipients of payments under the agreement will not reimburse any payments the Company previously made to them. Any such disallowance would be taken into account in determining future payments under the TRA and would, therefore, reduce the amount of any such future payments. Nevertheless, if the claimed tax benefits from the tax basis adjustments are disallowed, the Company's payments under the TRA could exceed its actual tax savings, and the Company may not be able to recoup payments under the TRA that were calculated on the assumption that the disallowed tax savings were available.

The TRA provides that (i) in the event that the Company materially breaches the TRA, (ii) if, at any time, the Company elects an early termination of the TRA, or (iii) upon certain mergers, asset sales, other forms of business combinations or other changes of control, the Company's (or our successor's) obligations under the TRA (with respect to all LLC Units, whether or not LLC Units have been exchanged or acquired before or after such transaction) would



accelerate and become payable in a lump sum amount equal to the present value of the anticipated future tax benefits calculated based on certain assumptions, including that the Company would have sufficient taxable income to fully utilize the deductions arising from the tax deductions, tax basis and other tax attributes subject to the TRA. The Company's payment obligations under the TRA with respect to interests in The Habit Restaurants, LLC treated as sold for U.S. federal income tax purposes to the Company in connection with the IPO are calculated based on the IPO price of our Class A common stock net of underwriting discounts.

As a result of the foregoing, (i) the Company could be required to make payments under the TRA that are greater than or less than the specified percentage of the actual tax savings the Company realizes in respect of the tax attributes subject to the agreements and (ii) the Company may be required to make an immediate lump sum payment equal to the present value of the anticipated future tax savings, which payment may be made years in advance of the actual realization of such future benefits, if any of such benefits are ever realized. In these situations, the Company's obligations under the TRA could have a substantial negative impact on its liquidity and could have the effect of delaying, deferring or preventing certain mergers, asset sales, other forms of business combinations or other changes of control. There can be no assurance that the Company will be able to finance its obligations under the TRA in a manner that does not adversely affect its working capital and growth requirements.

Payments under the TRA are intended to be treated as additional consideration for the applicable interests in The Habit Restaurants, LLC treated as sold or exchanged (as determined for U.S. federal income tax purposes) to or with the Company, except with respect to certain actual or imputed interest amounts payable under the TRA.

As of September 25, 2018, the Company recorded a liability of \$84.0 million, representing the payments due to the Continuing LLC Owners under the TRA. As of September 25, 2018, \$1.2 million of the TRA liability is classified as a current liability. The increase of \$2.2 million in the TRA liability during the 39 weeks ended September 25, 2018 is primarily a result of updates in estimated future tax savings and also as a result of the exchanges of LLC Units for shares of Class A common stock by the Continuing LLC Owners during the period.

As part of the TRA, there are adjustments associated with revisions to the expected TRA liability as a result of updated estimated future tax savings at the federal, state and local level. The amounts of these adjustments were \$1.5 million for the 39 week period ended September 25, 2018, and \$0.7 million for the 39 week period ended September 26, 2017 and are reflected in the condensed consolidated statements of operations.

In addition, from time to time we may have adjustments to deferred tax assets as a result of changes in the tax basis associated with the TRA. The amounts of these changes are reflected in the consolidated statements of stockholders' equity. The amount recorded in equity for the 39 weeks ended September 25, 2018 due to changes of the deferred tax assets associated with the tax basis increase was \$92,000.

Payments are due under the TRA for a given year if the Company has a net realized tax benefit. The realized tax benefit is intended to measure the decrease or increase in the actual tax liability of the Company attributable to the tax benefits defined in the TRA (i.e., basis adjustments and imputed interest), using a "with and without" methodology. Payments are anticipated to be made under the TRA for approximately 20-25 years, with a payment due after the filing of the Company's federal income tax return, which is due on or about October 1<sup>st</sup> of any given year (including extensions). The payments are to be made in accordance with the terms of the TRA. The Company shall pay or cause to be paid within five business days after the obligations became due (i.e. payable within 95-125 calendar days after the due date of the federal income tax return (taking into account valid extensions) dependent upon the type of holder of the TRA). The timing of the payments are subject to certain contingencies including whether the Company will have sufficient taxable income to utilize all of the tax benefits defined in the TRA.

Obligations pursuant to the TRA are obligations of the Company. They do not impact the non-controlling interest. These obligations are not income tax obligations and have no impact on the tax provision or the allocation of taxes.

#### Note 7—Long-Term Debt

On August 2, 2017, The Habit Restaurants, LLC executed a \$20 million credit facility with Bank of the West (the "Credit Facility") that matures on August 2, 2019. In October 2018, the Company extended the maturity date on the Credit Facility to August 1, 2020. All borrowings under the Credit Facility will bear interest at a variable rate based upon LIBOR plus the applicable margin for LIBOR loans (as defined in the Credit Facility). The Credit Facility has no unused commitment fees. The Company incurred \$0.3 million in deferred financing fees related to the Credit Facility that will be amortized over the length of the agreement. That amortization expense is included in interest expense, net on the accompanying condensed consolidated statements of operations. As of September 25, 2018, The Habit Restaurants, LLC had no borrowings outstanding against the Credit Facility. Interest related to the Credit Facility and principal payments, if applicable, are due monthly.

The Credit Facility is secured by all the assets of The Habit Restaurants, LLC, and the Company is required to comply with certain financial covenants therein. The Credit Facility contains customary representations, warranties, negative and affirmative covenants, including a maximum lease adjusted leverage ratio of 4.00 to 1.00 and a minimum

EBITDA of \$21.4 million for the twelve month period then ended at the end of each fiscal quarter. As of September 25, 2018, the Company and The Habit Restaurants, LLC were in compliance with all covenants.

On January 4, 2018 the Company executed an irrevocable standby letter of credit for \$1.5 million related to the Company's self-insured workers' compensation coverage. This letter of credit is a reduction of the borrowing capacity of our Credit Facility. In conjunction with the renewal of the Company's self-insured workers' compensation coverage in October 2018, the Company increased its irrevocable standby letter of credit to \$3.25 million. The increased standby letter of credit expires on January 5, 2019.

## Note 8—Commitments and Contingencies

**Future commitments**—The Company’s growth strategy includes new restaurant openings during fiscal year 2018 and beyond. In connection with the build out of the restaurants, the Company may be obligated for a portion of the start-up and/or construction costs. As of September 25, 2018, the Company had approximately \$8.1 million in such commitments related to new restaurants.

**Litigation**—The Company is involved in various claims and legal actions that arise in the ordinary course of business. Management does not believe that the ultimate resolution of these actions will have a material adverse effect on the Company’s consolidated financial position, results of operations, liquidity and capital resources. A significant increase in the number of litigated claims or an increase in amounts owing under successfully litigated claims could materially adversely affect the Company’s business, financial condition, results of operations, and cash flows.

## Note 9—Management Incentive Plans

Stock-based compensation is included in general and administrative expenses on the accompanying condensed consolidated statements of operations. The stock-based compensation expense related to the 2014 Omnibus Incentive Plan and to units issued under The Habit Restaurants, LLC Management Incentive Plan is summarized in the table below for the periods indicated: (in thousands)

	13 Weeks Ended		39 Weeks Ended	
	September		September	
	25,	26,	25,	26,
	2018	2017	2018	2017
Stock-based compensation expense	\$687	\$ 675	\$2,025	\$ 1,846

## 2014 Omnibus Incentive Plan

Prior to the completion of the Company’s IPO, the board of directors adopted The Habit Restaurants, Inc. 2014 Omnibus Incentive Plan (the “2014 Omnibus Incentive Plan”) and, subsequent to the IPO, all equity-based awards have been granted under the 2014 Omnibus Incentive Plan. The 2014 Omnibus Incentive Plan also permits grants of cash bonuses beginning in fiscal year 2015. This plan authorizes 2,525,275 total options and restricted stock units. No awards may be granted under the plan after November 19, 2024.

The purpose of the 2014 Omnibus Incentive Plan is to advance the Company’s interests by providing for the grant to eligible individuals of equity-based and other incentive awards.

The 2014 Omnibus Incentive Plan is administered by our board of directors or a committee of our board of directors (the “Administrator”). The Administrator has the authority to, among other things, interpret the 2014 Omnibus Incentive Plan, determine eligibility for, grant and determine the terms of awards under the 2014 Omnibus Incentive Plan, and to do all things necessary to carry out the purposes of the 2014 Omnibus Incentive Plan. The Administrator’s determinations under the 2014 Omnibus Incentive Plan are conclusive and binding. The Administrator will determine the time or times at which an award will vest or become exercisable. The maximum term of an award will not exceed ten years from the date of grant.

# Non-Qualified Stock Options

The following table sets forth information about the fair value of the non-qualified stock option grants on the date of grant using the Black-Scholes option-pricing model and the weighted average assumptions used for such a grant for the 39 weeks ended September 25, 2018:

		Weighted		
		Average		
		Weighted	Remaining	
		Average	Contractual	Aggregate
		Exercise	Term	Intrinsic
	Options	Price	(Years)	Value
Outstanding and expected to vest at December 26, 2017	961,668	\$ 19.41	8.6	\$ —
Granted	436,000	\$ 9.12		
Forfeited	(103,847 )	\$ 18.00		
Exercised	—	\$ —		
Outstanding and expected to vest at September 25, 2018	1,293,821	\$ 15.82	8.4	\$ 39,123
Exercisable at September 25, 2018	292,398	\$ 21.62	7.5	\$ —

The aggregate intrinsic value in the table above is obtained by subtracting the weighted average exercise price from the fair value of the underlying common stock as of September 25, 2018 and multiplying this result by the related number of options outstanding and expected to vest at September 25, 2018. The fair value of the common stock as of September 25, 2018 used in the above calculation was \$15.85 per share, the closing price of the Company's Class A common stock on September 25, 2018, the last trading day of the third quarter.

There was approximately \$3.4 million of total unrecognized compensation costs related to options granted under the Plan as of September 25, 2018. That cost is expected to be recognized over a weighted average period of 3.4 years.

### Restricted Stock Units

A summary of stock-based compensation activity related to restricted stock units for the 39 weeks ended September 25, 2018 are as follows:

		Weighted Average		
		Weighted Average Fair	Remaining Contractual Term (Years)	Aggregate Intrinsic Value
	Units	Value		
Outstanding and expected to vest at December 26, 2017	250,552	\$ 18.66	8.7	\$2,380,244
Granted	137,796	\$ 9.09		
Forfeited	(24,484 )	\$ 17.60		
Vested	(54,765 )	\$ 19.71		
Outstanding and expected to vest at September 25, 2018	309,099	\$ 14.29	8.7	\$4,899,219

The aggregate intrinsic value in the table above is obtained by multiplying the related number of units outstanding and expected to vest at September 25, 2018 by the fair value of the common stock as of September 25, 2018. The fair value of the common stock as of September 25, 2018 used in the above calculation was \$15.85 per share, the closing price of the Company's common stock on September 25, 2018, the last trading day of the third quarter.

The fair value of the restricted stock units is the quoted market value of our common stock on the date of grant. As of September 25, 2018, total unrecognized stock-based compensation expense related to non-vested restricted stock units was approximately \$3.4 million. That cost is expected to be recognized over a weighted average period of 3.4 years.

### The Habit Restaurants, LLC Management Incentive Plan

In connection with the IPO, the Company converted all of the outstanding vested and unvested Class C units into an equivalent amount of vested and unvested LLC Units of The Habit Restaurants, LLC, respectively. As of September

25, 2018 there was approximately \$0.4 million of total unrecognized stock-based compensation expense related to these units. That cost is expected to be recognized over a weighted average period of 0.7 years.

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

The Habit Restaurants, Inc. was formed July 24, 2014 and prior to the IPO had not conducted any activities, other than (i) those incident to its formation, (ii) the merger transactions resulting in it holding interests, indirectly through its wholly-owned subsidiaries, in the Habit Restaurants, LLC (such interests collectively represented a less than 20% interest in the Habit Restaurants, LLC) and (iii) the preparation of the IPO registration statement. We conduct our business through The Habit Restaurants, LLC and its subsidiaries. The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and accompanying notes included elsewhere in this Quarterly Report on Form 10-Q. The following discussion includes certain forward-looking statements that involve risk, uncertainties and assumptions. For a discussion of important factors, including the continuing development of our business and other factors which could cause actual results to differ materially from the results referred to in the historical information and the forward-looking statements presented herein, see "Risk Factors" in our Annual Report on Form 10-K for the year ended December 26, 2017 (our "Annual Report").

We operate on a 52- or 53-week fiscal year that ends on the last Tuesday of the calendar year. Each quarterly period has 13 weeks, except for a 53-week year when the fourth quarter has 14 weeks. Our 2017 fiscal year consisted of 52 weeks and our 2018 fiscal year will consist of 52 weeks.

Unless the context requires otherwise, references to "The Habit Burger Grill," "The Habit," the "Company," "we," "our" refer collectively to The Habit Restaurants, Inc. and its consolidated subsidiaries.

### Cautionary Note Regarding Forward-Looking Statements

In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks and uncertainties such as the number of restaurants we intend to open and projected capital expenditures. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, and other future conditions. Forward-looking statements can be identified by words such as "anticipate," "believe," "envision," "estimate," "expect," "intend," "may," "plan," "predict," "project," "target," "potential," "will," "would," "could," "ongoing," "contemplate" and other similar expressions, although not all forward-looking statements contain these identifying words. These statements reflect our current views with respect to future events, are based on assumptions and are subject to risks and uncertainties. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make, including, but not limited to, those discussed in "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors" as filed in our Annual Report.

### Overview

The Habit Burger Grill is a burger-centric, fast casual restaurant concept that specializes in preparing fresh, made-to-order char-grilled burgers and sandwiches featuring USDA choice tri-tip steak, grilled chicken and sushi-grade tuna cooked over an open flame. In addition, we feature fresh made-to-order salads and an appealing selection of sides, shakes and malts. The char-grilled preparation of our fresh burgers topped with caramelized onions and fresh produce has generated tremendous consumer response resulting in our burger being named the "best tasting burger in America" in July 2014 in a comprehensive survey conducted by one of America's leading consumer magazines. We operate in the approximately \$47 billion fast casual restaurant segment, which we believe has created significant disruption over the past few years in the restaurant industry and has impacted market share from adjacent restaurant segments, resulting in growth opportunities for restaurant concepts such as The Habit.

### History and Operations



The first location opened in Santa Barbara, California in 1969. Our restaurant concept has been, and continues to be built around a distinctive and diverse menu, headlined by fresh, char-grilled burgers and sandwiches made-to-order over an open flame and topped with fresh ingredients. Our Chief Executive Officer, Russell W. Bendel, joined The Habit in 2008, after KarpReilly, LLC (“KarpReilly”), a private investment firm based in Greenwich, Connecticut, acquired an equity interest in us in 2007. At the time of KarpReilly’s investment, we had 17 locations. Since then, we have grown our brand on a disciplined basis designed to capitalize on the large market opportunity available to us and, as of September 25, 2018, we had 242 locations, which includes 23 franchised/licensed locations. Our highly experienced management team has created and refined the infrastructure to create replicable restaurant-level systems, processes and training procedures that can deliver a high-quality experience that is designed to consistently exceed our customers’ expectations.

## Growth Strategies and Outlook

We plan to continue to expand our business, focus on comparable restaurant sales growth and enhance our competitive positioning by executing on the following strategies:

- thoughtfully expand our restaurant base;
- increase our comparable restaurant sales;
  - opportunistically open more drive-thru locations; and
  - enhance operations and leverage our infrastructure to improve long-term profitability.

We had 242 restaurants in 11 U.S. states, the United Arab Emirates and China as of September 25, 2018, which includes 19 franchised and four licensed locations from which we generate revenue, but excludes the eight licensed locations in Santa Barbara County, California. We opened 33 restaurants from December 26, 2017 through September 25, 2018, consisting of 26 company-operated and seven franchised/licensed locations. We expect to open approximately 30 company-operated restaurants and eight to ten franchised/licensed restaurants in 2018. To increase comparable restaurant sales, we plan to continue delivering superior customer experiences, focusing on customer frequency, attracting new customers and improving per customer spend. We believe we are well positioned for future growth, with a developed corporate infrastructure capable of supporting our expanding restaurant base. Additionally, we believe we have an opportunity to maintain our profitability as we benefit from increased economies of scale. However, these growth rates cannot be guaranteed.

## Exchanges

During the 39 weeks ended September 25, 2018, 211,765 common units in The Habit Restaurants, LLC (“LLC Units”) were exchanged by the existing owners of The Habit Restaurants, LLC (the “Continuing LLC Owners”) for shares of Class A common stock, and a corresponding number of shares of Class B common stock were then cancelled in connection with such exchanges. In addition, during the 39-week period ended September 25, 2018, 54,765 restricted stock units vested, 31,078 LLC Units were forfeited, and a corresponding number of shares of Class B common stock were then cancelled in connection with the forfeitures. As a result of these exchanges, vesting of restricted stock units and forfeitures, as of September 25, 2018, The Habit Restaurants, Inc. directly or indirectly held 20,644,982 LLC Units, representing a 79.3% economic interest in The Habit Restaurants, LLC, and continues to exercise exclusive control over the Habit Restaurants, LLC, as its sole managing member.

## Tax Receivable Agreement (“TRA”)

In connection with the IPO, we entered into the TRA. Under the TRA, we generally will be required to pay to the continuing LLC Owners 85% of the amount of cash savings, if any, in U.S. federal, state or local tax that we actually realize directly or indirectly (or are deemed to realize in certain circumstances) as a result of (i) certain tax attributes created as a result of the IPO and any sales or exchanges (as determined for U.S. federal income tax purposes) to or with us of their interests in The Habit Restaurants, LLC for shares of our Class A common stock or cash, including any basis adjustment relating to the assets of The Habit Restaurants, LLC and (ii) tax benefits attributable to payments made under the TRA (including imputed interest). The Habit Restaurants, Inc. and its subsidiaries generally will retain 15% of the applicable tax savings.

The Company accumulates cash balances resulting from distributions from The Habit Restaurants, LLC exceeding our tax or other liabilities. To the extent the Company does not use such cash balances to pay a dividend on Class A common stock and instead decides to hold such cash balances, Continuing LLC Owners who exchange LLC Units for shares of Class A common stock could also benefit from any value attributable to such accumulated cash balances.

## Key Measures We Use to Evaluate Our Performance

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

### Restaurant Revenue

Revenue consists of sales of food and beverages in company-operated restaurants and mobile event based catering trucks, net of promotional allowances and employee meals. Several factors impact our revenue in any period, including the number of restaurants in operation and per restaurant sales.

## Franchise/License Revenue

Franchise/license revenue consists of fees charged to, and royalty revenue collected from, franchise/license owners who enter into a franchise/license agreement with us. We currently recognize royalty revenue when the sale occurs. Initial franchise/license fees are recognized as revenue as the performance obligations of the contract are satisfied. We have identified separate performance obligations over the term of the contract and recognize revenue as those performance obligations are satisfied. These performance obligations include rights to use trademarks and intellectual property, initial training and other operational support visits. The development fees collected by us upon signing a franchise/license agreement are deferred until operations have commenced. Revenue is also recognized in the event of a termination of a franchise/license agreement.

## Comparable Corporate Restaurant Sales

Comparable corporate restaurant sales reflects the change in year-over-year sales for the comparable restaurant base. We include restaurants in the comparable restaurant base in the accounting period following its 18th full period of operations. Each of our periods is the applicable four or five week reporting period, except for the 12th period of a 53-week year, which contains six weeks. As of the end of fiscal years 2013, 2014, 2015, 2016 and 2017 there were 51, 68, 90, 114 and 142 company-operated restaurants, respectively, in our comparable restaurant base and as of the end of the 39 weeks ended September 25, 2018 there were 162 company-operated restaurants in the comparable restaurant base. This measure highlights performance of existing restaurants, as the impact of new restaurant openings is excluded.

Comparable corporate restaurant sales growth is generated by increases in customer traffic or increases in per customer spend. Per customer spend can be influenced by changes in menu prices and/or the mix and number of items sold per transaction.

Measuring our comparable restaurant sales allows us to evaluate the performance of our existing restaurant base. Various factors impact comparable restaurant sales, including:

- our ability to operate restaurants effectively and efficiently to meet consumer expectations;
- opening of new restaurants in the vicinity of existing locations;
- consumer recognition of our brand and our ability to respond to changing consumer preferences;
- pricing and changes in operating hours;
- customer traffic;
- per customer spend and average transaction amount;
- local competition and the intense discounting that is currently occurring in the restaurant industry;
- marketing and promotional efforts;
- introduction of new menu items;
- overall economic trends, particularly those related to consumer spending; and
- acceptance of delivery and other technological driven options as viable ordering vehicles for consumers.

The following table shows our quarterly company-operated comparable restaurant sales since 2013:

	Fiscal Year 2013				Fiscal Year 2014				Fiscal Year 2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Comparable Restaurant Sales	1.5%	3.4%	3.6%	5.5%	6.0%	6.3%	16.2%	13.2%	12.6%	8.9%	2.9%	3.3%
Comparable Restaurants	39	45	47	51	56	60	66	68	72	81	86	90

	39 Weeks Ended											
	Fiscal Year 2016				Fiscal Year 2017				September 25, 2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	
Comparable Restaurant Sales	2.0%	4.0%	0.2%	1.7%	0.9%	0.1%	(0.2)%	(1.0)%	(1.4)%	1.2%	3.6%	
Comparable Restaurants	97	107	113	114	119	128	137	142	148	156	162	

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20

## Restaurant Contribution

Restaurant contribution is defined as revenue less restaurant operating costs, which are food and paper costs, labor and related expenses, occupancy and other operating expenses. We expect restaurant contribution to increase in proportion to the number of new company-operated restaurants we open and be impacted by comparable restaurant sales performance. Fluctuations in restaurant contribution margin can also be affected by factors discussed below for the components of restaurant operating costs.

## Restaurant Development

The following schedule reflects the number of restaurants opened during a particular reporting period. We closed one company-operated restaurant fiscal year 2017 and we closed one company-operated restaurant in fiscal year 2016. Before we open new company-operated restaurants, we incur pre-opening costs. Pre-opening costs consist of costs directly associated with the opening of new restaurants and incurred prior to opening, including management labor costs, staff labor costs during training, food and supplies used during training, marketing costs and other related pre-opening costs. These are generally incurred over the three to five months prior to opening. Pre-opening costs also include net occupancy costs incurred between the date of possession and opening date of our restaurants. Some of our restaurants open with an initial start-up period of higher than normal sales volumes, which subsequently decrease to stabilized levels. Typically, our new restaurants have stabilized sales after approximately 13 to 26 weeks of operation, at which time the restaurant's sales typically begin to grow on a consistent basis. In new markets, the length of time before average sales for new restaurants stabilize is less predictable and can be longer as a result of our limited knowledge of these markets and consumers' limited awareness of our brand. New restaurants may not be profitable, and their sales performance may not follow historical patterns. The number and timing of restaurant openings has had, and is expected to continue to have, an impact on our results of operations. The following table shows the growth in our restaurant base for the fiscal years 2015, 2016 and 2017, respectively and for the 39 weeks ended September 25, 2018.

	39 Weeks			
	Ended September 25,	Fiscal Year Ended		
	2018	2017	2016	2015
<b>Company-operated restaurant base</b>				
Beginning of period	193	162	137	109
Openings	26	32	26	28
Closures	—	(1 )	(1 )	—
Restaurants at end of period	219	193	162	137
<b>Franchised/licensed restaurants<sup>(1)</sup></b>				
Beginning of period	16	10	5	1
Openings	7	6	5	4
Restaurants at end of period	23	16	10	5
<b>Total restaurants</b>				
Beginning of period	209	172	142	110
Openings	33	38	31	32
Closures	—	(1 )	(1 )	—

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Restaurants at end of period	242	209	172	142
Year-over-year growth				
Total restaurants		21.5%	21.1%	29.1%

<sup>(1)</sup>Does not include eight licensed locations in Santa Barbara County, California that are operated by Reichard Bros. Enterprises, Inc. and from which we are not entitled to royalties.

EBITDA and Adjusted EBITDA

EBITDA represents net income before interest expense, net, provision for income taxes, depreciation and amortization. Adjusted EBITDA represents EBITDA and certain items that we do not consider representative of our ongoing operating performance, as identified in the reconciliation table below.

EBITDA and Adjusted EBITDA as presented in this report are supplemental measures of our performance that are neither required by, nor presented in accordance with, GAAP. EBITDA and Adjusted EBITDA are not measurements of our financial performance under GAAP and should not be considered as alternatives to net income, operating income or any other performance measures derived in accordance with GAAP or as alternatives to cash flow from operating activities as a measure of our liquidity. In addition, in evaluating EBITDA and Adjusted EBITDA, you should be aware that in the future we will incur expenses or charges such as those added back to calculate EBITDA and Adjusted EBITDA. Our presentation of EBITDA and Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by these or other unusual or nonrecurring items.

EBITDA and Adjusted EBITDA have limitations as analytical tools, and you should not consider them in isolation, or as substitutes for analysis of our results as reported under GAAP, including that (i) they do not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments, (ii) they do not reflect changes in, or cash requirements for, our working capital needs, (iii) they do not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debt, (iv) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA and Adjusted EBITDA do not reflect any cash requirements for such replacements, (v) they do not adjust for all non-cash income or expense items that are reflected in our statements of cash flows, (vi) they do not reflect the impact of earnings or charges resulting from matters we consider not to be indicative of our ongoing operations, and (vii) other companies in our industry may calculate these measures differently than we do, limiting their usefulness as comparative measures.

We compensate for these limitations by providing specific information regarding the GAAP amounts excluded from such non-GAAP financial measures. We further compensate for the limitations in our use of non-GAAP financial measures by presenting comparable GAAP measures prominently.

We believe EBITDA and Adjusted EBITDA facilitate operating performance comparisons from period to period by isolating the effects of some items that vary from period to period without any correlation to core operating performance or that vary widely among similar companies. These potential differences may be caused by variations in capital structures (affecting interest expense), tax positions (such as the impact on periods or companies of changes in effective tax rates or income from operations) and the age and book depreciation of facilities and equipment (affecting relative depreciation expense). We also present EBITDA and Adjusted EBITDA because (i) we believe these measures are frequently used by securities analysts, investors and other interested parties to evaluate companies in our industry, (ii) we believe investors will find these measures useful in assessing our ability to service or incur indebtedness and (iii) we use EBITDA and Adjusted EBITDA internally as benchmarks to evaluate our operating performance or compare our performance to that of our competitors.

The following table sets forth reconciliations of EBITDA and Adjusted EBITDA to our net income:

	13 Weeks Ended September 25, 2018		39 Weeks Ended September 26, 2018	
	September 26, 2017		September 26, 2017	
Adjusted EBITDA Reconciliation (amounts in thousands)				
Net income (loss)	\$ (864 )	\$ 424	\$ 2,654	\$ 4,844
Non-GAAP adjustments:				
Provision (benefit) for income taxes	(307 )	(906 )	(1,454 )	1,397
Interest expense, net	272	185	749	381



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Depreciation and amortization	6,348	4,777	17,952	13,492
EBITDA	5,449	4,480	19,901	20,114
Stock-based compensation expense <sup>(a)</sup>	687	675	2,025	1,846
Loss on disposal of assets <sup>(b)</sup>	46	19	59	43
Pre-opening costs <sup>(c)</sup>	658	813	2,384	1,943
Asset impairment <sup>(d)</sup>	3,082	—	3,082	—
Tax Receivable Agreement liability adjustment <sup>(e)</sup>	—	688	1,473	688
Exchange related expenses <sup>(f)</sup>	—	155	130	390
Franchise revenue for terminated agreement <sup>(g)</sup>	—	—	(501 )	—
Adjusted EBITDA	\$9,922	\$ 6,830	\$28,553	\$ 25,024

<sup>(a)</sup> Includes non-cash, stock-based compensation.

<sup>(b)</sup> Loss on disposal of assets includes the loss on disposal of assets related to retirements and replacements or write-offs of leasehold improvements, furniture, fixtures or equipment.

- (c) Pre-opening costs consist of costs directly associated with the opening of new restaurants and incurred prior to opening, including management labor costs, staff labor costs during training, food and supplies used during training, marketing costs and other related pre-opening costs. These are generally incurred over the three to five months prior to opening. Pre-opening costs also include net occupancy costs incurred between the date of possession and opening date of our restaurants.
- (d) Includes costs related to impairment of long-lived assets at the restaurant level. During the 13 weeks ended September 25, 2018, the Company determined that the carrying value of three restaurants in the Orlando, Florida market were not recoverable, and as a result, recorded impairment expense of \$3.1 million.
- (e) In connection with the IPO that occurred in fiscal year 2014, we entered into a TRA. This agreement calls for us to pay to our pre-IPO stockholders 85% of the savings in cash that we realize in our taxes as a result of utilizing our net operating losses and other tax attributes attributable to preceding periods. This category includes adjustments associated with revisions to the expected TRA liability as a result of updated estimated future tax savings at the federal, state and local level.
- (f) This category includes costs associated with the exchange of LLC Units into shares of Class A common stock by the Continuing LLC Owners pursuant to its Amended and Restated Limited Liability Company Agreement, (as amended, the “LLC Agreement”).
- (g) This category includes franchise revenue that was recognized for a terminated franchise agreement.

#### Critical Accounting Policies

Our discussion and analysis of operating results and financial condition are based upon our condensed consolidated financial statements. The preparation of our financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures of contingent assets and liabilities. We base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis. Our critical accounting policies are those that materially affect our financial statements and involve difficult, subjective or complex judgments by management. Although these estimates are based on management’s best knowledge of current events and actions that may impact us in the future, actual results may be materially different from the estimates. There have been no significant changes to our critical accounting estimates as discussed in our Annual Report on Form 10-K for the fiscal year ended December 26, 2017.

#### Income Taxes and Tax Receivable Agreement

We are subject to U.S. federal income taxes, in addition to state and local taxes, with respect to our allocable share of any net taxable income of The Habit Restaurants, LLC.

We account for uncertain tax positions in accordance with ASC 740, Income Taxes (“ASC 740”). ASC 740 prescribes a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters such as derecognition, interest, penalties, and required disclosures. We have an uncertain tax liability of \$152,000 at September 25, 2018. However, we continue to not recognize interest expense for uncertain tax positions for the period ended September 25, 2018 as we believe that the exposure would be immaterial. In the future, if an uncertain tax position arises, interest and penalties will be accrued and included on the provision for income taxes line of the Statements of Consolidated Income. We file tax returns in U.S. federal and state jurisdictions. Generally, we are subject to examination by U.S. federal (or state and local) income tax authorities for three to four years from the filing of a tax return.

In connection with the IPO, we entered into the TRA. Under the TRA, we generally are required to pay to the Continuing LLC Owners 85% of the amount of cash savings, if any, in U.S. federal, state or local tax that we actually realize directly or indirectly (or are deemed to realize in certain circumstances) as a result of (i) certain tax attributes created as a result of the IPO and any sales or exchanges (as determined for U.S. federal income tax purposes) to or

with us of their interests in The Habit Restaurants, LLC for shares of our Class A common stock or cash, including any basis adjustment relating to the assets of The Habit Restaurants, LLC and (ii) tax benefits attributable to payments made under the TRA (including imputed interest). The Habit Restaurants, Inc. generally will retain 15% of the applicable tax savings. In addition, the TRA provides for interest, at a rate equal to one year LIBOR, accrued from the due date (without extensions) of the corresponding tax return to the date of payment specified by the TRA. To the extent that we are unable to timely make payments under the TRA for any reason, such payments will be deferred and will accrue interest at a rate equal to one year LIBOR plus 200 basis points until paid (although a rate equal to one year LIBOR will apply if the inability to make payments under the TRA is due to limitations imposed on us or any of our subsidiaries by a debt agreement in effect on the date of the IPO). Our ability to make payments under the TRA and to pay our own tax liabilities to taxing authorities generally will depend on our receipt of cash distributions from The Habit Restaurants, LLC. See the section entitled “Item 1A, Risk Factors—Risks Related to Our Business and Industry.”

Pursuant to the LLC Agreement, the Continuing LLC Owners have the right to exchange their LLC Units, together with a corresponding number of shares of Class B common stock (which will be cancelled in connection with any such exchange) for, generally, at the option of The Habit Restaurants, Inc. (such determination to be made by the disinterested members of our board of directors), (i) shares of our Class A common stock on a one-for-one basis, subject to customary conversion rate adjustments for stock splits, stock dividends and reclassifications or (ii) cash consideration (generally calculated based on the volume-weighted average price of the Class A common stock of The Habit Restaurants, Inc., as displayed under the heading Bloomberg VWAP on the Bloomberg page designated for the Class A common stock of The Habit Restaurants, Inc. for the 15 trading days immediately prior to the delivery date of a notice of exchange). At any time that an effective registration statement is on file with the Securities and Exchange Commission with respect to the shares of Class A Common Stock to be issued upon an exchange, The Habit Restaurants, Inc. may not provide cash consideration upon an exchange to a Continuing LLC Owner without the Continuing LLC Owner's prior consent. These exchanges are expected to result in increases in the tax basis of the assets of The Habit Restaurants, LLC that otherwise would not have been available. Increases in tax basis resulting from such exchanges may reduce the amount of tax that The Habit Restaurants, Inc. would otherwise be required to pay in the future. This tax basis may also decrease gains (or increase losses) on future dispositions of certain assets to the extent tax basis is allocated to those assets. We amended our LLC Agreement in May 2016, pursuant to which we processed exchange requests every other week, rather than weekly, effective in June 2016. We further amended our LLC Agreement in March 2017, pursuant to which we process exchanges monthly, effective in May 2017.

If the IRS or a state or local taxing authority challenges the tax basis adjustments that give rise to payments under the TRA and the tax basis adjustments are subsequently disallowed, the recipients of payments under the agreement will not reimburse us for any payments we previously made to them. Any such disallowance would be taken into account in determining future payments under the TRA and would, therefore, reduce the amount of any such future payments. Nevertheless, if the claimed tax benefits from the tax basis adjustments are disallowed, our payments under the TRA could exceed our actual tax savings, and we may not be able to recoup payments under the TRA that were calculated on the assumption that the disallowed tax savings were available.

The TRA provides that (i) in the event that we materially breach the TRA, (ii) if, at any time, we elect an early termination of the TRA, or (iii) upon certain mergers, asset sales, other forms of business combinations or other changes of control, our (or our successor's) obligations under the TRA (with respect to all LLC Units, whether or not LLC Units have been exchanged or acquired before or after such transaction) would accelerate and become payable in a lump sum amount equal to the present value of the anticipated future tax benefits calculated based on certain assumptions, including that we would have sufficient taxable income to fully utilize the deductions arising from the tax deductions, tax basis and other tax attributes subject to the TRA.

As a result of the foregoing, (i) we could be required to make payments under the TRA that are greater than or less than the specified percentage of the actual tax savings we realize in respect of the tax attributes subject to the agreements and (ii) we may be required to make an immediate lump sum payment equal to the present value of the anticipated future tax savings, which payment may be made years in advance of the actual realization of such future benefits, if any of such benefits are ever realized. In these situations, our obligations under the TRA could have a substantial negative impact on our liquidity and could have the effect of delaying, deferring or preventing certain mergers, asset sales, other forms of business combinations or other changes of control. There can be no assurance that we will be able to finance our obligations under the TRA in a manner that does not adversely affect our working capital and growth requirements.

Payments under the TRA are intended to be treated as additional consideration for the applicable interests in The Habit Restaurants, LLC treated as sold or exchanged (as determined for U.S. federal income tax purposes) to or with us, except with respect to certain actual or imputed interest amounts payable under the TRA. As of September 25, 2018, we recorded a liability of \$84.0 million representing the payments due to the Continuing LLC Owners under the

TRA.

24

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## Results of Operations

## Thirteen Weeks Ended September 25, 2018 Compared to Thirteen Weeks Ended September 26, 2017

The following table presents selected consolidated comparative results of operations for the 13 weeks ended September 25, 2018 compared to the 13 weeks ended September 26, 2017. Our operating results are presented as a percentage of total revenue, with the exception of restaurant operating costs, depreciation and amortization expense, pre-opening costs, asset impairment and loss on disposal of assets, which are presented as a percentage of restaurant revenue. Our financial results for these periods are not necessarily indicative of the financial results that we will achieve in future periods. Certain totals for the table below may not sum to 100% due to rounding.

Consolidated Statement of Operations Data: (amounts in thousands)	13 Weeks Ended September 25, 2018		September 26, 2017		Increase /	
					(Decrease)	
					\$	%
<b>Revenue</b>						
Restaurant revenue	\$104,124	99.5 %	\$84,347	99.7 %	\$19,777	23.4 %
Franchise/license revenue	515	0.5 %	263	0.3 %	252	95.8 %
Total revenue	104,639	100.0%	84,610	100.0%	20,029	23.7 %
<b>Operating expenses</b>						
Restaurant operating costs (excluding depreciation and amortization)						
Food and paper costs	30,992	29.8 %	26,861	31.8 %	4,131	15.4 %
Labor and related expenses	35,133	33.7 %	28,532	33.8 %	6,601	23.1 %
Occupancy and other operating expenses	19,436	18.7 %	14,781	17.5 %	4,655	31.5 %
General and administrative expenses	9,843	9.4 %	8,281	9.8 %	1,562	18.9 %
Exchange related expenses	—	—	155	0.2 %	(155 )	(100.0)%
Depreciation and amortization expense	6,348	6.1 %	4,777	5.7 %	1,571	32.9 %
Pre-opening costs	658	0.6 %	813	1.0 %	(155 )	(19.1 )%
Asset impairment	3,082	3.0 %	—	0.0 %	3,082	*
Loss on disposal of assets	46	0.0 %	19	0.0 %	27	142.1 %
Total operating expenses	105,538	100.9%	84,219	99.5 %	21,319	25.3 %
Income (loss) from operations	(899 )	(0.9 )%	391	0.5 %	(1,290 )	(329.9)%
<b>Other expenses</b>						
Tax Receivable Agreement liability adjustment	—	—	688	0.8 %	(688 )	(100.0)%
Interest expense, net	272	0.3 %	185	0.2 %	87	47.0 %
Income (loss) before income taxes	(1,171 )	(1.1 )%	(482 )	(0.6 )%	(689 )	142.9 %
Provision (benefit) for income taxes	(307 )	(0.3 )%	(906 )	(1.1 )%	599	(66.1 )%
Net income (loss)	\$(864 )	(0.8 )%	\$424	0.5 %	\$(1,288 )	(303.8)%

Restaurant revenue. Restaurant revenue increased \$19.8 million, or 23.4%, for the 13 weeks ended September 25, 2018 as compared to the 13 weeks ended September 26, 2017, primarily due to a \$10.5 million increase in sales from new restaurants which were opened in the current year and a \$5.9 million increase in sales from restaurants opened prior to the 2018 period that did not fall into the comparable restaurant base. Comparable restaurant sales increased \$2.7 million, or 3.6%, in the 13 weeks ended September 25, 2018 as compared to the comparable 2017 period. The comparable restaurant sales increase was primarily due to an increase in average transaction amount of 7.0% partially

offset by a decrease in traffic of 3.4% in the 13 weeks ended September 25, 2018 as compared to the comparable 2017 period. The increase in revenue was also due in part to increased revenue of \$0.8 million for catering trucks during the 13 weeks ended September 25, 2018 as compared to the 13 weeks ended September 26, 2017. We had nine catering trucks operating in the 13 weeks ended September 25, 2018 compared to eight catering trucks operating in the 13 weeks ended September 26, 2017. The revenue increase was partially offset by a decrease in sales of \$0.1 million due to the closure of one restaurant in fiscal year 2017.

Franchise/license revenue. Franchise/license revenue increased \$0.3 million for the 13 weeks ended September 25, 2018 compared to the comparable 2017 period, mainly due to an increase in royalty revenue of \$0.1 million in the current period as compared to the prior period, primarily as a result of the increased number of franchised/licensed locations. The increase was also partially due to an increase in franchise fees recognized during the 13 weeks ended September 25, 2018 of \$0.1 million. We opened three franchise/license restaurants in the current period compared to one restaurant opened in the comparable 2017 period.

Food and paper costs. Food and paper costs increased \$4.1 million, or 15.4%, for 13 weeks ended September 25, 2018 as compared to the comparable 2017 period, primarily due to the increase in restaurant sales. As a percentage of revenue, food and paper costs decreased to 29.8% in the 13 weeks ended September 25, 2018 from 31.8% in the prior year quarter. This decrease was primarily driven by decreases in the costs of beef, other proteins and produce as well as the impact of carrying an approximate 6% price increase during the quarter, partially offset by increases in the cost of potatoes in the current period.

Labor and related expenses. Labor and related expenses increased \$6.6 million, or 23.1%, for the 13 weeks ended September 25, 2018 as compared to the comparable 2017 period, primarily due to the increased labor costs needed to support new restaurants and higher restaurant sales. As a percentage of revenue, labor and related expenses decreased slightly to 33.7% in the third quarter of 2018 compared to 33.8% in the comparable quarter of 2017 primarily due to the increase in restaurant sales which was driven in part by the impact of carrying an approximate 6% price increase during the quarter. Labor costs were higher primarily due to wage rate increases for hourly employees. On January 1, 2018, the State of California's (where most of our restaurants are located) minimum wage was raised to \$11.00 per hour. In addition, regulatory increases to minimum wages for future periods have been passed and therefore we expect to see increased labor costs to continue. We are also experiencing a tight labor market in some areas which is putting pressure on labor rates.

Occupancy and other operating expenses. Occupancy and other operating expenses increased \$4.7 million, or 31.5%, for the 13 weeks ended September 25, 2018 as compared to the comparable period in 2017, primarily due to new restaurants. As a percentage of revenue, occupancy and other operating expenses increased to 18.7% in the third quarter of 2018 from 17.5% in the comparable quarter of 2017 primarily due to higher call center, on-line and delivery costs as we have rolled out the option of delivery in a significant number of our restaurants this year. In addition, there were higher common area maintenance, repairs and maintenance, rent and utility costs in the current period as a percentage of restaurant revenue that was partially offset by lower advertising costs in the current period. We expect to see higher rent and delivery costs to continue in the current fiscal year.

General and administrative expenses. General and administrative expenses increased \$1.6 million, or 18.9%, for the third quarter of 2018 as compared to the prior year quarter, primarily due to costs associated with supporting an increased number of restaurants, including the increasing number of administrative employees, and field and corporate supervision as well as increased incentive compensation expense as a result of improved financial performance. As a percentage of revenue, general and administrative expenses decreased to 9.4% for the 13 weeks ended September 25, 2018 compared to 9.8% in the comparable quarter of 2017.

Exchange related expenses. There were no exchange related expenses, which are costs associated with the exchange of LLC Units to Class A common stock by the Continuing LLC Owners, for the third quarter of 2018 compared to expenses of \$0.2 million in the prior year quarter.

Depreciation and amortization expenses. Depreciation and amortization increased \$1.6 million, or 32.9%, for the third quarter of 2018 as compared to the prior year quarter, primarily due to the increased number of restaurants. As a percentage of revenue, depreciation and amortization increased to 6.1% in the third quarter of 2018 compared to 5.7% in the comparable quarter of 2017.

Pre-opening costs. Pre-opening costs decreased \$0.2 million for the third quarter of 2018 as compared to the prior year quarter. We opened eight new company-operated restaurants in the third quarter of 2018 compared to opening six new company-operated restaurants in the third quarter of 2017. Pre-opening costs also include expenses incurred for restaurants that are set to open in the near future. As a percentage of revenue, pre-opening costs decreased to 0.6% in the third quarter of 2018 compared to 1.0% in the comparable quarter of 2017.



Asset impairment. Asset impairment expense was \$3.1 million for the third quarter of 2018. There was no impairment recorded in the prior year period. The Company determined that the carrying value of three restaurants in the Orlando, Florida market were not recoverable, and as a result, recorded impairment expense of \$3.1 million in the third quarter of 2018.

Tax Receivable Agreement liability adjustment. Tax Receivable Agreement expenses are adjustments associated with revisions to the expected TRA liability as a result of updated estimated future tax savings at the federal, state and local level. There was no TRA expense for the 13 weeks ended September 25, 2018 as compared to \$0.7 million in the comparable prior year period.

Interest expense, net. Interest expense, net was \$0.3 million for the third quarter of 2018 as compared to \$0.2 million in the prior year quarter. The increase in interest expense is primarily attributed to higher interest expense from more deemed landlord locations.

Provision for income taxes. Income tax benefit was \$0.3 million for the third quarter of 2018 compared to an income tax benefit of \$0.9 million in the prior year quarter.

# Thirty Nine Weeks Ended September 25, 2018 Compared to Thirty Nine Weeks Ended September 26, 2017

The following table presents selected consolidated comparative results of operations for the 39 weeks ended September 25, 2018 compared to the 39 weeks ended September 26, 2017. Our operating results are presented as a percentage of total revenue, with the exception of restaurant operating costs, depreciation and amortization expense, pre-opening costs, asset impairment and loss on disposal of assets, which are presented as a percentage of restaurant revenue. Our financial results for these periods are not necessarily indicative of the financial results that we will achieve in future periods. Certain totals for the table below may not sum to 100% due to rounding.

Consolidated Statement of Operations Data: (amounts in thousands)	39 Weeks Ended				Increase /			
	September 25, 2018				(Decrease) September 26, 2017			
					\$		%	
<b>Revenue</b>								
Restaurant revenue	\$297,574	99.4 %		\$245,704	99.7 %	\$51,870	21.1 %	
Franchise/license revenue	1,865	0.6 %		833	0.3 %	1,032	123.9 %	
Total revenue	299,439	100.0 %		246,537	100.0 %	52,902	21.5 %	
<b>Operating expenses</b>								
Restaurant operating costs (excluding								
depreciation and amortization)								
Food and paper costs	89,524	30.1 %		75,955	30.9 %	13,569	17.9 %	
Labor and related expenses	101,122	34.0 %		81,566	33.2 %	19,556	24.0 %	
Occupancy and other operating expenses	53,174	17.9 %		41,469	16.9 %	11,705	28.2 %	
General and administrative expenses	28,590	9.5 %		24,369	9.9 %	4,221	17.3 %	
Offering and exchange related expenses	130	0.0 %		390	0.2 %	(260 )	(66.7 )%	
Depreciation and amortization expense	17,952	6.0 %		13,492	5.5 %	4,460	33.1 %	
Pre-opening costs	2,384	0.8 %		1,943	0.8 %	441	22.7 %	
Asset impairment	3,082	1.0 %		—	0.0 %	3,082	*	
Loss on disposal of assets	59	0.0 %		43	0.0 %	16	37.2 %	
Total operating expenses	296,017	98.9 %		239,227	97.0 %	56,790	23.7 %	
Income from operations	3,422	1.1 %		7,310	3.0 %	(3,888 )	(53.2 )%	
<b>Other expenses</b>								
Tax Receivable Agreement liability adjustment	1,473	0.5 %		688	0.3 %	785	114.1 %	
Interest expense, net	749	0.3 %		381	0.2 %	368	96.6 %	
Income before income taxes	1,200	0.4 %		6,241	2.5 %	(5,041 )	(80.8 )%	
Provision (benefit) for income taxes	(1,454 )	(0.5 )%		1,397	0.6 %	(2,851 )	(204.1 )%	
Net income	\$2,654	0.9 %		\$4,844	2.0 %	\$(2,190 )	(45.2 )%	

\*Not Calculable

Restaurant revenue. Restaurant revenue increased \$51.9 million, or 21.1%, for the 39 weeks ended September 25, 2018 as compared to the 39 weeks ended September 26, 2017, primarily due to a \$19.7 million increase in sales from new restaurants which were opened in the current year and a \$29.0 million increase in sales from restaurants opened prior to the 2018 period that did not fall into the comparable restaurant base. Comparable restaurant sales increased \$2.6 million, or 1.2%, in the 39 weeks ended September 25, 2018 as compared to the comparable 2017 period. The comparable restaurant sales consisted of an increase in average transaction amount of 4.2% offset by a decrease in

traffic of 3.0% in the 39 weeks ended September 25, 2018 as compared to the comparable 2017 period. The increase in revenue was also due in part to increased revenue of \$1.1 million for catering trucks during the 39 weeks ended September 25, 2018 as compared to the 39 weeks ended September 26, 2017. We had nine catering trucks operating in the 39 weeks ended September 25, 2018 compared to eight catering trucks operating in the 39 weeks ended September 26, 2017. The revenue increase was partially offset by a decrease in sales of \$0.5 million due to the closure of one restaurant in fiscal year 2017.

Franchise/license revenue. Franchise/license revenue increased \$1.0 million for the 39 weeks ended September 25, 2018 compared to the comparable 2017 period, partially due to an increase in franchise fee revenue of \$0.6 million in the current period as compared to the prior period, which was mainly due to revenue recognized for a terminated franchise agreement. The increase in franchise/license revenue was also attributed to an increase in royalty revenue of \$0.4 million in the current period as compared to the prior period, primarily as a result of the increased number of franchised/licensed locations.

Food and paper costs. Food and paper costs increased \$13.6 million, or 17.9%, for 39 weeks ended September 25, 2018 as compared to the comparable 2017 period, primarily due to the increase in restaurant sales. As a percentage of revenue, food and paper costs decreased to 30.1% in the 39 weeks ended September 25, 2018 from 30.9% in the prior year period. This decrease was primarily driven by decreases in the costs of beef and produce partially offset by increases in the cost of potatoes in the current period.

Labor and related expenses. Labor and related expenses increased \$19.6 million, or 24.0%, for the 39 weeks ended September 25, 2018 as compared to the comparable 2017 period, primarily due to the increased labor costs needed to support new restaurants and higher restaurant sales. As a percentage of revenue, labor and related expenses increased to 34.0% in the 39 weeks ended September 25, 2018 compared to 33.2% in the comparable period of 2017. Labor costs were higher primarily due to wage rate increases for hourly employees. On January 1, 2018, the State of California's (where most of our restaurants are located) minimum wage was raised to \$11.00 per hour. In addition, regulatory increases to minimum wages for future periods have been passed and therefore we expect to see increased labor costs to continue. We are also experiencing a tight labor market in some areas which is putting pressure on labor rates.

Occupancy and other operating expenses. Occupancy and other operating expenses increased \$11.7 million, or 28.2%, for the 39 weeks ended September 25, 2018 as compared to the comparable period in 2017, primarily due to new restaurants. As a percentage of revenue, occupancy and other operating expenses increased to 17.9% in the 39 weeks ended September 25, 2018 from 16.9% in the comparable period of 2017 primarily due to higher call center, on-line and delivery costs as we have rolled out the option of delivery in a significant number of our restaurants this year, and higher rent costs in the current period as a percentage of restaurant revenue. We expect to see higher rent and delivery costs to continue in the current fiscal year.

General and administrative expenses. General and administrative expenses increased \$4.2 million, or 17.3%, for the 39 weeks ended September 25, 2018 as compared to the prior year period, primarily due to costs associated with supporting an increased number of restaurants, including the increasing number of administrative employees, and field and corporate supervision. As a percentage of revenue, general and administrative expenses decreased to 9.5% for the 39 weeks ended September 25, 2018 compared to 9.9% in the comparable period of 2017.

Exchange related expenses. Exchange related expenses, which are costs associated with the exchange of LLC Units to Class A common stock by the Continuing LLC Owners, were \$0.1 million for the 39 weeks ended September 25, 2018 compared to \$0.4 million in the comparable prior year period.

Depreciation and amortization expenses. Depreciation and amortization increased \$4.5 million, or 33.1%, for the 39 weeks ended September 25, 2018 as compared to the prior year period, primarily due to the increased number of restaurants. As a percentage of revenue, depreciation and amortization increased to 6.0% in the 39 weeks ended September 25, 2018 compared to 5.5% in the comparable period of 2017.

Pre-opening costs. Pre-opening costs increased \$0.4 million for the 39 weeks ended September 25, 2018 as compared to the prior year period. We opened 26 new company-operated restaurants in the 39 weeks ended September 25, 2018 compared to opening 19 new company-operated restaurants in the comparable prior year period. Pre-opening costs also include expenses incurred for restaurants that are set to open in the near future. As a percentage of revenue, pre-opening costs remained flat at 0.8% in the 39 weeks ended September 25, 2018 and the 39 weeks ended September 26, 2017, respectively.

Asset impairment. Asset impairment expense was \$3.1 million for the 39 weeks ended September 25, 2018. There was no impairment recorded in the prior year period. The Company determined that the carrying value of three restaurants in the Orlando, Florida market were not recoverable, and as a result, recorded impairment expense of \$3.1 million in

the 39 weeks ended September 25, 2018.

Tax Receivable Agreement liability adjustment. Tax Receivable Agreement expenses, which are adjustments associated with revisions to the expected TRA liability as a result of updated estimated future tax savings at the federal, state and local level, were \$1.5 million for the 39 weeks ended September 25, 2018 as compared to \$0.7 million in the comparable prior year period.

Interest expense, net. Interest expense, net was \$0.7 million for the 39 weeks ended September 25, 2018 as compared to \$0.4 million in the comparable prior year period. The increase in interest expense is attributed to higher deferred financing fees on our current credit facility and higher interest expense from more deemed landlord locations.

Provision (benefit) for income taxes. There was an income tax benefit of \$1.5 million for 39 weeks ended September 25, 2018 compared to income tax expense of \$1.4 million in the comparable prior year period.

## Liquidity and Capital Resources

Our primary uses of cash are for operational expenditures and capital investments, including new stores, store remodels, store relocations, store fixtures and ongoing infrastructure improvements. Historically, our main source of liquidity has been cash flows from operations.

The significant components of our working capital are liquid assets such as cash, cash equivalents and receivables, reduced by accounts payable and accrued expenses. Our working capital position benefits from the fact that we generally collect cash from sales to customers the same day or within several days of the related sale, while we typically have longer payment terms with our vendors.

## Potential Impacts of Market Conditions on Capital Resources

Until recently, we have consistently experienced increases in comparable restaurant sales and operating cash flows. However, the restaurant industry continues to be challenged and uncertainty exists as to the sustainability of these favorable trends as evidenced in our recent results.

We believe that expected cash flow from operations and our existing cash balance at September 25, 2018 are adequate to fund operations for at least the next 12 months. However, our ability to continue to meet these requirements and obligations will depend on, among other things, our ability to achieve anticipated levels of revenue and cash flow and our ability to manage costs and working capital successfully.

## Summary of Cash Flows

Our primary sources of liquidity and cash flows are derived from our existing cash balance at September 25, 2018 and our operating cash flows. We use these to fund capital expenditures for new company-operated restaurant openings, reinvest in our existing restaurants, invest in infrastructure and information technology and maintain working capital. Our working capital position benefits from the fact that we generally collect cash from sales to customers the same day, or in the case of credit or debit card transactions, within several days of the related sale, and we typically have 20 to 30 days to pay our vendors.

The material changes in working capital from December 26, 2017 to September 25, 2018 were comprised of a \$2.6 million increase in current assets and a \$9.8 million increase in current liabilities. The increase in current assets was primarily due to a \$2.2 million increase in cash primarily attributed to the timing of payables and accrued expenses. The increase in current liabilities was primarily attributed to higher employee-related accruals of \$7.8 million which is primarily due to the timing of pay dates and increased workers' compensation liabilities.

	39 Weeks Ended	
	September 25,	September 26,
(amounts in thousands)	2018	2017
Consolidated Statement of Cash Flows Data:		
Net cash provided by operating activities	\$36,910	\$29,969
Net cash used in investing activities	(34,243)	(30,636)
Net cash used in financing activities	\$(420)	\$(1,436)

## Cash Flows Provided by Operating Activities

Net cash provided by operating activities increased by \$6.9 million to \$36.9 million for the 39 weeks ended September 25, 2018 from \$30.0 million for the 39 weeks ended September 26, 2017. There was an increase in the

current period in restaurant contribution partially offset by increased general and administrative expenses. The effect of these changes created an increase in cash provided by operations of \$2.8 million. There was an increase in cash provided in the current period of \$4.6 million related to the change in employee related accruals and an increase in cash provided in the current period of \$1.1 million related to the change in accounts receivable partially offset by a decrease in the current period of \$0.9 million related to the change in accrued expenses.

#### Cash Flows Used in Investing Activities

Net cash used in investing activities increased by \$3.6 million to \$34.2 million for the 39 weeks ended September 25, 2018 from \$30.6 million for the 39 weeks ended September 26, 2017. There were 26 company-operated restaurants opened during the 39 weeks ended September 25, 2018 compared to 19 company-operated restaurants opened during the 39 weeks ended September 26, 2017. These amounts also include capital expenditures for future restaurant openings, remodels, maintaining our existing restaurants and other projects.

## Cash Flows Used in Financing Activities

Net cash used in financing activities decreased by \$1.0 million to \$0.4 million for the 39 weeks ended September 25, 2018 from \$1.4 million for the 39 weeks ended September 26, 2017. The difference was mainly attributed to lower tax distributions in the current period of \$0.8 million.

## Credit Facility

On August 2, 2017, The Habit Restaurants, LLC executed a \$20 million credit facility with Bank of the West (the “Credit Facility”) that matures on August 2, 2019. In October 2018, the Company extended the maturity date on the Credit Facility to August 1, 2020. All borrowings under the Credit Facility will bear interest at a variable rate based upon LIBOR plus the applicable margin for LIBOR loans (as defined in the Credit Facility). The Credit Facility has no unused commitment fees. We incurred \$0.3 million in deferred financing fees related to the Credit Facility that will be amortized over the length of the agreement. That amortization expense is included in interest expense, net on the accompanying condensed consolidated statements of operations.

The Credit Facility is secured by all the assets of The Habit Restaurants, LLC, and we are required to comply with certain financial covenants therein. The Credit Facility contains customary representations, warranties, negative and affirmative covenants, including a maximum lease adjusted leverage ratio of 4.00 to 1.00 and a minimum EBITDA of \$21.4 million for the twelve month period then ended at the end of each fiscal quarter. As of September 25, 2018, the Company and The Habit Restaurants, LLC were in compliance with all covenants. As of September 25, 2018, The Habit Restaurants, LLC had no outstanding debt under the Credit Facility.

On January 4, 2018, we executed an irrevocable standby letter of credit for \$1.5 million related to our self-insured workers’ compensation coverage. This letter of credit is a reduction of the borrowing capacity of our Credit Facility. In conjunction with the renewal of the Company’s self-insured workers’ compensation coverage in October 2018, the Company increased its irrevocable standby letter of credit to \$3.25 million. The increased standby letter of credit expires on January 5, 2019.

## Contractual Obligations

The following table presents our commitments and contractual obligations as of September 25, 2018, as well as our long-term obligations:

(amounts in thousands)	Total	2018	2019-2020	2021-2022	2023 and thereafter
Long-term debt obligations <sup>(1)</sup>	\$—	\$—	\$ —	\$ —	\$—
Operating lease obligations <sup>(2)</sup>	256,329	6,339	56,736	55,374	137,880
Deemed landlord financing <sup>(3)</sup>	11,787	354	2,783	2,803	5,847
Purchase obligations <sup>(4)</sup>	1,044	226	818	—	—
Total	\$269,160	\$6,919	\$ 60,337	\$ 58,177	\$143,727

<sup>(1)</sup>On August 2, 2017, The Habit Restaurants, LLC executed a \$20 million credit facility with Bank of the West that matures on August 2, 2019. In October 2018, the Company extended the maturity date on the Credit Facility to August 1, 2020. There were no borrowings on the facility as of September 25, 2018 and the unused portion of the facility does not accrue any fees as part of this agreement. On January 4, 2018, we executed an irrevocable standby



letter of credit for \$1.5 million related to our self-insured workers' compensation coverage. This letter of credit is a reduction of the borrowing capacity of our Credit Facility. In conjunction with the renewal of the Company's self-insured workers' compensation coverage in October 2018, the Company increased its irrevocable standby letter of credit to \$3.25 million. The increased standby letter of credit expires on January 5, 2019.

- (2) Includes minimum rental payments that are included in the lease term in accordance with accounting guidance related to leases.
- (3) Includes principal and interest payments during the lease terms for restaurant locations where we have been deemed to be the accounting owner of the landlord's shell.
- (4) Includes short-term purchase commitments for food and paper items.

#### Off-Balance Sheet Arrangements

As of September 25, 2018, we did not have any material off-balance sheet arrangements, except for restaurant leases.

## JOBS Act

We qualify as an “emerging growth company” as defined in Section 2(a)(19) of the Securities Act, as modified by the JOBS Act. Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected not to avail ourselves of this extended transition period and, as a result, we will adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies.

Subject to certain conditions set forth in the JOBS Act, we are also eligible for and intend to take advantage of certain exemptions from various reporting requirements applicable to other public companies that are not emerging growth companies, including (i) the exemption from the auditor attestation requirements with respect to internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act, (ii) the exemptions from say-on-pay, say-on-frequency and say-on-golden parachute voting requirements and (iii) reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements. We may take advantage of these exemptions until we are no longer an emerging growth company. We will continue to be an emerging growth company until the earliest to occur of (i) the date on which we are deemed to be a “large accelerated filer” as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended, or the Exchange Act, (ii) the last day of the fiscal year in which we had total annual gross revenue of \$1 billion or more during such fiscal year (as indexed for inflation), (iii) the date on which we have issued more than \$1 billion in non-convertible debt in the prior three-year period or (iv) the last day of the fiscal year following the fifth anniversary of the completion of our initial public offering, which is December 31, 2019.

## ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

### Interest Rate Risk

We are exposed to market risk from changes in interest rates on debt. As of September 25, 2018, we had no outstanding borrowings.

We manage our interest rate risk through normal operating and financing activities and, when determined appropriate, through the use of derivative financial instruments.

### Inflation

The primary inflationary factors affecting our operations are food, labor costs, energy costs and materials used in the construction of new restaurants. Increases in the minimum wage directly affect our labor costs. Many of our leases require us to pay taxes, maintenance, repairs, insurance and utilities, all of which are generally subject to inflationary increases. Finally, the cost of constructing our restaurants is subject to inflationary increases in the costs of labor and material. Increases in food costs and labor costs has had an impact on our 39 weeks ended September 25, 2018 and has the potential to do so going forward.

### Commodity Price Risk

We purchase certain products that are affected by commodity prices and are, therefore, subject to price volatility caused by weather, market conditions and other factors which are not considered predictable or within our control. Although these products are subject to changes in commodity prices, certain purchasing contracts or pricing arrangements we use contain risk management techniques designed to minimize price volatility. In many cases, we believe we will be able to address material commodity cost increases by adjusting our menu pricing or changing our

product delivery strategy. However, increases in commodity prices, without adjustments to our menu prices, could increase restaurant operating costs as a percentage of restaurant sales.

#### ITEM 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated 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 Quarterly Report on Form 10-Q.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their control objectives.

Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of September 25, 2018, our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by us in the reports we file or submit with the Securities and Exchange Commission is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to our management, including the principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

#### Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II-OTHER INFORMATION

### ITEM 1. Legal Proceedings

We are currently involved in various claims and legal actions that arise in the ordinary course of business, most of which are covered by insurance. We do not believe that the ultimate resolution of these actions will have a material adverse effect on our business, financial condition, results of operations, liquidity or capital resources nor do we believe that there is a reasonable possibility that we will incur material loss as a result of such actions. However, a significant increase in the number of these claims or an increase in amounts owing under successful claims could have a material adverse effect on our business, financial condition and results of operations.

### ITEM 1A. Risk Factors.

A description of the risk factors associated with our business is contained in the “Risk Factors” section of our Annual Report on Form 10-K for our fiscal year ended December 26, 2017. There have been no material changes to our Risk Factors as previously reported.

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

#### Recent Sales of Unregistered Securities

None.

### ITEM 3. Defaults Upon Senior Securities.

None.

### ITEM 4. Mine Safety Disclosures.

None.

### ITEM 5. Other Information.

None.

## ITEM 6. Exhibits

		Description of Exhibit Incorporated				
		Herein by Reference			Exhibit	Filed
Exhibit						
Number	Exhibit Description	Form	File No.	Filing Date	Number	Herewith
31.1	<u>Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>					X
31.2	<u>Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>					X
32.1	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>					X
32.2	<u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X

Signatures

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

The Habit Restaurants, Inc.  
(Registrant)

October 31, 2018	/s/ Ira Fils
Date	Ira Fils
	Chief Financial Officer and Secretary
	(On behalf of the Registrant and as Principal Financial Officer)