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

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended June 26, 2019**

**OR**

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

**For the transition period from _______ to ______**

Commission file number: **001-36823**

# SHAKE SHACK INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **47-1941186** |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |

**225 Varick Street**
**Suite 301**
**New York, New York** **10014**
(Address of principal executive offices) (Zip Code)

**( 646 ) 747-7200**
(Registrant's telephone number, including area code)

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

| Title of each class | Trading symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Class A Common Stock, par value $0.001 | SHAK | New York Stock Exchange |

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

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

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

| | | | |
|---|---|---|---|
| Large Accelerated Filer | ☑ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
| | | Emerging growth company | ☐ |

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

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

As of July 24, 2019 , there were 30,558,210 shares of Class A common stock outstanding and 6,731,209 shares of Class B common stock outstanding.

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# Cautionary Note Regarding Forward-Looking Information

This Quarterly Report on Form 10-Q ("Form 10-Q") contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995 ("PSLRA"), which are subject to known and unknown risks, uncertainties and other important factors that may cause actual results to be materially different. All statements other than statements of historical fact are forward-looking statements. Many of the forward-looking statements are located in Part I, Item 2 of this Form 10-Q under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations." Forward-looking statements discuss our current expectations and projections relating to our financial position, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as "aim," "anticipate," "believe," "estimate," "expect," "forecast," "outlook," "potential," "project," "projection," "plan," "intend," "seek," "may," "could," "would," "will," "should," "can," "can have," "likely," the negatives thereof and other similar expressions.

While we believe that our assumptions are reasonable, it is very difficult to predict the impact of known factors, and it is impossible to anticipate all factors that could affect our actual results. All forward-looking statements are expressly qualified in their entirety by these cautionary statements. You should evaluate all forward-looking statements made in this Form 10-Q in the context of the risks and uncertainties disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 26, 2018 filed with the U.S. Securities and Exchange Commission (the "SEC") under the heading "Risk Factors."

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

# PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited).

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

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

| | June 26 2019 | December 26 2018 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 29,733 | $ 24,750 |
| Marketable securities | 36,081 | 62,113 |
| Accounts receivable | 13,661 | 10,523 |
| Inventories | 1,692 | 1,749 |
| Prepaid expenses and other current assets | 5,698 | 1,984 |
| Total current assets | 86,865 | 101,119 |
| Property and equipment, net | 285,892 | 261,854 |
| Operating lease assets | 257,969 | — |
| Deferred income taxes, net | 258,132 | 242,533 |
| Other assets | 9,386 | 5,026 |
| **TOTAL ASSETS** | $ 898,244 | $ 610,532 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 3,828 | $ 12,467 |
| Accrued expenses | 25,567 | 22,799 |
| Accrued wages and related liabilities | 9,381 | 10,652 |
| Operating lease liabilities, current | 24,139 | — |
| Other current liabilities | 16,097 | 14,030 |
| Total current liabilities | 79,012 | 59,948 |
| Deemed landlord financing | — | 20,846 |
| Deferred rent | — | 47,864 |
| Long-term operating lease liabilities | 292,643 | — |
| Liabilities under tax receivable agreement, net of current portion | 212,302 | 197,921 |
| Other long-term liabilities | 13,614 | 10,498 |
| Total liabilities | 597,571 | 337,077 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, no par value—10,000,000 shares authorized; none issued and outstanding as of June 26, 2019 and December 26, 2018. | — | — |
| Class A common stock, $0.001 par value—200,000,000 shares authorized; 30,557,685 and 29,520,833 shares issued and outstanding as of June 26, 2019 and December 26, 2018, respectively. | 31 | 30 |
| Class B common stock, $0.001 par value—35,000,000 shares authorized; 6,731,209 and 7,557,347 shares issued and outstanding as of June 26, 2019 and December 26, 2018, respectively. | 7 | 8 |
| Additional paid-in capital | 208,866 | 195,633 |
| Retained earnings | 46,116 | 30,404 |
| Total stockholders' equity attributable to Shake Shack Inc. | 255,020 | 226,075 |
| Non-controlling interests | 45,653 | 47,380 |
| Total equity | 300,673 | 273,455 |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | $ 898,244 | $ 610,532 |

*See accompanying Notes to Condensed Consolidated Financial Statements.*

# SHAKE SHACK INC.
# CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
*(in thousands, except per share amounts)*

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|---|---|---|---|
| | June 26 2019 | June 27 2018 | June 26 2019 | June 27 2018 |
| Shack sales | $ 147,876 | $ 112,898 | $ 276,445 | $ 208,987 |
| Licensing revenue | 4,837 | 3,384 | 8,877 | 6,411 |
| **TOTAL REVENUE** | 152,713 | 116,282 | 285,322 | 215,398 |
| Shack-level operating expenses: | | | | |
| Food and paper costs | 42,899 | 31,678 | 80,890 | 58,633 |
| Labor and related expenses | 40,197 | 29,732 | 77,290 | 56,419 |
| Other operating expenses | 16,755 | 12,281 | 32,323 | 23,040 |
| Occupancy and related expenses | 11,873 | 7,401 | 22,772 | 15,076 |
| General and administrative expenses | 15,393 | 12,587 | 29,330 | 24,396 |
| Depreciation expense | 9,799 | 6,968 | 18,765 | 13,466 |
| Pre-opening costs | 3,549 | 2,421 | 6,191 | 4,450 |
| Loss on disposal of property and equipment | 377 | 196 | 728 | 386 |
| **TOTAL EXPENSES** | 140,842 | 103,264 | 268,289 | 195,866 |
| **OPERATING INCOME** | 11,871 | 13,018 | 17,033 | 19,532 |
| Other income, net | 447 | 406 | 1,011 | 634 |
| Interest expense | (97) | (613) | (169) | (1,178) |
| **INCOME BEFORE INCOME TAXES** | 12,221 | 12,811 | 17,875 | 18,988 |
| Income tax expense | 1,050 | 2,240 | 3,097 | 3,438 |
| **NET INCOME** | 11,171 | 10,571 | 14,778 | 15,550 |
| Less: net income attributable to non-controlling interests | 2,141 | 2,967 | 3,202 | 4,438 |
| **NET INCOME ATTRIBUTABLE TO SHAKE SHACK INC.** | $ 9,030 | $ 7,604 | $ 11,576 | $ 11,112 |
| Earnings per share of Class A common stock: | | | | |
| Basic | $ 0.30 | $ 0.27 | $ 0.39 | $ 0.41 |
| Diluted | $ 0.29 | $ 0.26 | $ 0.38 | $ 0.39 |
| Weighted-average shares of Class A common stock outstanding: | | | | |
| Basic | 30,122 | 27,796 | 29,842 | 27,418 |
| Diluted | 31,015 | 28,754 | 30,703 | 28,288 |

*See accompanying Notes to Condensed Consolidated Financial Statements.*

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

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|---|---|---|---|
| | **June 26 2019** | **June 27 2018** | **June 26 2019** | **June 27 2018** |
| Net income | $ 11,171 | $ 10,571 | $ 14,778 | $ 15,550 |
| Other comprehensive income, net of tax: | | | | |
| Available-for-sale securities [(1)] : | | | | |
| Change in net unrealized holding gains (losses) | — | — | — | (3) |
| Less: reclassification adjustments for net realized losses included in net income | — | — | — | 16 |
| Net change | — | — | — | 13 |
| **OTHER COMPREHENSIVE INCOME** | — | — | — | 13 |
| **COMPREHENSIVE INCOME** | 11,171 | 10,571 | 14,778 | 15,563 |
| Less: comprehensive income attributable to non-controlling interest | 2,141 | 2,967 | 3,202 | 4,441 |
| **COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAKE SHACK INC.** | **$ 9,030** | **$ 7,604** | **$ 11,576** | **$ 11,122** |

*(1) Net of tax benefit (expense) of $0 for the thirteen and twenty-six weeks ended June 26, 2019* and *June 27, 2018 .*

*See accompanying Notes to Condensed Consolidated Financial Statements.*

# SHAKE SHACK INC.
# CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

*(in thousands, except share amounts)*

**For the Thirteen Weeks Ended June 26, 2019 and June 27, 2018**

| | Class A Common Stock | | Class B Common Stock | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Non-Controlling Interest | Total Equity |
| **BALANCE, MARCH 27, 2019** | 29,698,228 | $ 31 | 7,453,515 | $ 7 | $ 199,315 | $ 37,086 | $ — | $ 49,299 | $285,738 |
| Net income | | | | | | 9,030 | | 2,141 | 11,171 |
| Equity-based compensation | | | | | 2,263 | | | | 2,263 |
| Activity under stock compensation plans | 137,151 | — | | | (43) | | | 657 | 614 |
| Redemption of LLC Interests | 722,306 | — | (722,306) | — | 4,886 | | | (4,886) | — |
| Establishment of liabilities under tax receivable agreement and related changes to deferred tax assets associated with increases in tax basis | | | | | 2,445 | | | | 2,445 |
| Distributions paid to non-controlling interest holders | | | | | | | | (1,558) | (1,558) |
| **BALANCE, JUNE 26, 2019** | 30,557,685 | $ 31 | 6,731,209 | $ 7 | $ 208,866 | $ 46,116 | $ — | $ 45,653 | $300,673 |
| | | | | | | | | | |
| **BALANCE, MARCH 28, 2018** | 27,627,553 | $ 28 | 9,220,236 | $ 9 | 163,372 | 18,733 | — | 50,991 | 233,133 |
| Net income | | | | | | 7,604 | | 2,967 | 10,571 |
| Equity-based compensation | | | | | 1,418 | | | | 1,418 |
| Activity under stock compensation plans | 183,134 | — | | | 1,237 | | | 853 | 2,090 |
| Redemption of LLC Interests | 295,644 | — | (295,644) | — | 1,801 | | | (1,801) | — |
| Establishment of liabilities under tax receivable agreement and related changes to deferred tax assets associated with increases in tax basis | | | | | 9,822 | | | | 9,822 |
| Distributions paid to non-controlling interest holders | | | | | | | | (587) | (587) |
| **BALANCE, JUNE 27, 2018** | 28,106,331 | $ 28 | 8,924,592 | $ 9 | $ 177,650 | $ 26,337 | $ — | $ 52,423 | $256,447 |

| | For the Twenty-Six Weeks Ended June 26, 2019 and June 27, 2018 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Class A Common Stock | | Class B Common Stock | | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Non-Controlling Interest | Total Equity |
| | Shares | Amount | Shares | Amount | | | | | |
| **BALANCE, DECEMBER 26, 2018** | 29,520,833 | $ 30 | 7,557,347 | $ 8 | $ 195,633 | $ 30,404 | $ — | $ 47,380 | $273,455 |
| Cumulative effect of accounting changes | | | | | | 4,136 | | 1,059 | 5,195 |
| Net income | | | | | | 11,576 | | 3,202 | 14,778 |
| Other comprehensive income: | | | | | | | | | |
| Net change related to available-for-sale securities | | | | | | | — | — | — |
| Equity-based compensation | | | | | 4,010 | | | | 4,010 |
| Activity under stock compensation plans | 210,714 | — | | | 932 | | | 1,159 | 2,091 |
| Redemption of LLC Interests | 826,138 | 1 | (826,138) | (1) | 5,480 | | | (5,480) | — |
| Establishment of liabilities under tax receivable agreement and related changes to deferred tax assets associated with increases in tax basis | | | | | 2,811 | | | | 2,811 |
| Distributions paid to non-controlling interest holders | | | | | | | | (1,667) | (1,667) |
| **BALANCE, JUNE 26, 2019** | 30,557,685 | $ 31 | 6,731,209 | $ 7 | $ 208,866 | $ 46,116 | $ — | $ 45,653 | $300,673 |
| | | | | | | | | | |
| **BALANCE, DECEMBER 27, 2017** | 26,527,477 | 27 | 10,250,007 | 10 | 153,105 | 16,399 | (49) | 54,987 | 224,479 |
| Cumulative effect of accounting changes | | | | | | (1,174) | 39 | (439) | (1,574) |
| Net income | | | | | | 11,112 | | 4,438 | 15,550 |
| Other comprehensive income: | | | | | | | | | |
| Net change related to available-for-sale securities | | | | | | | 10 | 3 | 13 |
| Equity-based compensation | | | | | 2,873 | | | | 2,873 |
| Activity under stock compensation plans | 253,439 | — | | | 2,103 | | | 1,463 | 3,566 |
| Redemption of LLC Interests | 1,325,415 | 1 | (1,325,415) | (1) | 7,359 | | | (7,359) | — |
| Establishment of liabilities under tax receivable agreement and related changes to deferred tax assets associated with increases in tax basis | | | | | 12,210 | | | | 12,210 |
| Distributions paid to non-controlling interest holders | | | | | | | | (670) | (670) |
| **BALANCE, JUNE 27, 2018** | 28,106,331 | $ 28 | 8,924,592 | $ 9 | $ 177,650 | $ 26,337 | $ — | $ 52,423 | $256,447 |

*See accompanying Notes to Condensed Consolidated Financial Statements.*

# SHAKE SHACK INC.
# CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
*(in thousands)*

| | Twenty-Six Weeks Ended | |
|---|---|---|
| | June 26 2019 | June 27 2018 |
| **OPERATING ACTIVITIES** | | |
| Net income (including amounts attributable to non-controlling interests) | $ 14,778 | $ 15,550 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation expense | 18,765 | 13,466 |
| Non-cash operating lease cost | 18,765 | — |
| Equity-based compensation | 3,872 | 2,834 |
| Deferred income taxes | 317 | 805 |
| Non-cash interest expense | — | 72 |
| (Gain) loss on sale of marketable securities | (22) | 16 |
| Loss on disposal of property and equipment | 728 | 386 |
| Unrealized (gain) loss on available-for-sale securities | (231) | 61 |
| Other non-cash expense | 2 | — |
| Net loss on sublease | — | 672 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 7,252 | 1,777 |
| Inventories | 57 | 20 |
| Prepaid expenses and other current assets | (3,908) | 105 |
| Other assets | (5,354) | (487) |
| Accounts payable | (5,202) | 188 |
| Accrued expenses | 3,870 | 2,590 |
| Accrued wages and related liabilities | (1,271) | 587 |
| Other current liabilities | 862 | (661) |
| Deferred rent | — | (71) |
| Long-term operating lease liabilities | (17,408) | — |
| Other long-term liabilities | 19 | 2,964 |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | 35,891 | 40,874 |
| **INVESTING ACTIVITIES** | | |
| Purchases of property and equipment | (55,998) | (36,364) |
| Purchases of marketable securities | (715) | (570) |
| Sales of marketable securities | 27,000 | 2,144 |
| **NET CASH USED IN INVESTING ACTIVITIES** | (29,713) | (34,790) |
| **FINANCING ACTIVITIES** | | |
| Proceeds from deemed landlord financing | — | 559 |
| Payments on deemed landlord financing | — | (167) |
| Payments on principal of finance leases | (912) | — |
| Distributions paid to non-controlling interest holders | (1,667) | (670) |
| Payments under tax receivable agreement | (707) | — |
| Proceeds from stock option exercises | 3,427 | 3,566 |
| Employee withholding taxes related to net settled equity awards | (1,336) | — |
| **NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES** | (1,195) | 3,288 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | 4,983 | 9,372 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | 24,750 | 21,507 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | $ 29,733 | $ 30,879 |

*See accompanying Notes to Condensed Consolidated Financial Statements.*

# SHAKE SHACK INC.
# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
*(in thousands, except share and per share amounts)*

## NOTE 1: NATURE OF OPERATIONS

Shake Shack Inc. ("we," "us," "our," "Shake Shack" and the "Company") was formed on September 23, 2014 as a Delaware corporation for the purpose of facilitating an initial public offering and other related transactions in order to carry on the business of SSE Holdings, LLC and its subsidiaries ("SSE Holdings"). W e are the sole managing member of SSE Holdings and, as sole managing member, we operate and control all of the business and affairs of SSE Holdings. As a result, we consolidate the financial results of SSE Holdings and report a non-controlling interest representing the economic interest in SSE Holdings held by the other members of SSE Holdings. As of June 26, 2019 we owned 81.9% of SSE Holdings. Unless the context otherwise requires, "we," "us," "our," "Shake Shack," the "Company" and other similar references, refer to Shake Shack Inc. and, unless otherwise stated, all of its subsidiaries, including SSE Holdings.

We operate and license Shake Shack restaurants ("Shacks"), which serve hamburgers, hot dogs, chicken, crinkle-cut fries, shakes, frozen custard, beer, wine and more. As of June 26, 2019 , there were 237 Shacks in operation, system-wide, of which 140 were domestic company-operated Shacks, 17 were domestic licensed Shacks and 80 were international licensed Shacks.

## NOTE 2 : SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Shake Shack Inc. and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. These interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and on a basis consistent in all material respects with the accounting policies described in our Annual Report on Form 10-K for the fiscal year ended December 26, 2018 ("2018 Form 10-K"). In our opinion, all adjustments, which are normal and recurring in nature, necessary for a fair presentation of our financial position and results of operation have been included. Operating results for interim periods are not necessarily indicative of the results that may be expected for a full fiscal year.

The accompanying Condensed Consolidated Balance Sheet as of December 26, 2018 has been derived from the audited financial statements at that date but does not include all of the disclosures required by GAAP. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in our 2018 Form 10-K.

SSE Holdings is considered a variable interest entity. Shake Shack Inc. is the primary beneficiary as we have the majority economic interest in SSE Holdings and, as the sole managing member, have decision making authority that significantly affects the economic performance of the entity, while the limited partners have no substantive kick-out or participating rights. As a result, we consolidate SSE Holdings. The assets and liabilities of SSE Holdings represent substantially all of our consolidated assets and liabilities with the exception of certain deferred taxes and liabilities under the Tax Receivable Agreement. As of June 26, 2019 and December 26, 2018 , the net assets of SSE Holdings were $260,007 and $232,711 , respectively. The assets of SSE Holdings are subject to certain restrictions in SSE Holdings' revolving credit agreements. See Note 8 for more information.

### Fiscal Year

We operate on a 52/53 week fiscal year ending on the last Wednesday in December. Fiscal 2019 contains 52 weeks and ends on December 25, 2019 . Fiscal 2018 contained 52 weeks and ended on December 26, 2018 . Unless otherwise stated, references to years in this report relate to fiscal years.

### Use of Estimates

The preparation of these condensed consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of sales and expenses during the reporting period. Actual results could differ from those estimates.

## Recently Adopted Accounting Pronouncements

We adopted the Accounting Standards Updates ("ASUs") summarized below in fiscal 2019.

| Accounting Standards Update ("ASU") | Description | Date Adopted |
|---|---|---|
| Leases<br><br>(ASU's 2016-02, 2018-01, 2018-10, 2018-11) | This standard establishes a new lease accounting model, which introduces the recognition of lease assets and liabilities for those leases classified as operating leases under previous GAAP. It was applied using a modified retrospective approach applied at the adoption date with the election of various practical expedients.<br><br>See Note 9 Leases for more information. | December 27, 2018 |

# NOTE 3 : REVENUE

## Revenue Recognition

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

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

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

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

Revenue recognized during the thirteen and twenty-six weeks ended June 26, 2019 and June 27, 2018 , disaggregated by type is as follows:

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|---|---|---|---|
| | June 26 2019 | June 27 2018 | June 26 2019 | June 27 2018 |
| Shack sales | $ 147,876 | $ 112,898 | $ 276,445 | $ 208,987 |
| Licensing revenue: | | | | |
| Sales-based royalties | 4,741 | 3,319 | 8,645 | 6,291 |
| Initial territory and opening fees | 96 | 65 | 232 | 120 |
| **Total revenue** | $ 152,713 | $ 116,282 | $ 285,322 | $ 215,398 |

The aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) as of June 26, 2019 is $15,101 . We expect to recognize this amount as revenue over a long-term period, as the license term for each Shack ranges from 5 to 20 years. This amount excludes any variable consideration related to sales-based royalties.

## Contract Balances

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

| | June 26 2019 | December 27 2018 |
|---|---|---|
| Shack sales receivables | $ 3,311 | $ 2,550 |
| Licensing receivables | 3,461 | 2,616 |
| Gift card liability | 1,741 | 1,796 |
| Deferred revenue, current | 389 | 307 |
| Deferred revenue, long-term | 10,002 | 10,026 |

Revenue recognized during the thirteen and twenty-six weeks ended June 26, 2019 and June 27, 2018 that was included in their respective liability balances at the beginning of the period is as follows:

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|---|---|---|---|
| | June 26 2019 | June 27 2018 | June 26 2019 | June 27 2018 |
| Gift card liability | $ 105 | $ 102 | $ 383 | $ 408 |
| Deferred revenue, current | 85 | 63 | 219 | 118 |

# NOTE 4 : FAIR VALUE MEASUREMENTS

## Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present information about our financial assets and liabilities measured at fair value on a recurring basis as of June 26, 2019 and December 26, 2018 , and indicate the classification within the fair value hierarchy.

***Cash, Cash Equivalents and Marketable Securities***

The following tables summarize our cash, cash equivalents and marketable securities by significant investment categories as of June 26, 2019 and December 26, 2018 :

| | June 26, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Cost Basis | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Cash and Cash Equivalents | Marketable Securities |
| Cash | $ 24,727 | $ — | $ — | $ 24,727 | $ 24,727 | $ — |
| Level 1: | | | | | | |
| Money market funds | 5,006 | — | — | 5,006 | 5,006 | — |
| Mutual funds | 35,972 | 109 | | 36,081 | — | 36,081 |
| **Total** | **$ 65,705** | **$ 109** | **$ —** | **$ 65,814** | **$ 29,733** | **$ 36,081** |

| | December 26, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Cost Basis | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Cash and Cash Equivalents | Marketable Securities |
| Cash | $ 19,746 | $ — | $ — | $ 19,746 | $ 19,746 | $ — |
| Level 1: | | | | | | |
| Money market funds | 5,004 | — | — | 5,004 | 5,004 | — |
| Mutual funds | 62,235 | — | (122) | 62,113 | — | 62,113 |
| **Total** | **$ 86,985** | **$ —** | **$ (122)** | **$ 86,863** | **$ 24,750** | **$ 62,113** |

Net un realized gains on available-for-sale equity securities totaling $74 and $231 were included on the Condensed Consolidated Statements of Income during the thirteen and twenty-six weeks ended June 26, 2019 , respectively. Net unrealized losses on available-for-sale equity securities totaling $23 and $61 were included on the Condensed Consolidated Statements of Income during the thirteen and twenty-six weeks ended June 27, 2018 , respectively.

A summary of other income from available-for-sale securities recognized during the thirteen and twenty-six weeks ended June 26, 2019 and June 27, 2018 is as follows:

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|---|---|---|---|
| | June 26 2019 | June 27 2018 | June 26 2019 | June 27 2018 |
| Available-for-sale securities: | | | | |
| Dividend income | $ 351 | $ 329 | $ 743 | $ 604 |
| Interest income | — | — | — | 7 |
| Realized gain (loss) on sale of investments | 36 | — | 22 | (16) |
| Unrealized gain (loss) on available-for-sale equity securities | 74 | (23) | 231 | (61) |
| **Total other income, net** | **$ 461** | **$ 306** | **$ 996** | **$ 534** |

A summary of available-for-sale securities sold and gross realized gains and losses recognized during the thirteen and twenty-six weeks ended June 26, 2019 and June 27, 2018 is as follows:

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|---|---|---|---|
| | June 26 2019 | June 27 2018 | June 26 2019 | June 27 2018 |
| Available-for-sale securities: | | | | |
| Gross proceeds from sales and redemptions | $ 12,000 | $ — | $ 27,000 | $ 2,144 |
| Cost basis of sales and redemptions | 11,964 | — | 26,978 | 2,160 |
| Gross realized gains included in net income | 36 | — | 36 | 2 |
| Gross realized losses included in net income | — | — | (14) | (18) |
| Amounts reclassified out of accumulated other comprehensive loss | — | — | — | 16 |

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

We periodically review our marketable securities for other-than-temporary impairment. We consider factors such as the duration, severity and the reason for the decline in value, the potential recovery period and our intent to sell. As of December 26, 2018 , the decline in the market value of our marketable securities investment portfolio was considered to be temporary in nature.

***Other Financial Instruments***

The carrying value of our other financial instruments, including accounts receivable, accounts payable, and accrued expenses as of June 26, 2019 and December 26, 2018 approximated their fair value due to the short-term nature of these financial instruments.

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

Assets and liabilities that are measured at fair value on a non-recurring basis include our long-lived assets and indefinite-lived intangible assets. There were no impairments recognized during the thirteen and twenty-six weeks ended June 26, 2019 and June 27, 2018 .

## NOTE 5 : INVENTORIES

Inventories as of June 26, 2019 and December 26, 2018 consisted of the following:

| | June 26 2019 | December 26 2018 |
|---|---|---|
| Food | $ 1,261 | $ 1,291 |
| Wine | 93 | 83 |
| Beer | 103 | 95 |
| Beverages | 183 | 203 |
| Retail merchandise | 52 | 77 |
| **Inventories** | $ 1,692 | $ 1,749 |

# NOTE 6 : PROPERTY AND EQUIPMENT

Property and equipment as of June 26, 2019 and December 26, 2018 consisted of the following:

| | | June 26 2019 | | December 26 2018 |
|---|---|---|---|---|
| Leasehold improvements | $ | 259,499 | $ | 228,453 |
| Landlord funded assets | | — | | 15,595 |
| Equipment | | 47,388 | | 40,716 |
| Furniture and fixtures | | 15,775 | | 14,055 |
| Computer equipment and software | | 21,384 | | 19,008 |
| Financing equipment lease assets | | 5,921 | | — |
| Construction in progress [(1)] | | 37,300 | | 29,474 |
| Property and equipment, gross | | 387,267 | | 347,301 |
| Less: accumulated depreciation | | 101,375 | | 85,447 |
| **Property and equipment, net** | $ | 285,892 | $ | 261,854 |

*( 1) Construction in progress as of December 26, 2018 includes landlord funded assets under construction.*

# NOTE 7 : SUPPLEMENTAL BALANCE SHEET INFORMATION

The components of other current liabilities as of June 26, 2019 and December 26, 2018 are as follows:

| | | June 26 2019 | | December 26 2018 |
|---|---|---|---|---|
| Sales tax payable | $ | 3,525 | $ | 3,143 |
| Current portion of liabilities under tax receivable agreement | | 5,132 | | 5,804 |
| Gift card liability | | 1,741 | | 1,796 |
| Current portion of financing equipment lease liabilities | | 1,830 | | — |
| Other | | 3,869 | | 3,287 |
| **Other current liabilities** | $ | 16,097 | $ | 14,030 |

The components of other long-term liabilities as of June 26, 2019 and December 26, 2018 are as follows:

| | | June 26 2019 | | December 26 2018 |
|---|---|---|---|---|
| Deferred licensing revenue | $ | 10,002 | $ | 10,026 |
| Long-term portion of financing equipment lease liabilities | | 3,179 | | — |
| Other | | 433 | | 472 |
| **Other long-term liabilities** | $ | 13,614 | $ | 10,498 |

# NOTE 8 : DEBT

In January 2015, we executed a Third Amended and Restated Credit Agreement, which became effective on February 4, 2015 (together with the prior agreements and amendments, and as further amended, the "Revolving Credit Facility"), which provided for a revolving total commitment amount of $50,000 , of which $20,000 was available immediately. The Revolving Credit Facility would have matured and all amounts outstanding would have been due and payable five years from the effective date. The Revolving Credit Facility permitted the issuance of letters of credit upon our request of up to $10,000 . Borrowings under the Revolving Credit Facility bear interest at either: (i) LIBOR plus a percentage ranging from 2.3% to 3.3% or (ii) the prime rate plus a percentage ranging from 0.0% to 0.8% , depending on the type of borrowing made under the Revolving Credit Facility. As of June 26, 2019 and December 26, 2018 , there were no amounts outstanding under the Revolving Credit Facility. As of June 26, 2019 , we had $19,317 of availability under the Revolving Credit Facility, after giving effect to $683 in outstanding letters of credit.

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

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

Subsequent to the quarter ended June 26, 2019 , we terminated our Revolving Credit Facility and entered into a new revolving credit facility, refer to Note 17 Subsequent Events for further details.

As of December 26, 2018 we had deemed landlord financing liabilities of $20,846 , for certain leases where we were involved in the construction of leased assets and were considered the accounting owner of the construction project. Upon adoption of ASU 2016-02, *Leases (Topic 842)* on December 27, 2018, we are no longer considered to be the accounting owner of these construction projects and had no deemed landlord financing liabilities on the Condensed Consolidated Balance Sheets as of June 26, 2019 . As of June 26, 2019 we had $316,782 of operating lease liabilities and $5,009 of finance lease liabilities on the Condensed Consolidated Balance Sheets, refer to Note 9 Leases for further details.

Total interest costs incurred were $97 and $169 for the thirteen and twenty-six weeks ended June 26, 2019 , respectively and $655 and $1,264 for the thirteen and twenty-six weeks ended and June 27, 2018 , respectively. Total amounts capitalized into property and equipment were $42 and $86 for the thirteen and twenty-six weeks ended June 27, 2018 , respectively. No amounts were capitalized into property and equipment for the thirteen and twenty-six weeks ended June 26, 2019 .

# NOTE 9 : LEASES

## Effect of Standard Adoption

On December 27, 2018 we adopted ASU 2016-02, *Leases (Topic 842)* , using a modified retrospective approach. We elected the package of practical expedients permitted under the transition guidance within Accounting Standards Codification Topic 842 ("ASC 842") which, among other items, allowed us to carry forward the historical lease classifications. As such, we applied the modified retrospective approach as of the adoption date to those lease contracts for which we have taken possession of the property as of December 26, 2018. As part of the transition, we derecognized all landlord funded assets and deemed landlord financing liabilities as of December 26, 2018 and determined the classification as either operating or finance leases.

In addition to the aforementioned practical expedient, we have also elected to:

- Adopt the short-term lease exception for leases with terms of twelve months or less and account for them as if they were operating leases under ASC 840; and

- Apply the practic al expedient of combining lease and non-lease components.

Results for reporting periods beginning on or after December 27, 2018 are presented under ASC 842. Prior period amounts were not revised and continue to be reported in accordance with ASC Topic 840 ("ASC 840"), the accounting standard then in effect.

Upon transition, on December 27, 2018, we recorded the following increases (decreases) to the respective line items on the Condensed Consolidated Balance Sheet:

| | Adjustment as of December 27, 2018 |
|---|---|
| Prepaid expenses and other current assets | $ 6 |
| Property and equipment, net | (11,448) |
| Operating lease assets | 229,885 |
| Deferred income taxes, net | (121) |
| Deemed landlord financing | (20,846) |
| Deferred rent | (47,862) |
| Long-term operating lease liabilities | 277,224 |
| Other long-term liabilities | 4,611 |
| Retained earnings | 4,136 |
| Non-controlling interests | 1,059 |

## Nature of Leases

We lease all of our domestic company-operated Shacks, our Home Office and certain equipment under various non-cancelable lease agreements that expire on various dates through 2035. We evaluate contracts entered into to determine whether the contract involves the use of property or equipment, which is either explicitly or implicitly identified in the contract. We evaluate whether we control the use of the asset, which is determined by assessing whether we obtain substantially all economic benefits from the use of the asset, and whether we have the right to direct the use of the asset. If these criteria are met and we have identified a lease, we account for the contract under the requirements of ASC 842.

Upon the possession of a leased asset, we determine its classification as an operating or finance lease. Most of our real estate leases are classified as operating leases and most of our equipment leases are classified as finance leases. Generally, our real estate leases have initial terms ranging from 10 to 15 years and typically include two five -year renewal options. Renewal options are generally not recognized as part of the right-of-use assets and lease liabilities as it is not reasonably certain at commencement date that we would exercise the options to extend the lease. Our real estate leases typically provide for fixed minimum rent payments and/or contingent rent payments based upon sales in excess of specified thresholds. When the achievement of such sales thresholds are deemed to be probable, contingent rent is accrued in proportion to the sales recognized during the period. For operating leases that include rent holidays and rent escalation clauses, we recognize lease expense on a straight-line basis over the lease term from the date we take possession of the leased property. Lease expense incurred before a Shack opens is recorded in pre-opening costs. Once a domestic company-operated Shack opens, we record the straight-line lease expense and any contingent rent, if applicable, in occupancy and related expenses on the Consolidated Statements of Income. Many of our leases also require us to pay real estate taxes, common area maintenance costs and other occupancy costs which are included in occupancy and related expenses on the Consolidated Statements of Income.

As there were no explicit rates provided in our leases, we used our incremental borrowing rate in determining the present value of future lease payments. The discount rate used to measure the lease liability at the transition date was derived from the average of the yield curves obtained from using the notching method and the recovery rate method. The most significant assumption in calculating the incremental borrowing rate is our credit rating and subject to judgment. We determined our credit rating based on a comparison of the financial information of SSE Holdings to 800 other public companies and then used their respective credit ratings to develop our own.

We expend cash for leasehold improvements to build out and equip our leased premises. Generally, a portion of the leasehold improvements and building costs are reimbursed by our landlords as landlord incentives pursuant to agreed-upon terms in our lease agreements. If obtained, landlord incentives usually take the form of cash, full or partial credits against our future minimum or contingent rents otherwise payable by us, or a combination thereof. In most cases, landlord incentives are received after we take possession of the property, as we meet required milestones during the construction of the property. We include these amounts in the measurement of the initial operating lease liability, which are also reflected as a reduction to the initial measurement of the right-of-use asset.

A summary of finance and operating lease right-of-use assets and liabilities as of June 26, 2019 is as follows:

| | **Classification** | | **June 26 2019** |
|---|---|---|---|
| Finance leases | Property and equipment, net | $ | 4,968 |
| Operating leases | Operating lease assets | | 257,969 |
| **Total right-of-use assets** | | $ | 262,937 |
| | | | |
| Finance leases: | | | |
| | Other current liabilities | | 1,830 |
| | Other long-term liabilities | | 3,179 |
| Operating leases: | | | |
| | Operating lease liabilities, current | | 24,139 |
| | Long-term operating lease liabilities | | 292,643 |
| **Total lease liabilities** | | $ | 321,791 |

The components of lease expense for the thirteen and twenty-six weeks ended June 26, 2019 were as follows:

| | | | **Thirteen Weeks Ended** | | **Twenty-Six Weeks Ended** |
|---|---|---|---|---|---|
| | **Classification** | | **June 26 2019** | | **June 26 2019** |
| Finance lease cost: | | | | | |
| Amortization of right-of-use assets | Depreciation expense | $ | 619 | $ | 953 |
| Interest on lease liabilities | Interest expense | | 55 | | 96 |
| Operating lease cost | Occupancy and related expenses<br>General and administrative expenses<br>Pre-opening costs | | 9,855 | | 18,765 |
| Short-term lease cost | Occupancy and related expenses | | 17 | | 34 |
| Variable lease cost | Occupancy and related expenses<br>General and administrative expenses<br>Pre-opening costs | | 3,836 | | 7,298 |
| **Total lease cost** | | $ | 14,382 | $ | 27,146 |

As of June 26, 2019 , future minimum lease payments for finance and operating leases consisted of the following:

| | Finance Leases | Operating Leases |
|---|---|---|
| 2019 | $ 1,047 | $ 21,127 |
| 2020 | 1,656 | 43,747 |
| 2021 | 1,060 | 44,456 |
| 2022 | 670 | 45,169 |
| 2023 | 518 | 45,068 |
| Thereafter | 475 | 240,724 |
| Total minimum payments | 5,426 | 440,291 |
| Less: imputed interest | 417 | 123,509 |
| **Total lease liabilities** | $ 5,009 | $ 316,782 |

As of June 26, 2019 we had additional operating lease commitments of $67,362 for non-cancelable leases without a possession date, which will begin to commence in 2019 . These lease commitments are consistent with the leases that we have executed thus far and include a number of real estates leases where we are involved in the construction and design.

A summary of lease terms and discount rates for finance and operating leases as of June 26, 2019 is as follows:

| | June 26 2019 |
|---|---|
| Weighted-average remaining lease term (years): | |
| Finance leases | 5.2 |
| Operating leases | 10.0 |
| Weighted-average discount rate: | |
| Finance leases | 3.9% |
| Operating leases | 4.7% |

Supplemental cash flow information related to leases as of June 26, 2019 is as follows:

| | June 26 2019 |
|---|---|
| Cash paid for amounts included in the measurement of lease liabilities: | |
| Operating cash flows from finance leases | $ 96 |
| Operating cash flows from operating leases | 17,342 |
| Financing cash flows from finance leases | 912 |
| Right-of-use assets obtained in exchange for lease obligations: | |
| Finance leases | 1,311 |
| Operating leases | 38,437 |

# NOTE 10 : NON-CONTROLLING INTERESTS

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

The following table summarizes the ownership interest in SSE Holdings as of June 26, 2019 and December 26, 2018 .

| | June 26, 2019 | | December 26, 2018 | |
|---|---|---|---|---|
| | **LLC Interests** | **Ownership%** | **LLC Interests** | **Ownership %** |
| Number of LLC Interests held by Shake Shack Inc. | 30,557,685 | 81.9% | 29,520,833 | 79.6% |
| Number of LLC Interests held by non-controlling interest holders | 6,731,209 | 18.1% | 7,557,347 | 20.4% |
| Total LLC Interests outstanding | 37,288,894 | 100.0% | 37,078,180 | 100.0% |

The weighted average ownership percentages for the applicable reporting periods are used to attribute net income and other comprehensive income to Shake Shack Inc. and the non-controlling interest holders. The non-controlling interest holders' weighted average ownership percentage for the thirteen and twenty-six weeks ended June 26, 2019 was 19.0% and 19.7% , respectively. The non-controlling interest holders' weighted average ownership percentage for the thirteen and twenty-six weeks ended June 27, 2018 was 24.8% and 25.6% , respectively.

The following table summarizes the effects of changes in ownership of SSE Holdings on our equity during the thirteen and twenty-six weeks ended June 26, 2019 and June 27, 2018 .

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|---|---|---|---|
| | **June 26 2019** | **June 27 2018** | **June 26 2019** | **June 27 2018** |
| Net income attributable to Shake Shack Inc. | $ 9,030 | $ 7,604 | $ 11,576 | $ 11,112 |
| Other comprehensive income: | | | | |
| Net change related to available-for-sale securities | — | — | — | 10 |
| Transfers (to) from non-controlling interests: | | | | |
| Increase in additional paid-in capital as a result of the redemption of LLC Interests | 4,886 | 1,801 | 5,480 | 7,359 |
| Increase (decrease) in additional paid-in capital as a result of activity under stock compensation plans | (43) | 1,237 | 932 | 2,103 |
| **Total effect of changes in ownership interest on equity attributable to Shake Shack Inc.** | $ 13,873 | $ 10,642 | $ 17,988 | $ 20,584 |

During the thirteen and twenty-six weeks ended June 26, 2019 , an aggregate of 722,306 and 826,138 LLC Interests, respectively, were redeemed by non-controlling interest holders for newly-issued shares of Class A common stock, and we received 722,306 and 826,138 LLC Interests in connection with these redemptions for the thirteen and twenty-six weeks ended June 26, 2019 , respectively, increasing our total ownership interest in SSE Holdings.

During the thirteen and twenty-six weeks ended June 27, 2018 , an aggregate of 295,644 and 1,325,415 LLC Interests, respectively, were redeemed by non-controlling interest holders for newly-issued shares of Class A common stock, and we received 295,644 and 1,325,415 LLC Interests in connection with these redemptions for the thirteen and twenty-six weeks ended June 27, 2018 , respectively, increasing our total ownership interest in SSE Holdings.

During the thirteen and twenty-six weeks ended June 26, 2019 , we received an aggregate of 137,151 and 210,714 LLC Interests, respectively, in connection with the activity under our stock compensation plan and 183,134 and 253,439 LLC Interests, respectively, during the thirteen and twenty-six weeks ended June 27, 2018 .

# NOTE 11 : EQUITY-BASED COMPENSATION

A summary of equity-based compensation expense recognized during the thirteen and twenty-six weeks ended June 26, 2019 and June 27, 2018 is as follows:

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|---|---|---|---|
| | June 26 2019 | June 27 2018 | June 26 2019 | June 27 2018 |
| Stock options | $ 655 | $ 773 | $ 1,337 | $ 1,600 |
| Performance stock units | 1,007 | 464 | 1,719 | 918 |
| Restricted stock units | 518 | 160 | 816 | 316 |
| **Equity-based compensation expense** | $ 2,180 | $ 1,397 | $ 3,872 | $ 2,834 |
| | | | | |
| **Total income tax benefit recognized related to equity-based compensation** | $ 51 | $ 42 | $ 93 | $ 80 |

Equity-based compensation expense is included in general and administrative expenses and labor and related expenses on the Condensed Consolidated Statements of Income during the thirteen and twenty-six weeks ended June 26, 2019 and June 27, 2018 as follows:

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|---|---|---|---|
| | June 26 2019 | June 27 2018 | June 26 2019 | June 27 2018 |
| General and administrative expenses | $ 2,084 | $ 1,360 | $ 3,726 | $ 2,760 |
| Labor and related expenses | 96 | 37 | 146 | 74 |
| **Equity-based compensation expense** | $ 2,180 | $ 1,397 | $ 3,872 | $ 2,834 |

# NOTE 12 : INCOME TAXES

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

## Income Tax Expense

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

| | Thirteen Weeks Ended | | | | Twenty-Six Weeks Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | June 26 2019 | | June 27 2018 | | June 26 2019 | | June 27 2018 | |
| Expected U.S. federal income taxes at statutory rate | $ 2,567 | 21.0 % | $ 2,690 | 21.0 % | $ 3,754 | 21.0 % | $ 3,987 | 21.0 % |
| State and local income taxes, net of federal benefit | 823 | 6.7 % | 830 | 6.5 % | 1,242 | 6.9 % | 1,242 | 6.5 % |
| Foreign withholding taxes | 627 | 5.1 % | 271 | 2.1 % | 969 | 5.4 % | 802 | 4.2 % |
| Tax credits | (1,446) | (11.8)% | (920) | (7.2)% | (1,822) | (10.2)% | (1,197) | (6.3)% |
| Non-controlling interest | (623) | (5.1)% | (731) | (5.7)% | (947) | (5.3)% | (1,185) | (6.2)% |
| Tax effect of change in basis related to the adoption of ASC 842 | — | — % | — | — % | 1,161 | 6.5 % | — | — % |
| Change in valuation allowance | (895) | (7.3)% | — | — % | (1,261) | (7.1)% | — | — % |
| Other | (3) | — % | 100 | 0.8 % | 1 | — % | (211) | (1.2)% |
| **Income tax expense** | $ 1,050 | 8.6 % | $ 2,240 | 17.5 % | $ 3,097 | 17.3 % | $ 3,438 | 18.1 % |

Our effective income tax rates for the thirteen weeks ended June 26, 2019 and June 27, 2018 were 8.6% and 17.5% , respectively. The decrease was primarily driven by higher foreign tax credits and a decrease in valuation allowance due to windfall tax benefits in equity-based compensation, partially offset by an increase in our ownership interest in SSE Holdings, which increases our share of the taxable income of SSE Holdings. Our weighted-average ownership interest in SSE Holdings was 81.0% and 75.2% for the thirteen weeks ended June 26, 2019 and June 27, 2018 , respectively.

Our effective income tax rates for the twenty-six weeks ended June 26, 2019 and June 27, 2018 were 17.3% and 18.1% , respectively. The decrease was primarily driven by higher foreign tax credits and a decrease in valuation allowance due to windfall tax benefits in equity-based compensation, partially offset by the tax effect of a change in tax basis relating to the adoption of ASC 842 on December 27, 2018 and an increase in our ownership interest in SSE Holdings, which increases our share of the taxable income of SSE Holdings. Our weighted-average ownership interest in SSE Holdings was 80.3% and 74.4% for the twenty-six weeks ended June 26, 2019 and June 27, 2018 , respectively.

## Deferred Tax Assets and Liabilities

During the twenty-six weeks ended June 26, 2019 , we acquired an aggregate of 1,036,852 LLC Interests in connection with the redemption of LLC Interests and activity relating to our stock compensation plan. We recognized a deferred tax asset in the amount o f $13,443 associated with the basis difference in our investment in SSE Holdings upon acquisition of these LLC Interests. As of June 26, 2019 , the total deferred tax asset related to the basis difference in our investment in SSE Holdings was $180,472 . However, a portion of the total basis difference will only reverse upon the eventual sale of our interest in SSE Holdings, which we expect would result in a capital loss. As of June 26, 2019 , the total valuation allowance established against the deferred tax asset to which this portion relates was $5,229 .

During the twenty-six weeks ended June 26, 2019 , we also recognized $4,042 of deferred tax assets related to additional tax basis increases generated from expected future payments under the Tax Receivable Agreement and related deductions for imputed interest on such payments. See "—Tax Receivable Agreement" for more information.

We evaluate the realizability of our deferred tax assets on a quarterly basis and establish valuation allowances when it is more likely than not that all or a portion of a deferred tax asset may not be realized. As of June 26, 2019 , we concluded, based on the weight of all available positive and negative evidence, that all of our deferred tax assets (except for those deferred tax assets described above relating to basis differences that are expected to result in a capital loss upon the eventual sale of our interest in SSE Holdings) are more likely than not to be realized. As such, no additional valuation allowance was recognized.

## Uncertain Tax Positions

No uncertain tax positions existed as of June 26, 2019 . Shake Shack Inc. was formed in September 2014 and did not engage in any operations prior to the IPO and related organizational transactions. Shake Shack Inc. first filed tax returns for tax year 2014, which is the first tax year subject to examination by taxing authorities for U.S. federal and state income tax purposes. Additionally, although SSE Holdings is treated as a partnership for U.S. federal and state income taxes purposes, it is still required to file an annual U.S. Return of Partnership Income, which is subject to examination by the Internal Revenue Service ("IRS"). The statute of limitations has expired for tax years through 2014 for SSE Holdings.

## Tax Receivable Agreement

Pursuant to our election under Section 754 of the Internal Revenue Code (the "Code"), we expect to obtain an increase in our share of the tax basis in the net assets of SSE Holdings when LLC Interests are redeemed or exchanged by the other members of SSE Holdings. We plan to make an election under Section 754 of the Code for each taxable year in which a redemption or exchange of LLC Interest occurs. We intend to treat any redemptions and exchanges of LLC Interests as direct purchases of LLC Interests for U.S. federal income tax purposes. These increases in tax basis may reduce the amounts that we would otherwise pay in the future to various tax authorities. They may also decrease gains (or increase losses) on future dispositions of certain capital assets to the extent tax basis is allocated to those capital assets.

On February 4, 2015, we entered into a tax receivable agreement with certain of the then-existing members of SSE Holdings (the "Tax Receivable Agreement") that provides for the payment by us of 85% of the amount of any tax benefits that we actually realize, or in some cases are deemed to realize, as a result of (i) increases in our share of the tax basis in the net assets of SSE Holdings resulting from any redemptions or exchanges of LLC Interests, (ii) tax basis increases attributable to payments made under the Tax Receivable Agreement, and (iii) deductions attributable to imputed interest pursuant to the Tax Receivable Agreement (the "TRA Payments"). We expect to benefit from the remaining 15% of any tax benefits that we may actually realize. The TRA Payments are not conditioned upon any continued ownership interest in SSE Holdings or us. The rights of each member of SSE Holdings, that is a party to the Tax Receivable Agreement, are assignable to transferees of their respective LLC Interests.

During the twenty-six weeks ended June 26, 2019 , we acquired an aggregate of 826,138 LLC Interests in connection with the redemption of LLC Interests, which resulted in an increase in the tax basis of our investment in SSE Holdings subject to the provisions of the Tax Receivable Agreement. We recognized an additional liability in the amount of $14,395 for the TRA Payments due to the redeeming members, representing 85% of the aggregate tax benefits we expect to realize from the tax basis increases related to the redemption of LLC Interests, after concluding it was probable that such TRA Payments would be paid based on our estimates of future taxable income. During the twenty-six weeks ended June 26, 2019 , payments of $707 , inclusive of interest, were made to the members of SSE Holdings pursuant to the Tax Receivable Agreement. No payments were made to the members of SSE Holdings pursuant to the Tax Receivable Agreement during the twenty-six weeks ended June 27, 2018 . As of June 26, 2019 , the total amount of TRA Payments due under the Tax Receivable Agreement, was $217,434 , of which $5,132 was included in other current liabilities on the Condensed Consolidated Balance Sheet. See Note 15 for more information relating to our liabilities under the Tax Receivable Agreement.

# NOTE 13 : EARNINGS PER SHARE

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

The following table sets forth reconciliations of the numerators and denominators used to compute basic and diluted earnings per share of Class A common stock for the thirteen and twenty-six weeks ended June 26, 2019 and June 27, 2018 .

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|---|---|---|---|
| | June 26 2019 | June 27 2018 | June 26 2019 | June 27 2018 |
| Numerator: | | | | |
| Net income | $ 11,171 | $ 10,571 | $ 14,778 | $ 15,550 |
| Less: net income attributable to non-controlling interests | 2,141 | 2,967 | 3,202 | 4,438 |
| Net income attributable to Shake Shack Inc. | $ 9,030 | $ 7,604 | $ 11,576 | $ 11,112 |
| Denominator: | | | | |
| Weighted-average shares of Class A common stock outstanding—basic | 30,122 | 27,796 | 29,842 | 27,418 |
| Effect of dilutive securities: | | | | |
| Stock options | 775 | 867 | 753 | 785 |
| Performance stock units | 68 | 68 | 72 | 68 |
| Restricted stock units | 50 | 23 | 36 | 17 |
| Weighted-average shares of Class A common stock outstanding—diluted | 31,015 | 28,754 | 30,703 | 28,288 |
| | | | | |
| Earnings per share of Class A common stock—basic | $ 0.30 | $ 0.27 | $ 0.39 | $ 0.41 |
| Earnings per share of Class A common stock—diluted | $ 0.29 | $ 0.26 | $ 0.38 | $ 0.39 |

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

The following table presents potentially dilutive securities, as of the end of the period,excluded from the computations of diluted earnings per share of Class A common stock for the thirteen and twenty-six weeks ended June 26, 2019 and June 27, 2018 .

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|---|---|---|---|
| | June 26 2019 | June 27 2018 | June 26 2019 | June 27 2018 |
| *Performance stock units* | 68,914 *(1)* | 60,437 *(1)* | 68,914 *(1)* | 60,437 *(1)* |
| *Shares of Class B common stock* | 6,731,209 *(2)* | 8,924,592 *(2)* | 6,731,209 *(2)* | 8,924,592 *(2)* |

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

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

## NOTE 14 : SUPPLEMENTAL CASH FLOW INFORMATION

The following table sets forth supplemental cash flow information for the twenty-six weeks ended June 26, 2019 and June 27, 2018 :

| | Twenty-Six Weeks Ended | |
|---|---|---|
| | June 26 2019 | June 27 2018 |
| Cash paid for: | | |
| Income taxes, net of refunds | $ 1,554 | $ 1,436 |
| Interest, net of amounts capitalized | 143 | 1,067 |
| Non-cash investing activities: | | |
| Accrued purchases of property and equipment | 14,072 | 10,692 |
| Capitalized landlord assets for leases where we are deemed the accounting owner | — | 3,307 |
| Capitalized equity-based compensation | 55 | 39 |
| Non-cash financing activities: | | |
| Class A common stock issued in connection with the redemption of LLC Interests | 1 | 1 |
| Cancellation of Class B common stock in connection with the redemption of LLC Interests | (1) | (1) |
| Establishment of liabilities under tax receivable agreement | 14,395 | 17,992 |

## NOTE 15 : COMMITMENTS AND CONTINGENCIES

### Lease Commitments

We are obligated under various operating leases for Shacks and our home office space, expiring in various years through 2035. Under certain of these leases, we are liable for contingent rent based on a percentage of sales in excess of specified thresholds and are typically responsible for our proportionate share of real estate taxes, common area maintenance charges and utilities. See Note 9, Leases.

As security under the terms of one of our leases, we are obligated under a letter of credit totaling $130 as of June 26, 2019 , which expires in February 2026. In addition, we entered into two irrevocable standby letters of credit: (i) in December 2013, we entered into a letter of credit in conjunction with our previous Home Office lease in the amount of $80 , which expires in September 2019 and (ii) in September 2017, we entered into a letter of credit in conjunction with our new Home Office lease in the amount of $603 , which expires in August 2020 and renews automatically for one-year periods through January 31, 2034.

### Purchase Commitments

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

### Legal Contingencies

In February 2018, a claim was filed against Shake Shack in California state court alleging certain violations of the California Labor Code. At a mediation between the parties, we agreed to settle the matter with the plaintiff and all other California employees who elect to participate in the settlement for $1,200 . As of June 26, 2019 , an accrual in the amount of $1,200 was recorded for this matter and related expenses.

We are subject to various legal proceedings, claims and liabilities, such as employment-related claims and slip and fall cases, which arise in the ordinary course of business and are generally covered by insurance. As of June 26, 2019 , the amount of the ultimate liability with respect to these matters was not material.

### Liabilities under Tax Receivable Agreement

As described in Note 12 , we are a party to the Tax Receivable Agreement under which we are contractually committed to pay certain of the members of SSE Holdings 85% of the amount of any tax benefits that we actually realize, or in some cases are deemed to realize, as a result of certain transactions. We are not obligated to make any payments under the Tax Receivable Agreement until the tax benefits associated with the transactions that gave rise to the payments are realized. Amounts payable under the Tax Receivable Agreement are contingent upon, among other things, (i) generation of future taxable income over the term of the Tax Receivable Agreement and (ii) future changes in tax laws. If we do not generate sufficient taxable income in the aggregate over the term of the Tax Receivable Agreement to utilize the tax benefits, then we would not be required to make the related TRA Payments. During the twenty-six weeks ended June 26, 2019 and June 27, 2018 , we recognized liabilities totaling $14,395 and $17,992 , respectively, relating to our obligations under the Tax Receivable Agreement, after concluding that it was probable that we would have sufficient future taxable income over the term of the Tax Receivable Agreement to utilize the related tax benefits. As of June 26, 2019 and December 26, 2018 , our total obligations under the Tax Receivable Agreement were $217,434 and $203,725 , respectively. There were no transactions subject to the Tax Receivable Agreement for which we did not recognize the related liability, as we concluded that we would have sufficient future taxable income to utilize all of the related tax benefits.

## NOTE 16 : RELATED PARTY TRANSACTIONS

### Union Square Hospitality Group

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

***USHG, LLC***

Effective January 2015, we entered into an Amended and Restated Management Services Agreement with USHG, LLC ("USHG"), in which USHG agreed to provide, at our election, certain management services to SSE Holdings. The initial term of the Amended and Restated Management Services Agreement is through December 31, 2019, with renewal periods.

***Hudson Yards Sports and Entertainment***

In fiscal 2011, we entered into a Master License Agreement (as amended, "MLA") with Hudson Yards Sports and Entertainment LLC ("HYSE") to operate Shake Shack branded limited menu concession stands in sports and entertainment venues within the United States. In February 2019, the agreement was assigned to Hudson Yards Catering ("HYC"), the parent of HYSE. The agreement expires in January 2027 and includes five consecutive five -year renewal options at HYC's option. As consideration for these rights, HYC pays us a license fee based on a percentage of net food sales, as defined in the MLA. HYC also pays us a percentage of profits on sales of branded beverages, as defined in the MLA.

| | | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|---|---|---|---|---|
| | **Classification** | **June 26 2019** | **June 27 2018** | **June 26 2019** | **June 27 2018** |
| Amounts received from HYC | Licensing revenue | $ 85 | $ 64 | $ 151 | $ 111 |

| | **Classification** | **June 26 2019** | **December 26 2018** |
|---|---|---|---|
| Amounts due from HYC | Prepaid expenses and other current assets | $ 120 | $ 37 |

## Madison Square Park Conservancy

The Chairman of our Board of Directors serves as a director of the Madison Square Park Conservancy ("MSP Conservancy"), with which we have a license agreement and pay license fees to operate our Madison Square Park Shack.

| | | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|---|---|---|---|---|
| | **Classification** | **June 26 2019** | **June 27 2018** | **June 26 2019** | **June 27 2018** |
| Amounts paid to MSP Conservancy | Occupancy and related expenses | $ 276 | $ 203 | $ 554 | $ 470 |

| | **Classification** | **June 26 2019** | **December 26 2018** |
|---|---|---|---|
| Amounts due to MSP Conservancy | Accrued expenses | $ — | $ 70 |

## Share Our Strength

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

| | | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|---|---|---|---|---|
| | **Classification** | **June 26 2019** | **June 27 2018** | **June 26 2019** | **June 27 2018** |
| Amounts raised through donations (and remitted to Share Our Strength) | — | $ — | $ 343 | $ — | $ 343 |
| Costs incurred for free shakes redeemed | General and administrative expenses | $ — | $ 53 | — | 53 |

## Mobo Systems, Inc.

The Chairman of our Board of Directors serves as a director of Mobo Systems, Inc. (also known as "Olo"), a platform we use in connection with our mobile ordering application. No amounts were due to Olo as of June 26, 2019 and December 26, 2018 , respectively.

| | | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|---|---|---|---|---|
| | **Classification** | **June 26 2019** | **June 27 2018** | **June 26 2019** | **June 27 2018** |
| Amounts paid to Olo | Other operating expenses | $ 40 | $ 27 | $ 78 | $ 52 |

## Square, Inc.

Our Chief Executive Officer is a member of the Board of Directors of Square, Inc. ("Square"). We currently use certain point-of-sale applications, payment processing services, hardware and other enterprise platform services in connection with the processing of a limited amount of sales at certain of our locations, sales for certain off-site events and in connection with our kiosk technology. Additionally, we partnered with Caviar, Square’s food ordering delivery service, to allow guests to order Shake Shack in select markets as well as participated in Square’s new Boost offers, providing assets and permission for Square to run select offers to their cash card users. No amounts were due to Square as of June 26, 2019 and December 26, 2018 , respectively.

| | Classification | Thirteen Weeks Ended June 26 2019 | Thirteen Weeks Ended June 27 2018 | Twenty-Six Weeks Ended June 26 2019 | Twenty-Six Weeks Ended June 27 2018 |
|---|---|---|---|---|---|
| Amounts paid to Square | Other operating expenses | $ 442 | $ 85 | $ 708 | $ 128 |

## Tax Receivable Agreement

As described in Note 12 , we entered into a tax receivable agreement with certain members of SSE Holdings that provides for the payment by us of 85% of the amount of tax benefits, if any, that Shake Shack actually realizes or in some cases is deemed to realize as a result of certain transactions.

| | Classification | Thirteen Weeks Ended June 26 2019 | Thirteen Weeks Ended June 27 2018 | Twenty-Six Weeks Ended June 26 2019 | Twenty-Six Weeks Ended June 27 2018 |
|---|---|---|---|---|---|
| Amounts paid to members (inclusive of interest) | Other current liabilities | $ — | $ — | $ 707 | $ — |

| | Classification | June 26 2019 | December 26 2018 |
|---|---|---|---|
| Amounts due under the Tax Receivable Agreement | Other current liabilities<br>Liabilities under tax receivable agreement, net of current portion | $ 217,434 | $ 203,725 |

## Distributions to Members of SSE Holdings

Under the terms of the SSE Holdings LLC Agreement, SSE Holdings is obligated to make tax distributions to its members . No tax distributions were payable to non-controlling interest holders as of June 26, 2019 and December 26, 2018 , respectively.

| | Classification | Thirteen Weeks Ended June 26 2019 | Thirteen Weeks Ended June 27 2018 | Twenty-Six Weeks Ended June 26 2019 | Twenty-Six Weeks Ended June 27 2018 |
|---|---|---|---|---|---|
| Amounts paid to non-controlling interest holders | Net income attributable to non-controlling interests | $ 1,558 | $ 587 | $ 1,667 | $ 670 |

## NOTE 17: SUBSEQUENT EVENTS

On August 2, 20 19 we entered into a new revolving credit facility, with SSE Holdings as the borrower, and terminated our previous facility. Our new facility provides for a revolving total commitment amount of $50,000 , of which the entire commitment is available immediately, with the ability to increase available borrowings by up to $100,000 , to be made available subject to certain conditions. The new revolving credit facility will mature and all amounts outstanding will be due and payable August 2, 2024. This facility permits the issuance of letters of credit upon our request of up to $15,000 . Borrowings under the facility bear interest at either: (i) LIBOR plus a percentage ranging from 1.0% to 1.5% or (ii) the base rate plus a percentage ranging from 0.0% to 0.5% , in each case depending on the Borrower's net lease adjusted leverage ratio. No amounts were outstanding under the previous facility at the time of termination and no amounts are currently outstanding under the new facility.

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

*This section and other parts of this Quarterly Report on Form 10-Q ("Form 10-Q") contain forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995 ("PSLRA"), which are subject to known and unknown risks,* *uncertainties and other important factors that may cause actual results to be materially different. All statements other than statements of historical fact are forward-looking statements. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact, such as our expected financial outlook for fiscal 2019, expected Shack openings, expected same-Shack sales growth and trends in our business. Forward-looking statements can also be identified by words such as "aim," "anticipate," "believe," "estimate," "expect," "forecast," "future," "intend," "outlook," "plan," "potential," "predict," "project," "seek," "may," "can," "will," "would," "could," "should," the negatives thereof and other similar expressions. Forward-looking statements are not guarantees of future performance and actual results may differ significantly from the results discussed in the forward-looking statements. All forward-looking statements are expressly qualified in their entirety by these cautionary statements. Factors that might cause such differences include, but are not limited to, those discussed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 26, 2018 (" 2018 Form 10-K") and Part II, Item 1A of this Form 10-Q. The following discussion should be read in conjunction with our 2018 Form 10-K and the condensed consolidated financial statements and notes thereto included in Part I, Item 1 of this Form 10-Q. All information presented herein is based on our fiscal calendar. Unless otherwise stated, references to particular years, quarters, months or periods refer to our fiscal years and the associated quarters, months and periods of those fiscal years. We undertake no obligation to revise or update any forward-looking statements for any reason, except as required by law.*

# OVERVIEW

Shake Shack is a modern day "roadside" burger stand serving a classic American menu of premium burgers, chicken sandwiches, hot dogs, crinkle cut fries, shakes, frozen custard, beer and wine. As of June 26, 2019 , there were 237 Shacks in operation system-wide, of which 140 were domestic company-operated Shacks, 17 were domestic licensed Shacks and 80 were international licensed Shacks.

**Development Highlights**

During the quarter, we opened 11 domestic company-operated Shacks, deepening our roots in existing markets with openings in San Diego, Los Angeles and Dallas, while expanding into the new markets of Sarasota, Columbus and Virginia Beach. Additionally, we opened two domestic licensed Shacks, which included our first 24-hour roadside Shack in New Jersey, and six international licensed Shacks, which included our first Shacks in the Philippines and Singapore, at the Jewel Changi Airport.

**Financial Highlights for the Second Quarter 2019 compared to the Second Quarter 2018 :**

- Total revenue increase d 31.3% to $152.7 million .
- Shack sales increase d 31.0% to $147.9 million .
- Same-Shack sales increase d 3.6% .
- Licensed revenue increase d 42.9% to $4.8 million .
- Shack system-wide sales increased 33.2% to $225.9 million .
- Operating income was $11.9 million , or 7.8% of total revenue, which included the impact of costs associated with Project Concrete and other one-time items totaling $0.5 million , resulting in a decrease of 8.8% .
- Shack-level operating profit*, a non-GAAP measure, increase d 13.7% to $36.2 million , or 24.4% of Shack sales.
- Net income was $11.2 million and adjusted EBITDA*, a non-GAAP measure, increase d 18.5% to $25.9 million .
- Nineteen system-wide Shack openings, comprised of 11 domestic company-operated Shacks and 8 licensed Shacks.

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

We continued to execute our strategic growth plan in 2019 and the second quarter was positively impacted by the incremental sales from the 40 new domestic company-operated Shacks opened between June 27, 2018 and June 26, 2019 , as well as an increase in same-Shack sales, partially offset by: (i) benefits recognized in the prior year quarter, which included sponsorship receipts for our biennial leadership retreat and deferred rent related to certain historical leases with co-tenancy provisions; (ii) increased food costs associated with Chick'n Bites since its nationwide roll-out at the beginning of the year and some commodity inflation, specifically in beef and dairy; (iii) an increase in paper costs as a result of our off-premise digital growth, which requires more packaging than in-Shack orders; (iv) increased labor and related expenses resulting from inflation across the country, especially in New York City, combined with the administration and cost of regulatory factors, such as the Fair Workweek legislation, as well as higher labor costs from newly opened Shacks, which typically carry higher labor costs during the first few months of operations ; (v) delivery commissions and increased levels of marketing activity, both local and nationwide; and (vi) the impact related to the adoption of the new lease accounting standard.

Net income attributable to Shake Shack Inc. was $9.0 million , or $0.29 per diluted share, for the second quarter of 2019 , compared to $7.6 million , or $0.26 per diluted share, for the same period last year. On an adjusted pro forma basis*, which excludes certain non-recurring and other items and also assumes that all outstanding LLC Interests were exchanged for shares of Class A common stock as of the beginning of the period, we would have recognized net income of $10.2 million , or $0.27 per fully exchanged and diluted share, for the second quarter of 2019 compared to $11.0 million , or $0.29 per fully exchanged and diluted share for the second quarter of 2018 , a decrease of 6.5% .

# FISCAL 2019 OUTLOOK

*These forward-looking projections are subject to known and unknown risks, uncertainties and other important factors that may cause actual results to be materially different. Factors that might cause such differences include, but are not limited to, those discussed in Part I, Item 1A of our Form 10-K for the fiscal year ended December 26, 2018 under the heading “Risk Factors.” These forward-looking projections should be reviewed in conjunction with the consolidated financial statements and the section titled “Trends in Our Business” which forms the basis of our assumptions used to prepare these forward-looking projections. You should not attribute undue certainty to these projections and we undertake no obligation to revise or update any forward-looking information, except as required by law.*

For the fiscal year ending December 25, 2019 , we have revised our financial outlook to the following with changes from the previous outlook in **bold** :

| | Current Outlook | Previous Outlook |
|---|---|---|
| Total revenue (inclusive of licensing revenue) | **$585 million to $590 million** | $576 million to $582 million |
| Licensing revenue | **$16 million to $17 million** | $15 million to $16 million |
| Same-Shack sales growth (%) (1) | **approximately 2%** | 1% to 2% |
| Domestic company-operated Shack openings | **38 to 40** | 36 to 40 |
| Licensed Shack openings, net | **18 to 20** | 16 to 18 |
| Average annual sales volume for domestic company-operated Shacks | $4.0 million to $4.1 million | $4.0 million to $4.1 million |
| Shack-level operating profit margin (%) (2)(3) | **approximately 23.0%** | 23.0% to 24.0% |
| Total general and administrative expenses | $66.4 million to $68.2 million | $66.4 million to $68.2 million |
| Core general and administrative | $56 million to $57 million | $56 million to $57 million |
| Equity-based compensation | $7.4 million to $7.7 million | $7.4 million to $7.7 million |
| Costs related to Project Concrete | $3.0 million to $3.5 million | $3.0 million to $3.5 million |
| Project Concrete capitalized costs | **$4.5 million to $5.0 million** | approximately $4 million |
| Depreciation expense | $41 million to $42 million | $41 million to $42 million |
| Pre-opening costs | $13 million to $14 million | $13 million to $14 million |
| Interest expense | $0.3 million to $0.4 million | $0.3 million to $0.4 million |
| Adjusted pro forma effective tax rate (%) (4) | 26.5% to 27.5% | 26.5% to 27.5% |

*(1) Includes approximately 1.5% of menu price increases taken in December 2018.*

*(2) Includes approximately 50 bps of impact from the adoption of the new lease accounting standard.*

*(3) Shack-level operating profit margin is a non-GAAP measure. A reconciliation to the most directly comparable GAAP measure, operating income, has not been provided as we cannot project certain reconciling items, such as gains or losses on disposal of property and equipment, without unreasonable effort given the uncertainty around the timing and amount of such gains or losses. Losses on disposal of property and equipment were less than $1 million for each of the fiscal years 2018, 2017 and 2016.*

*(4) Adjusted pro forma effective tax rate is a non-GAAP measure. A reconciliation to the most directly comparable GAAP measure, income tax expense, has not been provided as we cannot project income tax expense without unreasonable effort due to our inability to predict changes in our ownership interest in SSE Holdings resulting from redemptions of LLC Interests by non-controlling interest holders and equity-based award activity. Income tax expense for fiscal years 2018, 2017 and 2016 was $8.9 million, $151.4 million and $6.4 million, respectively.*

# RESULTS OF OPERATIONS

The following table summarizes our results of operations for the thirteen and twenty-six weeks ended June 26, 2019 and June 27, 2018 :

| | Thirteen Weeks Ended | | | | Twenty-Six Weeks Ended | | | |
|---|---|---|---|---|---|---|---|---|
| *(dollar amounts in thousands)* | June 26 2019 | | June 27 2018 | | June 26 2019 | | June 27 2018 | |
| Shack sales | $ 147,876 | 96.8 % | $ 112,898 | 97.1 % | $ 276,445 | 96.9 % | $ 208,987 | 97.0 % |
| Licensing revenue | 4,837 | 3.2 % | 3,384 | 2.9 % | 8,877 | 3.1 % | 6,411 | 3.0 % |
| **TOTAL REVENUE** | 152,713 | 100.0 % | 116,282 | 100.0 % | 285,322 | 100.0 % | 215,398 | 100.0 % |
| Shack-level operating expenses (1) : | | | | | | | | |
| Food and paper costs | 42,899 | 29.0 % | 31,678 | 28.1 % | 80,890 | 29.3 % | 58,633 | 28.1 % |
| Labor and related expenses | 40,197 | 27.2 % | 29,732 | 26.3 % | 77,290 | 28.0 % | 56,419 | 27.0 % |
| Other operating expenses | 16,755 | 11.3 % | 12,281 | 10.9 % | 32,323 | 11.7 % | 23,040 | 11.0 % |
| Occupancy and related expenses | 11,873 | 8.0 % | 7,401 | 6.6 % | 22,772 | 8.2 % | 15,076 | 7.2 % |
| General and administrative expenses | 15,393 | 10.1 % | 12,587 | 10.8 % | 29,330 | 10.3 % | 24,396 | 11.3 % |
| Depreciation expense | 9,799 | 6.4 % | 6,968 | 6.0 % | 18,765 | 6.6 % | 13,466 | 6.3 % |
| Pre-opening costs | 3,549 | 2.3 % | 2,421 | 2.1 % | 6,191 | 2.2 % | 4,450 | 2.1 % |
| Loss on disposal of property and equipment | 377 | 0.2 % | 196 | 0.2 % | 728 | 0.3 % | 386 | 0.2 % |
| **TOTAL EXPENSES** | 140,842 | 92.2 % | 103,264 | 88.8 % | 268,289 | 94.0 % | 195,866 | 90.9 % |
| **OPERATING INCOME** | 11,871 | 7.8 % | 13,018 | 11.2 % | 17,033 | 6.0 % | 19,532 | 9.1 % |
| Other income, net | 447 | 0.3 % | 406 | 0.3 % | 1,011 | 0.4 % | 634 | 0.3 % |
| Interest expense | (97) | (0.1)% | (613) | (0.5)% | (169) | (0.1)% | (1,178) | (0.5)% |
| **INCOME BEFORE INCOME TAXES** | 12,221 | 8.0 % | 12,811 | 11.0 % | 17,875 | 6.3 % | 18,988 | 8.8 % |
| Income tax expense | 1,050 | 0.7 % | 2,240 | 1.9 % | 3,097 | 1.1 % | 3,438 | 1.6 % |
| **NET INCOME** | 11,171 | 7.3 % | 10,571 | 9.1 % | 14,778 | 5.2 % | 15,550 | 7.2 % |
| Less: net income attributable to non-controlling interests | 2,141 | 1.4 % | 2,967 | 2.6 % | 3,202 | 1.1 % | 4,438 | 2.1 % |
| **NET INCOME ATTRIBUTABLE TO SHAKE SHACK INC.** | $ 9,030 | 5.9 % | $ 7,604 | 6.5 % | $ 11,576 | 4.1 % | $ 11,112 | 5.2 % |

*(1) As a percentage of Shack sales.*

## Shack Sales

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

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | June 26 2019 | June 27 2018 | June 26 2019 | June 27 2018 |
| Shack sales | $ 147,876 | $ 112,898 | $ 276,445 | $ 208,987 |
| *Percentage of total revenue* | *96.8%* | *97.1%* | *96.9%* | *97.0%* |
| Dollar change compared to prior year | $ 34,978 | | $ 67,458 | |
| Percentage change compared to prior year | 31.0% | | 32.3% | |

The growth in Shack sales f or the thirteen weeks ended June 26, 2019 was primarily driven by the opening of 40 new domestic company-operated Shacks between June 27, 2018 and June 26, 2019 . Same-Shack sales increase d $3.1 million , or 3.6% . The increase in same-Shack sales, consisted of a 1.3% increase in guest traffic and a combined increase of 2.3% in price and sales mix. Same-Shack sales was driven by continued strength and momentum across all digital channels, combined with the favorable impact from the timing shift of Easter. For purposes of calculating same-Shack sales growth, Shack sales for 74 Shacks were included in the comparable Shack base.

The increase in Shack sales f or the twenty-six weeks ended June 26, 2019 was primarily due to the opening of 40 new domestic company-operated Shacks between June 27, 2018 and June 26, 2019 . Same-Shack sales increase d $5.7 million , or 3.6% . The increase in same-Shack sales, consisted of a 1.4% increase in guest traffic and a combined increase of 2.2% in price and sales mix. For purposes of calculating same-Shack sales growth, Shack sales for 74 Shacks were included in the comparable Shack base.

## Licensing Revenue

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

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | **June 26 2019** | **June 27 2018** | **June 26 2019** | **June 27 2018** |
| Licensing revenue | $ 4,837 | $ 3,384 | $ 8,877 | $ 6,411 |
| *Percentage of total revenue* | *3.2%* | *2.9%* | *3.1%* | *3.0%* |
| Dollar change compared to prior year | $ 1,453 | | $ 2,466 | |
| Percentage change compared to prior year | 42.9% | | 38.5% | |

The increase s in licensing revenue for the thirteen and twenty-six weeks ended June 26, 2019 were primarily driven by 18 net new licensed Shacks opened between June 27, 2018 and June 26, 2019 .

## Food and Paper Costs

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

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | **June 26 2019** | **June 27 2018** | **June 26 2019** | **June 27 2018** |
| Food and paper costs | $ 42,899 | $ 31,678 | $ 80,890 | $ 58,633 |
| *Percentage of Shack sales* | *29.0%* | *28.1%* | *29.3%* | *28.1%* |
| Dollar change compared to prior year | $ 11,221 | | $ 22,257 | |
| Percentage change compared to prior year | 35.4% | | 38.0% | |

The increase s in food and paper costs for the thirteen and twenty-six weeks ended June 26, 2019 were primarily due to the opening of 40 new domestic company-operated Shacks between June 27, 2018 and June 26, 2019 .

As a percentage of Shack sales, the increase s in food and paper costs for the thirteen and twenty-six weeks ended June 26, 2019 were primarily due to (i) a benefit recognized in the prior year quarter related to sponsorship receipts for our biennial leadership retreat; (ii) increased food costs associated with Chick'n Bites since its nationwide roll-out at the beginning of the year and slight commodity inflation, specifically in beef and dairy; and (iii) an increase in paper costs as a result of our off-premise digital growth, which requires more packaging than in-Shack orders.

## Labor and Related Expenses

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

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | **June 26 2019** | **June 27 2018** | **June 26 2019** | **June 27 2018** |
| Labor and related expenses | $ 40,197 | $ 29,732 | $ 77,290 | $ 56,419 |
| *Percentage of Shack sales* | *27.2%* | *26.3%* | *28.0%* | *27.0%* |
| Dollar change compared to prior year | $ 10,465 | | $ 20,871 | |
| Percentage change compared to prior year | 35.2% | | 37.0% | |

The increase s in labor and related expenses for the thirteen and twenty-six weeks ended June 26, 2019 were primarily due to the opening of 40 new domestic company-operated Shacks between June 27, 2018 and June 26, 2019 .

As a percentage of Shack sales, the increase s in labor and related expenses for the thirteen and twenty-six weeks ended June 26, 2019 were primarily due to inflation across the country, especially in New York City, combined with the administration and cost of regulatory factors, such as the Fair Workweek legislation, as well as higher labor costs from newly opened Shacks, which typically carry higher labor costs during the first few months of operations.

## Other Operating Expenses

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

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | **June 26 2019** | **June 27 2018** | **June 26 2019** | **June 27 2018** |
| Other operating expenses | $ 16,755 | $ 12,281 | $ 32,323 | $ 23,040 |
| *Percentage of Shack sales* | *11.3%* | *10.9%* | *11.7%* | *11.0%* |
| Dollar change compared to prior year | $ 4,474 | | $ 9,283 | |
| Percentage change compared to prior year | 36.4% | | 40.3% | |

The increase s in other operating expenses for the thirteen and twenty-six weeks ended June 26, 2019 were primarily due to the opening of 40 new domestic company-operated Shacks between June 27, 2018 and June 26, 2019 .

As a percentage of Shack sales, the increase s in other operating expenses for the thirteen and twenty-six weeks ended June 26, 2019 were primarily due to delivery commissions and increased levels of marketing activity, both local and nationwide.

## Occupancy and Related Expenses

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

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | **June 26 2019** | **June 27 2018** | **June 26 2019** | **June 27 2018** |
| Occupancy and related expenses | $ 11,873 | $ 7,401 | $ 22,772 | $ 15,076 |
| *Percentage of Shack sales* | *8.0%* | *6.6%* | *8.2%* | *7.2%* |
| Dollar change compared to prior year | $ 4,472 | | $ 7,696 | |
| Percentage change compared to prior year | 60.4% | | 51.0% | |

This increase s in occupancy and related expenses for the thirteen and twenty-six weeks ended June 26, 2019 were primarily due to the opening of 40 new domestic company-operated Shacks between June 27, 2018 and June 26, 2019 .

As a percentage of Shack sales, the increase s in occupancy and related expenses for the thirteen and twenty-six weeks ended June 26, 2019 were primarily due to a benefit recognized in the prior year quarter for deferred rent related to certain historical leases with co-tenancy provisions and the impact related to the adoption of the new lease accounting standard, partially offset by increased levels of Shack sales.

## General and Administrative Expenses

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

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | June 26 2019 | June 27 2018 | June 26 2019 | June 27 2018 |
| General and administrative expenses | $ 15,393 | $ 12,587 | $ 29,330 | $ 24,396 |
| *Percentage of total revenue* | *10.1%* | *10.8%* | *10.3%* | *11.3%* |
| Dollar change compared to prior year | $ 2,806 | | $ 4,934 | |
| Percentage change compared to prior year | 22.3% | | 20.2% | |

The increase s in general and administrative expenses for the thirteen and twenty-six weeks ended June 26, 2019 were primarily driven by our investment across the business, particularly in people resources and foundational infrastructure to support our ongoing growth initiatives, including costs of $0.5 million and $1.0 million related to Project Concrete and other one-time costs for the thirteen weeks ended June 26, 2019 and twenty-six weeks ended June 26, 2019 , respectively. Additionally, in connection with the financial systems launch of Project Concrete, we accelerated certain cash payments totaling $9.8 million to facilitate the transition.

As a percentage of total revenue, the decrease s in general and administrative expenses for the thirteen and twenty-six weeks ended June 26, 2019 were primarily due increased levels of Shack sales.

## Depreciation Expense

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

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | June 26 2019 | June 27 2018 | June 26 2019 | June 27 2018 |
| Depreciation expense | $ 9,799 | $ 6,968 | $ 18,765 | $ 13,466 |
| *Percentage of total revenue* | *6.4%* | *6.0%* | *6.6%* | *6.3%* |
| Dollar change compared to prior year | $ 2,831 | | $ 5,299 | |
| Percentage change compared to prior year | 40.6% | | 39.4% | |

The increase s in depreciation expense for the thirteen and twenty-six weeks ended June 26, 2019 were primarily due to incremental depreciation of capital expenditures related to the opening of 40 new domestic company-operated Shacks between June 27, 2018 and June 26, 2019 .

As a percentage of total revenue, the increase s in depreciation expense for the thirteen and twenty-six weeks ended June 26, 2019 were primarily due to the entry of Shacks at various volumes into the system.

## Pre-Opening Costs

Pre-opening costs consist primarily of legal fees, rent, managers' salaries, training costs, employee payroll and related expenses, costs to relocate and compensate Shack management teams prior to an opening and wages, travel and lodging costs for our opening training team and other supporting team members. All such costs incurred prior to the opening of a domestic company-operated

Shack are expensed in the period in which the expense was incurred. Pre-opening costs can fluctuate significantly from period to period, based on the number and timing of domestic company-operated Shack openings and the specific pre-opening costs incurred for each domestic company-operated Shack. Additionally, domestic company-operated Shack openings in new geographic market areas may initially experience higher pre-opening costs than our established geographic market areas, such as the New York City metropolitan area, where we have greater economies of scale and incur lower travel and lodging costs for our training team.

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | June 26 2019 | June 27 2018 | June 26 2019 | June 27 2018 |
| Pre-opening costs | $ 3,549 | $ 2,421 | $ 6,191 | $ 4,450 |
| *Percentage of total revenue* | *2.3%* | *2.1%* | *2.2%* | *2.1%* |
| Dollar change compared to prior year | $ 1,128 | | $ 1,741 | |
| Percentage change compared to prior year | 46.6% | | 39.1% | |

The increase s in pre-opening costs for the thirteen and twenty-six weeks ended June 26, 2019 were due to the timing and total number of new domestic company-operated Shacks expected to open.

## Loss on Disposal of Property and Equipment

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

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | June 26 2019 | June 27 2018 | June 26 2019 | June 27 2018 |
| Loss on disposal of property and equipment | $ 377 | $ 196 | $ 728 | $ 386 |
| *Percentage of total revenue* | *0.2%* | *0.2%* | *0.3%* | *0.2%* |
| Dollar change compared to prior year | $ 181 | | $ 342 | |
| Percentage change compared to prior year | 92.3% | | 88.6% | |

The loss on disposal of property and equipment for the thirteen and twenty-six weeks ended June 26, 2019 was primarily due to the maturing number of Shacks in our base.

## Other Income, Net

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

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | June 26 2019 | June 27 2018 | June 26 2019 | June 27 2018 |
| Other income, net | $ 447 | $ 406 | $ 1,011 | $ 634 |
| *Percentage of total revenue* | *0.3%* | *0.3%* | *0.4%* | *0.3%* |
| Dollar change compared to prior year | $ 41 | | $ 377 | |
| Percentage change compared to prior year | 10.1% | | 59.5% | |

Other income, net for the thirteen and twenty-six weeks ended June 26, 2019 was primarily related to dividend income and unrealized gains related to our investments in marketable securities.

## Interest Expense

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

| (dollar amounts in thousands) | Thirteen Weeks Ended June 26 2019 | Thirteen Weeks Ended June 27 2018 | Twenty-Six Weeks Ended June 26 2019 | Twenty-Six Weeks Ended June 27 2018 |
|---|---|---|---|---|
| Interest expense | $ (97) | $ (613) | $ (169) | $ (1,178) |
| *Percentage of total revenue* | *(0.1)%* | *(0.5)%* | *(0.1)%* | *(0.5)%* |
| Dollar change compared to prior year | $ 516 | | $ 1,009 | |
| Percentage change compared to prior year | (84.2)% | | (85.7)% | |

The decrease s in interest expense for the thirteen and twenty-six weeks ended June 26, 2019 were primarily due to the leases where we were deemed to be the accounting owner in the prior year, but are no longer considered to be after the adoption of the new lease accounting standard.

## Income Tax Expense

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

| (dollar amounts in thousands) | Thirteen Weeks Ended June 26 2019 | Thirteen Weeks Ended June 27 2018 | Twenty-Six Weeks Ended June 26 2019 | Twenty-Six Weeks Ended June 27 2018 |
|---|---|---|---|---|
| Income tax expense | $ 1,050 | $ 2,240 | $ 3,097 | $ 3,438 |
| *Percentage of total revenue* | *0.7 %* | *1.9%* | *1.1 %* | *1.6%* |
| Dollar change compared to prior year | $ (1,190) | | $ (341) | |
| Percentage change compared to prior year | (53.1)% | | (9.9)% | |

Our effective income tax rate decreased to 8.6% from 17.5% for the thirteen weeks ended June 26, 2019 and June 27, 2018 , respectively. The decrease in income tax expense and effective tax rate for the thirteen weeks ended June 26, 2019 was primarily driven by higher foreign tax credits and a decrease in valuation allowance due to windfall tax benefits in equity-based compensation, partially offset by an increase in our ownership interest in SSE Holdings. As our ownership interest in SSE Holdings increases, our share of the taxable income of SSE Holdings also increases. Our weighted-average ownership interest in SSE Holdings increased to 81.0% from 75.2% for the thirteen weeks ended June 26, 2019 and June 27, 2018 , respectively.

Our effective income tax rate decreased to 17.3% from 18.1% for the twenty-six weeks ended June 26, 2019 and June 27, 2018 , respectively. The decrease in income tax expense and effective tax rate for the twenty-six weeks ended June 26, 2019 was primarily driven by higher foreign tax credits and a decrease in valuation allowance due to windfall tax benefits in equity-based compensation, partially offset by the tax effect of a change in tax basis relating to the adoption of ASC 842 on December 27, 2018 and an increase in our ownership interest in SSE Holdings. As our ownership interest in SSE Holdings increases, our share of the taxable income of SSE Holdings also increases. Our weighted-average ownership interest in SSE Holdings increased to 80.3% from 74.4% for the twenty-six weeks ended June 26, 2019 and June 27, 2018 , respectively.

## Net Income Attributable to Non-Controlling Interests

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

| (dollar amounts in thousands) | Thirteen Weeks Ended June 26 2019 | Thirteen Weeks Ended June 27 2018 | Twenty-Six Weeks Ended June 26 2019 | Twenty-Six Weeks Ended June 27 2018 |
|---|---|---|---|---|
| Net income attributable to non-controlling interests | $ 2,141 | $ 2,967 | $ 3,202 | $ 4,438 |
| *Percentage of total revenue* | *1.4 %* | *2.6%* | *1.1 %* | *2.1%* |
| Dollar change compared to prior year | $ (826) | | $ (1,236) | |
| Percentage change compared to prior year | (27.8)% | | (27.9)% | |

The decrease s in net income attributable to non-controlling interests for the thirteen and twenty-six weeks ended June 26, 2019 were primarily driven by the decrease in the non-controlling interest holders' weighted average ownership, which was 19.0% and 24.8% for the thirteen weeks ended June 26, 2019 and June 27, 2018 , respectively, and 19.7% and 25.6% for the twenty-six weeks ended June 26, 2019 and June 27, 2018 , respectively.

# NON-GAAP FINANCIAL MEASURES

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

## Shack-Level Operating Profit

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

***How This Measure Is Useful***

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

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

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

| (dollar amounts in thousands) | Thirteen Weeks Ended June 26 2019 | Thirteen Weeks Ended June 27 2018 | Twenty-Six Weeks Ended June 26 2019 | Twenty-Six Weeks Ended June 27 2018 |
|---|---|---|---|---|
| Operating income | $ 11,871 | $ 13,018 | $ 17,033 | $ 19,532 |
| Less: | | | | |
| Licensing revenue | 4,837 | 3,384 | 8,877 | 6,411 |
| Add: | | | | |
| General and administrative expenses | 15,393 | 12,587 | 29,330 | 24,396 |
| Depreciation expense | 9,799 | 6,968 | 18,765 | 13,466 |
| Pre-opening costs | 3,549 | 2,421 | 6,191 | 4,450 |
| Loss on disposal of property and equipment | 377 | 196 | 728 | 386 |
| Shack-level operating profit | $ 36,152 | $ 31,806 | $ 63,170 | $ 55,819 |
| | | | | |
| Total revenue | $ 152,713 | $ 116,282 | $ 285,322 | $ 215,398 |
| Less: licensing revenue | 4,837 | 3,384 | 8,877 | 6,411 |
| Shack sales | $ 147,876 | $ 112,898 | $ 276,445 | $ 208,987 |
| | | | | |
| Shack-level operating profit margin | 24.4% | 28.2% | 22.9% | 26.7% |

## EBITDA and Adjusted EBITDA

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

### *How These Measures Are Useful*

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

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

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

| (in thousands) | Thirteen Weeks Ended June 26 2019 | Thirteen Weeks Ended June 27 2018 | Twenty-Six Weeks Ended June 26 2019 | Twenty-Six Weeks Ended June 27 2018 |
|---|---|---|---|---|
| Net income | $ 11,171 | $ 10,571 | $ 14,778 | $ 15,550 |
| Depreciation expense | 9,799 | 6,968 | 18,765 | 13,466 |
| Interest expense, net | 97 | 613 | 169 | 1,171 |
| Income tax expense | 1,050 | 2,240 | 3,097 | 3,438 |
| **EBITDA** | 22,117 | 20,392 | 36,809 | 33,625 |
| Equity-based compensation | 2,235 | 1,303 | 3,955 | 2,740 |
| Deferred lease costs (1) | 715 | (361) | 1,300 | (292) |
| Loss on disposal of property and equipment | 377 | 196 | 728 | 386 |
| Other income related to adjustment of liabilities under tax receivable agreement | — | — | (14) | — |
| Executive transition costs (2) | 88 | 248 | 126 | 248 |
| Project Concrete (3) | 213 | 77 | 685 | 316 |
| Costs related to relocation of Home Office (4) | — | 19 | — | 1,017 |
| Hong Kong office (5) | 171 | — | 171 | — |
| **Adjusted EBITDA** | $ 25,916 | $ 21,874 | $ 43,760 | $ 38,040 |
| **Adjusted EBITDA margin (6)** | 17.0% | 18.8% | 15.3% | 17.7% |

*(1) Reflects the extent to which lease expense is greater than or less than cash lease payments. As a result of adoption of the new lease accounting standard on December 27, 2018, these lease costs may also include certain additional lease components, such as common area maintenance costs and property taxes, that were previously not included in lease expense for prior periods.*
*(2) Represents fees paid in connection with the search for certain of our executive and key management positions.*
*(3) Represents consulting and advisory fees related to our enterprise-wide system upgrade initiative called Project Concrete.*
*(4) Costs incurred in connection with our relocation to a new Home Office.*
*(5) Represents costs associated with establishing our first international regional office in Hong Kong.*
*(6) Calculated as a percentage of total revenue, which was $152,713 and $285,322 for the thirteen and twenty-six weeks ended June 26, 2019 , respectively, and $116,282 and $215,398 for the thirteen and twenty-six weeks ended June 27, 2018 , respectively.*

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

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

### *How These Measures Are Useful*

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

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

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

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|---|---|---|---|
| *(in thousands, except per share amounts)* | **June 26 2019** | **June 27 2018** | **June 26 2019** | **June 27 2018** |
| Numerator: | | | | |
| Net income attributable to Shake Shack Inc. | $ 9,030 | $ 7,604 | $ 11,576 | $ 11,112 |
| Adjustments: | | | | |
| Reallocation of net income attributable to non-controlling interests from the assumed exchange of LLC Interests (1) | 2,141 | 2,967 | 3,202 | 4,438 |
| Executive transition costs (2) | 88 | 248 | 126 | 248 |
| Project Concrete (3) | 213 | 77 | 685 | 316 |
| Costs related to relocation of Home Office (4) | — | 19 | — | 1,017 |
| Hong Kong office (5) | 171 | — | 171 | — |
| Other income related to adjustment of liabilities under tax receivable agreement | — | — | (14) | — |
| Tax effect of change in tax basis related to the adoption of new accounting standards (6) | — | — | 1,161 | (311) |
| Income tax expense (7) | (1,397) | 47 | (1,712) | (199) |
| Adjusted pro forma net income | $ 10,246 | $ 10,962 | $ 15,195 | $ 16,621 |
| Denominator: | | | | |
| Weighted-average shares of Class A common stock outstanding—diluted | 31,015 | 28,754 | 30,703 | 28,288 |
| Adjustments: | | | | |
| Assumed exchange of LLC Interests for shares of Class A common stock (1) | 7,088 | 9,144 | 7,314 | 9,452 |
| Adjusted pro forma fully exchanged weighted-average shares of Class A common stock outstanding—diluted | 38,103 | 37,898 | 38,017 | 37,740 |
| Adjusted pro forma earnings per fully exchanged share—diluted | $ 0.27 | $ 0.29 | $ 0.40 | $ 0.44 |

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|---|---|---|---|
| | **June 26 2019** | **June 27 2018** | **June 26 2019** | **June 27 2018** |
| Earnings per share of Class A common stock - diluted | $ 0.29 | $ 0.26 | $ 0.38 | $ 0.39 |
| Assumed exchange of LLC Interests for shares of Class A common stock (1) | — | 0.02 | 0.01 | 0.02 |
| Non-GAAP adjustments (8) | (0.02) | 0.01 | 0.01 | 0.03 |
| Adjusted pro forma earnings per fully exchanged share—diluted | $ 0.27 | $ 0.29 | $ 0.40 | $ 0.44 |

*(1) Assumes the exchange of all outstanding LLC Interests for shares of Class A common stock, resulting in the elimination of the non-controlling interest and recognition of the net income attributable to non-controlling interests.*
*(2) Represents fees paid in connection with the search for certain of our executive and key management positions.*
*(3) Represents consulting and advisory fees related to our enterprise-wide system upgrade initiative called Project Concrete.*
*(4) Costs incurred in connection with our relocation to a new Home Office.*
*(5) Represents costs associated with establishing our first international regional office in Hong Kong.*
*(6) Represents tax effect of change in tax basis related to the adoption of the new lease accounting standard for the thirteen and twenty-six weeks ended ended June 26, 2019 and the revenue recognition standard for the thirteen and twenty-six weeks ended June 27, 2018 .*

*(7) Represents the tax effect of the aforementioned adjustments and pro forma adjustments to reflect corporate income taxes at assumed effective tax rates of 19.3% and 19.4% for the thirteen and twenty-six weeks ended June 26, 2019 , respectively, and 16.7% and 19.2% for the thirteen and twenty-six weeks ended June 27, 2018 , respectively.*

*(8) Represents the per share impact of non-GAAP adjustments for each period. Refer to the reconciliation of Adjusted Pro Forma Net Income above for further details.*

# LIQUIDITY AND CAPITAL RESOURCES

## Sources and Uses of Cash

Our primary sources of liquidity are cash from operations, cash and cash equivalents on hand, short-term investments and availability under our Revolving Credit Facility. As of June 26, 2019 , we maintained a cash and cash equivalents balance of $29.7 million , a short-term investments balance of $36.1 million and had $19.3 million of availability under our Revolving Credit Facility.

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

In addition, we are obligated to make payments to certain members of SSE Holdings under the Tax Receivable Agreement. As of June 26, 2019 , such obligations totaled $217.4 million . Amounts payable under the Tax Receivable Agreement are contingent upon, among other things, (i) generation of future taxable income over the term of the Tax Receivable Agreement and (ii) future changes in tax laws. If we do not generate sufficient taxable income in the aggregate over the term of the Tax Receivable Agreement to utilize the tax benefits, then we would not be required to make the related TRA Payments. Although the amount of any payments that must be made under the Tax Receivable Agreement may be significant, the timing of these payments will vary and will generally be limited to one payment per member per year. The amount of such payments are also limited to the extent we utilize the related deferred tax assets. The payments that we are required to make will generally reduce the amount of overall cash flow that might have otherwise been available to us or to SSE Holdings, but we expect the cash tax savings we will realize from the utilization of the related deferred tax assets to fund the required payments.

We believe that cash provided by operating activities, cash on hand and availability under our revolving credit facility arrangement will be sufficient to fund our operating and finance lease obligations, capital expenditures, and working capital needs for at least the next 12 months and the foreseeable future.

## Summary of Cash Flows

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

| | Twenty-Six Weeks Ended | |
|---|---|---|
| *(in thousands)* | June 26 2019 | June 27 2018 |
| Net cash provided by operating activities | $ 35,891 | $ 40,874 |
| Net cash used in investing activities | (29,713) | (34,790) |
| Net cash provided by (used in) financing activities | (1,195) | 3,288 |
| Increase in cash | 4,983 | 9,372 |
| Cash at beginning of period | 24,750 | 21,507 |
| Cash at end of period | $ 29,733 | $ 30,879 |

***Operating Activities***

For the twenty-six weeks ended June 26, 2019 net cash provided by operating activities was $35.9 million compared to $40.9 million for the twenty-six weeks ended June 27, 2018 , a decrease of $5.0 million . This decrease was primarily driven by a decline in Shack-level operating profit margins combined with additional spending related to our foundational infrastructure upgrades to support our ongoing growth initiatives and, in connection with the financial systems launch of Project Concrete, the acceleration of certain cash payments totaling $9.8 million to facilitate the transition.

***Investing Activities***

For the twenty-six weeks ended June 26, 2019 net cash used in investing activities was $29.7 million compared to $34.8 million for the twenty-six weeks ended June 27, 2018 , a decrease of $5.1 million . This decrease was primarily due to an increase of $25.0

million of proceeds from sales of marketable securities offset by an increase of $19.6 million in capital expenditures, with the opening of 40 new domestic company-operated Shacks.

***Financing Activities***

For the twenty-six weeks ended June 26, 2019 net cash used in financing activities was $1.2 million compared to net cash provided by financing activities of $3.3 million for the twenty-six weeks ended June 27, 2018 , a decrease of $ 4.5 million . This decrease is primarily due to increased payments made under the Tax Receivable Agreement and distributions to our non-controlling interest holders during the twenty-six weeks ended June 26, 2019 , principal payments made for financing leases and payments made for employee withholding taxes related to net settled equity awards.

## Revolving Credit Facility

We maintained a Revolving Credit Facility that provided for a revolving total commitment amount of $50.0 million , of which $20.0 million was available immediately. The Revolving Credit Facility would have matured and all amounts outstanding would have been due and payable in February 2020. The Revolving Credit Facility permitted the issuance of letters of credit upon our request of up to $10.0 million . Borrowings under the Revolving Credit Facility bear interest at either: (i) LIBOR plus a percentage ranging from 2.3% to 3.3% or (ii) the prime rate plus a percentage ranging from 0.0% to 0.8% , depending on the type of borrowing made under the Revolving Credit Facility. As of June 26, 2019 , there were no amounts outstanding under the Revolving Credit Facility. We had $19.3 million of availability, as of June 26, 2019 , after giving effect to $0.7 million in outstanding letters of credit.

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

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

Subsequent to the quarter ended June 26, 2019 , we terminated our Revolving Credit Facility and entered into a new revolving credit facility, refer to Note 17 Subsequent Events for further details.

# CONTRACTUAL OBLIGATIONS

There have been no material changes to the contractual obligations as disclosed in our Annual Report on Form 10-K for the fiscal year ended December 26, 2018 , other than those made in the ordinary course of business .

# OFF-BALANCE SHEET ARRANGEMENTS

There have been no other material changes to our off-balance sheet arrangements as disclosed in our Annual Report on Form 10-K for th e fiscal year ended December 26, 2018 .

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our consolidated financial condition and results of operations is based upon the accompanying condensed consolidated financial statements and notes thereto, which have been prepared in accordance with GAAP. The preparation of the condensed consolidated financial statements requires us to make estimates, judgments and assumptions, which we believe to be reasonable, based on the information available. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. Variances in the estimates or assumptions used to actual experience could yield materially different accounting results. On an ongoing basis, we evaluate the continued appropriateness of our accounting policies and resulting estimates to make adjustments we consider appropriate under the facts and circumstances. There have been no significant changes to our critical accounting policies as disclosed in our Annual Report on Form 10-K for the fiscal year ended December 26, 2018 , except for those made in connection with the adoption of ASC 842. See "Note 9: Leases" under Part I, Item 1 of this Form 10-Q.

### Recently Issued Accounting Pronouncements

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

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

There have been no material changes to our exposure to market risks as described in Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended December 26, 2018 .

# Item 4. Controls and Procedures.

## DISCLOSURE CONTROLS AND PROCEDURES

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

## CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes to our internal control over financial reporting that occurred during the quarter ended June 26, 2019 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.

The information required by this Item is incorporated by reference to Part I, Item 1, Note 15 : Commitments and Contingencies—Legal Contingencies.

## Item 1A. Risk Factors.

There have been no material changes with respect to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 26, 2018 .

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

None.

## Item 3. Defaults Upon Senior Securities.

None.

## Item 4. Mine Safety Disclosures.

Not applicable.

## Item 5. Other Information.

None.

# Item 6. Exhibits.

| Exhibit Number | Exhibit Description | Incorporated by Reference | | | Filed Herewith |
|---|---|---|---|---|---|
| | | Form | Exhibit | Filing Date | |
| 3.1 | Amended and Restated Certificate of Incorporation of Shake Shack Inc., effective February 4, 2015 | 8-K | 3.1 | 2/10/2015 | |
| 3.2 | Amended and Restated Bylaws of Shack Shake Inc., dated February 4, 2015 | 8-K | 3.2 | 2/10/2015 | |
| 4.1 | Form of Class A Common Stock Certificate | S-1/A | 4.1 | 1/28/2015 | |
| 10.1 | Credit Agreement, dated as of August 2, 2019, by and among SSE Holdings, LLC, the Guarantors party thereto, the Lenders referred to therein and Wells Fargo Bank, National Association, as Administrative Agent, Swingline Lender and Issuing Lender | 8-K | 10.1 | 8/5/2019 | |
| 31.1 | Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | | | | * |
| 31.2 | Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | | | | * |
| 32 | Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | | | | # |
| 101.INS | XBRL Instance Document - the instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document. | | | | * |
| 101.SCH | XBRL Taxonomy Extension Schema Document | | | | * |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document | | | | * |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document | | | | * |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document | | | | * |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document | | | | * |
| 104 | Cover Page Interactive Data File - the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document | | | | * |

# *Furnished herewith.*

# SIGNATURES

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

**Shake Shack Inc.**
(Registrant)

| | | |
|---|---|---|
| Date: August 5, 2019 | By: | /s/ Randy Garutti |
| | | Randy Garutti |
| | | Chief Executive Officer<br>(Principal Executive Officer and Duly Authorized Officer) |
| Date: August 5, 2019 | By: | /s/ Tara Comonte |
| | | Tara Comonte |
| | | Chief Financial Officer<br>(Principal Financial Officer and Duly Authorized Officer) |

**Exhibit 31.1**

**Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Randy Garutti, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended June 26, 2019 of Shake Shack Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 5, 2019

/s/ Randy Garutti

Randy Garutti

Chief Executive Officer

**Exhibit 31.2**

**Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Tara Comonte, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended June 26, 2019 of Shake Shack Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 5, 2019

/s/ Tara Comonte

Tara Comonte

Chief Financial Officer

**Exhibit 32**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Shake Shack Inc. (the “Company”), for the quarterly period ended June 26, 2019 , as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers of the Company certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 5, 2019

/s/ Randy Garutti

Randy Garutti
Chief Executive Officer

Date: August 5, 2019

/s/ Tara Comonte

Tara Comonte
Chief Financial Officer