

Zoe's Kitchen, Inc.
Form 10-Q
November 20, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarter ended October 6, 2014

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 No. 001-36411

ZOE'S KITCHEN, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

51-0653504

(IRS Employer
Identification No.)

5760 State Highway 121, Suite 250

Plano, Texas

75024

(Address of principal executive offices)

(Zip Code)

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

5700 Granite Parkway

Granite Park Building #2, Suite 455

Plano, Texas 75024

(Former address)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

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On November 20, 2014, there were 19,269,746 shares of common stock outstanding.

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Part I - Financial Information

Item 1. Financial Statements

Zoe's Kitchen, Inc. and Subsidiaries

Unaudited Consolidated Balance Sheets

(in thousands, except share and per share data)

	October 6, 2014	December 30, 2013
Assets		
Current Assets:		
Cash and cash equivalents	\$40,729	\$1,149
Trade accounts receivable, net of allowance for doubtful accounts of \$16 at October 6, 2014 and \$13 at December 30, 2013	929	583
Other accounts receivable	960	1,187
Inventory	1,254	914
Prepaid expenses and other	1,673	618
Total current assets	45,545	4,451
Property and equipment, net	97,159	78,629
Goodwill	24,226	23,334
Intangibles, net	10,140	11,207
Loan costs, net	—	1,035
Deposits	269	247
Other long-term assets	—	1,034
Total long-term assets	131,794	115,486
Total assets	177,339	119,937
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of long-term debt	\$—	\$1,925
Accounts payable	7,460	6,672
Accrued expenses and other	8,703	6,422
Unearned franchise start-up fees	60	40
Total current liabilities	16,223	15,059
Long-term liabilities:		
Long-term debt	—	39,475
Deemed landlord financing	21,801	19,893
Deferred rent	12,654	8,156
Deferred income taxes	3,884	3,397
Residual value obligations, net	307	357
Other long-term liabilities	30	21
Total long-term liabilities	38,676	71,299
Total liabilities	54,899	86,358
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Common stock: \$0.01 par value, 135,000,000 shares authorized as of October 6, 2014 and December 30, 2013; 19,269,746 and 12,561,414 issued and outstanding as of October 6, 2014 and December 30, 2013, respectively.	\$ 193	\$ 126

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Additional paid-in capital	142,289	45,074	
Accumulated deficit	(20,042) (11,621)
Total stockholders' equity	122,440	33,579	
Total liabilities and stockholders' equity	\$177,339	\$119,937	

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

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

	Twelve Weeks Ended		Forty Weeks Ended	
	October 6, 2014	October 7, 2013	October 6, 2014	October 7, 2013
Revenue:				
Restaurant sales	\$43,437	\$28,991	\$131,316	\$87,209
Royalty fees	128	153	403	500
Total revenue	43,565	29,144	131,719	87,709
Restaurant operating costs:				
Cost of sales (excluding depreciation and amortization)	14,638	9,569	43,801	28,930
Labor	11,871	7,956	36,338	24,332
Store operating expenses	8,306	5,179	24,368	16,005
General and administrative expenses	4,973	2,870	21,706	9,055
Depreciation	2,138	1,413	6,639	4,282
Amortization	377	315	1,159	1,052
Pre-opening costs	345	595	1,604	1,336
Loss from disposal of equipment	42	25	93	155
Total operating expenses	42,690	27,922	135,708	85,147
Income (loss) from operations	875	1,222	(3,989	) 2,562
Other expenses:				
Interest expense, net	605	839	2,885	2,967
Loss on extinguishment of debt	—	—	978	—
Loss on interest cap	—	9	6	18
Total other expenses	605	848	3,869	2,985
Income (loss) before provision (benefit) for income taxes	270	374	(7,858	) (423
Provision (benefit) for income taxes	(178	) 23	563	194
Net income (loss)	\$448	\$351	\$(8,421	) \$(617
Net income (loss) per share:				
Basic	\$0.02	\$0.03	\$(0.50	) \$(0.05
Diluted	\$0.02	\$0.03	\$(0.50	) \$(0.05
Weighted average shares of common stock outstanding:				
Basic	19,269,746	12,561,414	16,849,955	12,561,414
Diluted	19,502,018	12,561,414	16,849,955	12,561,414

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

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Zoe's Kitchen, Inc. and Subsidiaries

Unaudited Consolidated Statements of Stockholders' Equity

(in thousands)

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
Balances at December 31, 2012	\$ 126	\$45,000	\$(7,906)	\$37,220
Equity-based compensation	—	59	—	59
Net loss	—	—	(617)	(617)
Balances at October 7, 2013	126	45,059	(8,523)	36,662
Equity-based compensation	—	15	—	15
Net loss	—	—	(3,098)	(3,098)
Balances at December 30, 2013	126	45,074	(11,621)	33,579
Issuance of common stock in connection with the IPO, net of transaction expenses	67	90,970	—	91,037
Equity-based compensation	—	6,245	—	6,245
Net loss	—	—	(8,421)	(8,421)
Balances at October 6, 2014	\$ 193	\$142,289	\$(20,042)	\$122,440

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

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Zoe's Kitchen, Inc. and Subsidiaries

Unaudited Consolidated Statements of Cash Flows

(in thousands)

	Forty Weeks Ended	
	October 6, 2014	October 7, 2013
Cash flows from operating activities:		
Net loss	\$(8,421	) \$(617
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	6,639	4,282
Amortization of intangible assets	1,159	1,052
Equity-based compensation	6,245	59
Deferred income taxes	563	165
Amortization of loan costs	77	149
Bad debt expense	11	8
Loss from disposal of equipment	93	155
Accretion of deemed landlord financing	172	186
Loss on extinguishment of debt	978	—
Changes in operating assets and liabilities:		
Trade accounts receivable	(357	) (346
Other accounts receivable	228	447
Inventory	(326	) (226
Prepaid expenses and other	(1,088	) (533
Accounts payable	2,201	783
Accrued expenses and other	2,072	1,951
Deferred rent	4,554	2,047
Net cash provided by operating activities	14,800	9,562
Cash flows from investing activities:		
Purchase of property and equipment	(24,154	) (20,789
Acquisition purchase price, net of cash acquired	(1,145) —
Proceeds from sale of property and equipment	150	26
Net cash used in investing activities	(25,149	) (20,763
Cash flows from financing activities:		
Proceeds from line of credit	7,900	11,000
Payments on long-term debt	(49,300	) (938
Proceeds from issuance of common stock, net of underwriter fees	96,314	—
Payments of costs associated with initial public offering	(2,538) —
Proceeds from deemed landlord financing	286	1,333
Repurchase of common stock	(2,733) —
Net cash provided by financing activities	49,929	11,395
Net change in cash and cash equivalents	39,580	194
Cash and cash equivalents:		
Beginning of year	1,149	2,450
End of period	\$40,729	\$2,644
Supplemental disclosure of cash flow information:		
Cash paid for interest related to long-term debt	\$812	\$1,515
Cash paid for interest related to deemed landlord financing	2,072	1,210
Non-cash deemed landlord financing	1,450	5,200

Change in accrued purchases of property and equipment (289) 1,051

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

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

1. Nature of Operations and Basis of Presentation

Nature of Operations

Zoe's Kitchen, Inc. (the "Company", "Zoës", "we" or "us"), primarily develops and operates fast-casual restaurants serving a distinct menu of freshly prepared Mediterranean-inspired dishes. As of October 6, 2014, we operated 120 Company-owned restaurants and six franchise restaurants in 15 states across the United States. We have determined that we have one operating and reportable segment. All of our revenues are derived in the United States. All of our assets are located in the United States.

On April 16, 2014, we completed an initial public offering (the "IPO") of 6,708,332 shares of common stock at a price to the public of \$15.00 per share, which included 874,999 shares sold to the underwriters pursuant to their over-allotment option. All share and per share data have been retroactively restated in the accompanying financial statements to give effect to a 125,614.14:1 stock split, which became effective on April 14, 2014. After underwriter discounts and commissions and offering expenses, we received net proceeds from the offering of approximately \$91.0 million. A portion of these proceeds were used to repay all of the outstanding borrowings under our Credit Facility (as defined herein, see Note 5).

On August 19, 2014, we completed a follow-on offering of 5,175,000 shares of common stock at a public offering price of \$30.25 per share, which included 675,000 shares sold to the underwriters pursuant to their over-allotment option. All of the shares in the offering were offered by selling stockholders, except for 94,100 shares offered by us, the proceeds of which were used to repurchase the same number of shares from certain of our officers at the public offering price per share. We did not receive any net proceeds from the sale of shares of common stock by the selling stockholders. The repurchased shares were constructively retired as we do not intend to reissue the shares within a reasonable period of time.

Interim Financial Statements

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

Certain information and footnote disclosures normally included in audited consolidated financial statements presented in accordance with GAAP have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission (the "SEC"). Due to the seasonality of our business, results for any interim financial period are not necessarily indicative of the results that may be achieved for a full fiscal year. In addition, quarterly results of operations may be impacted by the timing and amount of sales and costs associated with the opening of new restaurants. These interim unaudited consolidated financial statements do not represent complete financial statements and should be read in conjunction with our annual financial statements for the year ended December 30, 2013, included in the Company's final prospectus filed on November 14, 2014.

Comprehensive Income (Loss)

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

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Principles of Consolidation

The consolidated financial statements include the accounts of Zoe's Kitchen, Inc. and its wholly owned subsidiaries, Zoe's Kitchen USA, LLC and Soho Franchising, LLC. All intercompany accounts and transactions have been eliminated in consolidation. The consolidated financial statements presented herein reflect our financial position, results of operations, cash flows and changes in equity in conformity with GAAP. Certain amounts in 2013 have been reclassified to conform to 2014 presentation.

Fiscal Year

We operate on a 52- or 53-week fiscal year that ends on the last Monday of the calendar year. Fiscal years ended December 29, 2014 and December 30, 2013 consist of 52 weeks. Our first fiscal quarter consists of 16 weeks, and each of our second, third and fourth fiscal quarters consists of 12 weeks, except for a 53-week year when the fourth quarter has 13 weeks.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions, such as valuation of long-lived, definite and indefinite-lived assets, estimated useful lives of assets, the reasonably assured lease terms of operating leases, the construction costs of leases where the Company is considered the owner during and after the construction period, allowance for doubtful accounts, the fair value and forfeiture rates related to equity-based compensation, insurance reserves, and deferred tax valuation allowances, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Insurance Reserves

Beginning with our new insurance policy period, on September 27, 2014, we self-insure a portion of our expected losses under our worker's compensation insurance program. To limit our exposure to losses, we maintain stop-loss coverage through third-party insurers. Insurance liabilities representing estimated costs to settle reported claims and incurred but not recorded are included in accrued expenses and other.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers." This update was issued to replace the current revenue recognition guidance, creating a more comprehensive revenue model. This update is effective in fiscal periods beginning after December 15, 2016 and early application is not permitted. We are currently evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial position or results of operations.

In April 2014, the FASB issued ASU, 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." This ASU raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. This update is effective in fiscal periods beginning after December 15, 2014. The adoption of ASU 2014-08 is not expected to have a material impact on our consolidated financial position or results of operations.

2. Business Combination

On January 8, 2014, we acquired two franchise restaurants in Mobile, Alabama and Destin, Florida from one of our franchisees which will allow for us to expand our Company-owned operations to these markets. The purchase price for the acquisition was \$1.1 million in cash. The acquired restaurants contributed revenues of approximately \$0.6 million during the twelve weeks ended October 6, 2014 and \$1.2 million from the date of the acquisition through October 6, 2014.

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Goodwill recorded in connection with the acquisition was attributable to synergies expected to arise from cost saving opportunities as well as future expected cash flows. The preliminary allocation of the purchase price to the estimated fair value of the assets acquired and liabilities assumed at the acquisition date is as follows (in thousands):

Cash	\$2
Inventory	15
Property and equipment	167
Reacquired rights	91
Goodwill	892
Accounts payable	(3)
Royalties payable	(17)
Total purchase price	\$1,147

The pro forma impact of the acquisition and the current period results are not presented as it is not considered material to our Consolidated Financial Statements.

3. Supplemental Information

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

	October 6, 2014	December 30, 2013
Buildings under deemed landlord financing	\$17,600	\$16,150
Leasehold improvements	67,266	50,587
Machinery and equipment	16,446	12,399
Furniture and fixtures	3,451	2,669
Automobiles	3,015	2,282
Computer equipment	4,424	3,395
Construction in progress	6,180	6,257
Total Property and equipment, gross	118,382	93,739
Less: Accumulated depreciation	(21,223)	(15,110)
Total Property and equipment, net	\$97,159	\$78,629

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

	October 6, 2014	December 30, 2013
Accrued payroll and payroll taxes	\$3,406	\$2,417
Accrued capital purchases	1,599	1,185
Sales tax payable	1,440	805
Gift certificate payable	332	600
Other accrued expenses	1,926	1,415
Total Accrued expenses and other	\$8,703	\$6,422

4. Fair Value Measurements

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

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5. Bank Line of Credit and Term Loan

We had a credit agreement with a commercial finance company that included a term loan and line of credit (the “Credit Facility”), which were collateralized by a first-priority interest in, among other things, our accounts receivable, general intangibles, inventory, equipment, and furniture and fixtures.

As of December 30, 2013, the term loan and line of credit had a balance of \$38.5 million and \$2.9 million, respectively. As of December 30, 2013, our interest rate for the term loan and line of credit was calculated based on the 1-month LIBOR (with a floor of 1.0%) plus 4.25%.

On April 16, 2014, we repaid in full our outstanding \$37.5 million term loan and \$10.8 million line of credit with a portion of the proceeds from our IPO. Upon repayment, the Credit Facility and all related agreements were terminated, including the existing interest rate contract. In addition, we wrote-off all unamortized loan costs, resulting in a loss on extinguishment of debt of \$1.0 million.

6. Equity-based Compensation

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

The following table summarizes our stock option plan:

	Stock Options	Weighted Average Exercise Price
Stock Options outstanding as of December 30, 2013	—	\$—
Granted	525,730	15.72
Forfeited	(10,370)	(15.00)
Stock Options outstanding as of October 6, 2014	515,360	\$15.73

There were 250,000 stock options granted, included in the table above, that vested immediately upon completion of the IPO and the remainder of the options will vest in four equal annual installments following the date of the grant.

The weighted average fair market value of stock options granted in the forty weeks ended October 6, 2014 was \$5.34 per share, as estimated at the date of grant using the Black-Scholes model using the following weighted average assumptions:

	Forty Weeks Ended October 6, 2014
Dividend yield	0%
Expected volatility ⁽¹⁾	34.73%
Risk-free rate of return	1.78%
Expected life (in years) ⁽²⁾	5.1

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

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

We issued no restricted stock units for the twelve weeks ended October 6, 2014. We issued 6,666 restricted stock units for the forty weeks ended October 6, 2014 which will vest in three equal annual installments following the date of the grant.

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Prior to the IPO, certain of our employees had been granted Class B units in Zoe's Investors, LLC ("Zoe's Investors"), which was our parent company, pursuant to that entity's limited liability company agreement. As these awards had been granted to employees of the Company, which was a consolidated subsidiary of Zoe's Investors, the related compensation expense was reflected in the Company's consolidated financial statements prior to the IPO. Awards granted during 2012 and 2013 are identical to those granted in and prior to 2011 with the exception of a provision that the employee forfeits the 2012 and 2013 awards, vested or unvested, if they terminate their employment with the Company for any reason. There was no compensation expense related to the 2012 and 2013 awards prior to the IPO. In connection with the IPO, any awards granted by Zoe's Investors were converted into common stock.

We recognized equity-based compensation as a component of general and administrative expenses of \$0.05 million and \$0.01 million during the twelve weeks ended October 6, 2014 and October 7, 2013, respectively, and \$6.2 million and \$0.06 million during the forty weeks ended October 6, 2014 and October 7, 2013, respectively. Of the total equity-based compensation recognized in the forty weeks ended October 6, 2014, \$4.9 million is related to accelerated vesting of outstanding equity awards at the IPO and \$1.2 million is related to stock options granted at the date of the IPO. As of October 6, 2014, total unrecognized compensation expense related to non-vested stock awards, including an estimate for pre-vesting forfeitures, was \$1.3 million, which is expected to be recognized over a weighted-average period of 3.7 years.

7. Earnings Per Share

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

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

	Twelve Weeks Ended		Forty Weeks Ended	
	October 6, 2014	October 7, 2013	October 6, 2014	October 7, 2013
Net income (loss) (in thousands):	\$448	\$351	\$(8,421)	\$(617)
Shares:				
Basic weighted average shares outstanding	19,269,746	12,561,414	16,849,955	12,561,414
Diluted weighted average shares outstanding	19,502,018	12,561,414	16,849,955	12,561,414
Earnings (loss) per share:				
Basic EPS	\$0.02	\$0.03	\$(0.50)	\$(0.05)
Diluted EPS	\$0.02	\$0.03	\$(0.50)	\$(0.05)

During the forty weeks ended October 6, 2014, 314,956 stock options and 4,660 restricted stock units were excluded from the diluted EPS calculation because their inclusion would have been anti-dilutive. During the forty weeks ended October 7, 2013, there were no stock options or restricted units excluded from the diluted EPS calculation.

8. Income Taxes

Provision for income taxes was \$0.6 million and \$0.2 million for the forty weeks ended October 6, 2014 and October 7, 2013, respectively. The effective tax rate was (7.2)% and (46.0)% for the forty weeks ended October 6, 2014 and October 7, 2013, respectively. Our quarterly provision for income taxes is measured using an estimated effective tax rate for the period. The comparison of our effective tax rate between periods is significantly impacted by the level of pre-tax income earned and projected for the year, which in the current quarter is primarily impacted by additional expenses incurred as a result of the follow-on offering completed in August 2014 and a few other operational expenses.

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Our IPO, as well as other transactions, can change the aggregate ownership of certain shareholders, that could cause a shift in the ownership of the Company which pursuant to Internal Revenue Code Section 382, could then limit on an annual basis the Company's ability to utilize its U.S. Federal NOL carryovers (and possibly state NOL carryovers as well). If that occurred, the Company's NOLs would continue to be available to offset taxable income and tax liabilities in future years (until such NOLs are either used or expire) subject to any Section 382 annual limitation.

9. Related Party Transactions

Corporate Development and Administrative Services Agreement

Prior to the IPO, Zoe's Investors terminated the Corporate Development and Administrative Services Agreement with Brentwood Private Equity IV, LLC ("Brentwood"), an owner of membership interests in Zoe's Investors, the previous sole shareholder. Under the terms of the agreement, Brentwood provided assistance in the corporate development activities and our business growth efforts. As consideration for services provided, we provided reimbursement for business expenses related to performance of this agreement and an annual consulting fee based on Adjusted EBITDA as defined in the agreement. We had no expenses and \$0.08 million of expenses during the twelve weeks ended October 6, 2014 and October 7, 2013, respectively, related to this agreement and \$0.1 million and \$0.1 million of expenses during the forty weeks ended October 6, 2014 and October 7, 2013, respectively.

In connection with our follow-on offering on August 19, 2014, we purchased 94,100 shares of our common stock from certain of our officers at \$29.04 per share, the net price per share in the offering. We did not receive net proceeds from the offering.

10. Commitments and Contingencies

Franchise Agreement

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

Litigation

We are involved in certain litigation and claims arising in the normal course of business. In the opinion of management, the resolution of these matters will not have a material adverse effect on the financial position or results of our operations.

Other

In connection with the IPO, the Company entered into Employment Agreements with two of its executives, superseding their existing employment agreements as discussed in our final prospectus filed on April 14, 2014. The Employment Agreements have an initial term of three years, with subsequent one year extensions unless terminated by the Company or the executive. Under both Employment Agreements, if the executive's employment is terminated without "cause" or by the executive with "good reason", the executive is entitled to the following severance payments: a) 12 months of continued base salary; b) 12 months of continued health plan coverage, provided the executive continues to pay the relevant employee portion on an after-tax basis that was being paid prior to termination and provided that such coverage will cease if the executive obtains coverage through a new employer; c) a prorated annual bonus amount based on actual performance and prorated vesting of any incentive equity shares that would have otherwise vested in the 12-month period following termination. The severance payments are conditioned upon the executive entering into a general release in favor of the Company and our affiliates.

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11. Subsequent Events

On November 10, 2014, we purchased from our Louisiana franchisee three franchise restaurants in Louisiana, two restaurants under development and area development rights in Louisiana, which will allow for us to further expand our Company-owned operations in this market. The purchase price for the acquisition was \$8.0 million, subject to certain purchase price adjustments.

On November 19, 2014, we completed a follow-on offering of 4,370,000 shares of common stock at a price of \$32.00 per share, which included 570,000 shares sold to the underwriters pursuant to their over-allotment option. All of the shares in the offering were offered by the selling stockholders. We did not receive any proceeds from the offering.

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

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

The following discussion summarizes the significant factors affecting our consolidated operating results, financial condition, liquidity and cash flows as of and for the periods presented below. The following discussion and analysis should be read in conjunction with the accompanying unaudited consolidated financial statements and related notes in Item 1 and with the audited consolidated financial statements and the related notes included in our final prospectus filed on November 14, 2014.

In addition to historical information, this discussion and analysis contains forward-looking statements based on current expectations that involve risks, uncertainties and assumptions, such as our plans, objectives, expectations, and intentions set forth under the sections entitled "Risk Factors" and "Forward-Looking Statements" as filed in our final prospectus. Our actual results and the timing of events may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in the section entitled "Risk Factors" in our final prospectus filed on November 14, 2014.

Overview

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

Growth Strategies and Outlook

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

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

We have expanded our restaurant base from 21 restaurants in seven states in 2008 to 126 restaurants in 15 states as of October 6, 2014, including six franchise restaurants. We opened 24 Company-owned restaurants and acquired two franchise restaurants during the forty weeks ended October 6, 2014. We plan to open 30 to 31 restaurants in 2014, including the restaurants opened in the forty weeks ended October 6, 2014. We expect to double our restaurant base in the next four years. To increase comparable restaurant sales, we plan to heighten brand awareness to drive new customer traffic, increase existing customer frequency and grow our catering business. We believe we are well positioned for future growth with a developed infrastructure capable of supporting a restaurant base that is greater than our existing footprint. Additionally, we believe we have an opportunity to optimize costs and achieve profitability as we benefit from economies of scale.

Key Events

Franchise acquisitions. Since the beginning of 2009, we have acquired 13 franchise locations. In November 2011, we acquired three franchise restaurants in Houston, Texas; in August 2012, we acquired three franchise restaurants in South Carolina, with two restaurants located in Columbia and one restaurant in Greenville; in January 2014, we acquired two franchise restaurants, with one located in Mobile, Alabama and one located in Destin, Florida; and in November 2014, we acquired from our Louisiana franchisee three franchise restaurants, two restaurants under development, and area development rights in Louisiana.

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Initial Public Offering. On April 16, 2014, we completed our initial public offering ("IPO") of 6,708,332 shares of common stock at a price to the public of \$15.00 per share, which included 874,999 shares of common stock sold to the underwriters pursuant to their over-allotment option. After underwriters discounts and commissions and offering expenses, we received net proceeds from the offering of approximately \$91.0 million. A portion of these proceeds were used to repay the outstanding term loan and line of credit (the "Credit Facility"), which at the time of the IPO had an outstanding balance of \$37.5 million and \$10.8 million, respectively. We intend to use the remainder of the proceeds to support our growth, primarily through opening new restaurants and for working capital and general corporate expenses.

As a result of the IPO and the repayment of our outstanding debt, we have benefited from savings on interest expense and management fees that we incurred as a private company, but we will also expect to incur incremental costs as a public company. Incremental public company costs include legal, accounting, insurance and other compliance costs. We will continue to use our operating cash flows to fund capital expenditures to support restaurant growth as well as to invest in our existing restaurants, infrastructure and information technology. See "Liquidity and Capital Resources." Further, in connection with the IPO, we incurred \$6.1 million of equity-based compensation expenses, which includes \$4.9 million related to accelerated vesting of outstanding equity awards at the IPO and \$1.2 million related to stock options granted at the date of the IPO. The financial impact of the IPO will affect the comparability of our post-IPO financial performance to our pre-IPO financial performance.

Follow-on Offerings. On August 19, 2014, we completed our follow-on offering of 5,175,000 shares of the Company's common stock at a price of \$30.25 per share, which included 675,000 shares sold to the underwriters pursuant to their over-allotment option. All of these shares were offered by the selling stockholders, except for 94,100 shares offered by the Company, the proceeds of which were used by the Company to repurchase the same number of shares from certain of its officers. We did not receive any net proceeds from the offering.

On November 19, 2014, we completed another follow-on offering of 4,370,000 shares of the Company's common stock at a price of \$32.00 per share, which included 570,000 shares sold to the underwriters pursuant to their over-allotment option. All of these shares were offered by the selling stockholders. We did not receive any proceeds from the offering.

Key Measures We Use to Evaluate Our Performance

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

Restaurant Sales

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

Comparable Restaurant Sales Growth

Comparable restaurant sales refers to year-over-year sales comparisons for the comparable Company-owned restaurant base. We define the comparable restaurant base to include those restaurants open for 18 periods or longer. As of October 6, 2014 and October 7, 2013, there were 78 and 52 restaurants, respectively, in our comparable Company-owned restaurant base. This measure highlights performance of existing restaurants, as the impact of new Company-owned restaurant openings is excluded.

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

Various factors impact comparable restaurant sales, including:

- consumer recognition of our brand and our ability to respond to changing consumer preferences;
- overall economic trends, particularly those related to consumer spending;
- our ability to operate restaurants effectively and efficiently to meet consumer expectations;

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pricing;
 customer traffic;
 per customer spend and average check amount;
 marketing and promotional efforts;
 local competition;
 trade area dynamics;
 introduction of new menu items; and
 opening of new restaurants in the vicinity of existing locations.

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

Average Unit Volumes (AUVs)

AUVs consist of the average sales of all Company-owned restaurants that have been open for a trailing 52-week period or longer. For purposes of AUV calculations, the fifty-third week in 2012 has been excluded. AUVs allow management to assess changes in consumer traffic and per customer spending patterns at our restaurants.

Restaurant Contribution

Restaurant contribution is defined as restaurant sales less restaurant operating costs, which are cost of sales, labor and store operating expenses. We expect restaurant contribution to increase in proportion to the number of new Company-owned restaurants we open and our comparable restaurant sales growth. Fluctuations in restaurant contribution margin can also be attributed to those factors discussed below for the components of restaurant operating costs.

Number of New Restaurant Openings

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

	Twelve Weeks Ended		Forty Weeks Ended	
	October 6, 2014	October 7, 2013	October 6, 2014	October 7, 2013
Company-owned Restaurant Base				
Beginning of period	116	79	94	67
Openings	4	6	24	18
Franchisee acquisitions	—	—	2	—
Restaurants at end of period	120	85	120	85
Franchise Restaurant Base				
Beginning of period	6	8	8	8
Openings	—	—	—	—
Franchisee acquisitions	—	—	(2) —
Restaurants at end of period	6	8	6	8
Total restaurants	126	93	126	93

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Key Financial Definitions

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

Royalty and franchise fees. Royalty and Franchise fees represent royalty income from franchisees and initial franchise start up fees.

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

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

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

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

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

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

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

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

Loss on extinguishment of debt. Loss on extinguishment of debt consists of the write-off of unamortized loan costs and other fees, following the repayment of our Credit Facility.

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

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

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Consolidated Results of Operations

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

	Twelve Weeks Ended		Forty Weeks Ended			
	October 6, 2014	October 7, 2013	October 6, 2014	October 7, 2013		
Revenue:						
Restaurant sales	99.7	% 99.5	% 99.7	% 99.4	%	
Royalty fees	0.3	% 0.5	% 0.3	% 0.6	%	
Total revenue	100.0	% 100.0	% 100.0	% 100.0	%	
Restaurant operating costs (1):						
Cost of sales (excluding depreciation and amortization)	33.7	% 33.0	% 33.4	% 33.2	%	
Labor	27.3	% 27.4	% 27.7	% 27.9	%	
Store operating expenses	19.1	% 17.9	% 18.6	% 18.4	%	
General and administrative expenses	11.4	% 9.8	% 16.5	% 10.3	%	
Depreciation	4.9	% 4.8	% 5.0	% 4.9	%	
Amortization	0.9	% 1.1	% 0.9	% 1.2	%	
Pre-opening costs	0.8	% 2.0	% 1.2	% 1.5	%	
Loss from disposal of equipment	0.1	% 0.1	% 0.1	% 0.2	%	
Total operating expenses	98.0	% 95.8	% 103.0	% 97.1	%	
Income (loss) from operations	2.0	% 4.2	% (3.0)	)% 2.9	%	
Other expenses:						
Interest expense, net	1.4	% 2.9	% 2.2	% 3.4	%	
Loss on extinguishment of debt	—	—	0.7	% —		
Loss on interest cap	—	0.0	% —	—		
Total other expenses	1.4	% 2.9	% 2.9	% 3.4	%	
Income (loss) before provision (benefit) for income taxes	0.6	% 1.3	% (6.0)	)% (0.5))%	
Provision (benefit) for income taxes	(0.4))% 0.1	% 0.4	% 0.2	%	
Net income (loss)	1.0	% 1.2	% (6.4))% (0.7))%	

(1) As a percentage of restaurant sales.

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Twelve weeks ended October 6, 2014 compared to Twelve weeks ended October 7, 2013

The following table presents selected consolidated comparative results of operations from our unaudited consolidated financial statements for the twelve weeks ended October 6, 2014 compared to the twelve weeks ended October 7, 2013:

	Twelve Weeks Ended			
	October 6, 2014	October 7, 2013	Increase / (Decrease)	
			Dollars	Percentage
(Dollars in thousands)				
Consolidated Statement of Operations Data:				
Revenue:				
Restaurant sales	\$43,437	\$28,991	\$14,446	49.8 %
Royalty fees	128	153	(25)	(16.3)%
Total revenue	43,565	29,144	14,421	49.5 %
Operating expenses:				
Restaurant operating costs:				
Cost of sales (excluding depreciation and amortization)	14,638	9,569	5,069	53.0 %
Labor	11,871	7,956	3,915	49.2 %
Store operating expenses	8,306	5,179	3,127	60.4 %
General and administrative expenses	4,973	2,870	2,103	73.3 %
Depreciation	2,138	1,413	725	51.3 %
Amortization	377	315	62	19.7 %
Pre-opening costs	345	595	(250)	(42.0)%
Loss from disposal of equipment	42	25	17	68.0 %
Total operating expenses	42,690	27,922	14,768	52.9 %
Income from operations	875	1,222	(347)	(28.4)%
Other expenses:				
Interest expense, net	605	839	(234)	(27.9)%
Loss on interest cap	—	9	(9)	(100.0)%
Total other expenses	605	848	(243)	(28.7)%
Income before provision (benefit) for income taxes	270	374	(104)	(27.8)%
Provision (benefit) for income taxes	(178)	) 23	(201)	(873.9)%
Net income	\$448	\$351	\$97	27.6 %

Restaurant sales. The following table summarizes the growth in restaurant sales from the twelve weeks ended October 7, 2013 to the twelve weeks ended October 6, 2014:

(in thousands)	Net Sales
Restaurant sales for twelve weeks ended October 7, 2013	\$28,991
Incremental restaurant sales increase due to:	
Comparable restaurant sales	1,577
Restaurants not in comparable restaurant base	12,869
Restaurant sales for the twelve weeks ended October 6, 2014	\$43,437

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Restaurant sales increased by \$14.4 million, or 49.8%, for the twelve weeks ended October 6, 2014 compared to the twelve weeks ended October 7, 2013. Restaurants not in the comparable restaurant base and other sales accounted for \$12.9 million of this increase. The balance of the growth was due to an increase in comparable restaurant sales of \$1.6 million, or 5.9%, in the twelve weeks ended October 6, 2014, comprised primarily of increased customer traffic and product mix at our comparable restaurants.

Franchise and royalty fees. Royalty fees decreased by \$0.03 million, or 16.3%, for the twelve weeks ended October 6, 2014 compared to the twelve weeks ended October 7, 2013. The decrease was primarily attributable to the acquisition of the Destin, Florida and Mobile, Alabama franchise restaurants in January 2014, which resulted in lower royalty fees in the twelve weeks ended October 6, 2014. We recognized no franchise fees for the twelve weeks ended October 6, 2014 or October 7, 2013.

Cost of sales. Cost of sales increased \$5.1 million for the twelve weeks ended October 6, 2014 compared to the twelve weeks ended October 7, 2013, due primarily to the increase in restaurant sales. As a percentage of restaurant sales, cost of sales increased from 33.0% in the twelve weeks ended October 7, 2013 to 33.7% in the twelve weeks ended October 6, 2014. This increase was primarily driven by higher raw material costs in beef, poultry and seafood.

Labor. Labor increased by \$3.9 million for the twelve weeks ended October 6, 2014 compared to the twelve weeks ended October 7, 2013, due primarily to opening 33 new Company-owned restaurants and acquiring two franchise restaurants since October 7, 2013. As a percentage of restaurant sales, labor decreased from 27.4% in the twelve weeks ended October 7, 2013 to 27.3% in the twelve weeks ended October 6, 2014. This decrease was driven by leverage from increased sales and improved management of hourly labor.

Store operating expenses. Store operating expenses increased by \$3.1 million for the twelve weeks ended October 6, 2014 compared to the twelve weeks ended October 7, 2013, due primarily to opening 33 new Company-owned restaurants and acquiring two franchise restaurants since October 7, 2013. As a percentage of restaurant sales, store operating expense increased from 17.9% in the twelve weeks ended October 7, 2013 to 19.1% in the twelve weeks ended October 6, 2014. This increase was primarily attributable to higher repair and maintenance and marketing costs.

General and administrative expenses. General and administrative expenses increased by \$2.1 million for the twelve weeks ended October 6, 2014 compared to the twelve weeks ended October 7, 2013. As a percentage of revenue, general and administrative expenses increased from 9.8% in the twelve weeks ended October 7, 2013 to 11.4% in twelve weeks ended October 6, 2014. This increase was driven primarily by costs associated with supporting an increased number of restaurants and incremental public company costs.

Depreciation. Depreciation increased by \$0.7 million for the twelve weeks ended October 6, 2014 compared to the twelve weeks ended October 7, 2013, due primarily to opening 33 new Company-owned restaurants and acquiring two franchise restaurants since October 7, 2013. As a percentage of revenue, depreciation increased from 4.8% in the twelve weeks ended October 7, 2013 to 4.9% in the twelve weeks ended October 6, 2014, due to slightly higher build-out costs.

Amortization. Amortization remained relatively flat in the twelve weeks ended October 6, 2014 compared to the twelve weeks ended October 7, 2013.

Pre-opening costs. Pre-opening costs decreased by \$0.3 million for the twelve weeks ended October 6, 2014 compared to the twelve weeks ended October 7, 2013, due primarily to four new Company-owned restaurants opening in the twelve weeks ended October 6, 2014 compared to six new Company-owned restaurants in the twelve weeks ended October 7, 2013.

Loss from disposal of equipment. Loss from disposal of equipment remained flat for the twelve weeks ended October 6, 2014 compared to the twelve weeks ended October 7, 2013.

Interest expense. Interest expense decreased by \$0.2 million for the twelve weeks ended October 6, 2014 compared to the twelve weeks ended October 7, 2013, due primarily to repaying all borrowings under our Credit Facility on April 16, 2014.

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Benefit for income taxes. Benefit for income taxes decreased by \$0.2 million for the twelve weeks ended October 6, 2014 compared to the twelve weeks ended October 7, 2013. Tax expense typically remains relatively constant as it primarily reflects the accrual of income tax expense related to a valuation allowance in connection with the tax amortization of the Company's goodwill that was not available to offset existing deferred tax assets. Due to the uncertain timing of the reversal of this temporary difference, it cannot be considered as a source of future taxable income for purposes of determining a valuation allowance; therefore the tax liability cannot offset deferred tax assets. The comparison of our effective tax rate between periods is significantly impacted by the level of pre-tax income earned and projected for the year, which in the current quarter is primarily impacted by additional expenses incurred as a result of the follow-on offering completed in August 2014 and a few other operational expenses noted above.

Forty Weeks Ended October 6, 2014 compared to Forty Weeks Ended October 7, 2013

The following table presents selected consolidated comparative results of operations from our unaudited consolidated financial statements for the forty weeks ended October 6, 2014 compared to the forty weeks ended October 7, 2013:

Forty Weeks Ended

	October 6, 2014	October 7, 2013	Increase / (Decrease)	
			Dollars	Percentage

(Dollars in thousands)

Consolidated Statement of Operations Data:

Revenue:

Restaurant sales	\$131,316	\$87,209	\$44,107	50.6	%
Royalty fees	403	500	(97)	(19.4))%
Total revenue	131,719	87,709	44,010	50.2	%
Operating expenses:					
Restaurant operating costs:					
Cost of sales (excluding depreciation and amortization)	43,801	28,930	14,871	51.4	%
Labor	36,338	24,332	12,006	49.3	%
Store operating expenses	24,368	16,005	8,363	52.3	%
General and administrative expenses	21,706	9,055	12,651	139.7	%
Depreciation	6,639	4,282	2,357	55.0	%
Amortization	1,159	1,052	107	10.2	%
Pre-opening costs	1,604	1,336	268	20.1	%
Loss from disposal of equipment	93	155	(62)	(40.0))%
Total operating expenses	135,708	85,147	50,561	59.4	%
Income (loss) from operations	(3,989)	) 2,562	(6,551)	(255.7))%
Other expenses:					
Interest expense, net	2,885	2,967	(82)	(2.8))%
Loss on extinguishment of debt	978	—	978	*	
Loss on interest cap	6	18	(12)	(66.7))%
Total other expenses	3,869	2,985	884	29.6	%
Loss before provision for income taxes	(7,858)	) (423)	(7,435)	1,757.7	%
Provision for income taxes	563	194	369	190.2	%
Net loss	\$(8,421)) \$(617)	\$(7,804)	1,264.8	%

*Not meaningful.

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Restaurant sales. The following table summarizes the growth in restaurant sales from the forty weeks ended October 7, 2013 to the forty weeks ended October 6, 2014:

(in thousands)	Net Sales
Restaurant sales for the forty weeks ended October 7, 2013	\$87,209
Incremental restaurant sales increase due to:	
Comparable restaurant sales	4,906
Restaurants not in comparable restaurant base	39,201
Restaurant sales for the forty weeks ended October 6, 2014	\$131,316

Restaurant sales increased by \$44.1 million, or 50.6%, in the forty weeks ended October 6, 2014 compared to the forty weeks ended October 7, 2013. Restaurants not in the comparable restaurant base and other sales accounted for \$39.2 million of this increase. The balance of the growth was due to an increase in comparable restaurant sales of \$4.9 million, or 6.3%, in the forty weeks ended October 6, 2014 comprised primarily of increased customer traffic and product mix at our comparable restaurants.

Franchise and royalty fees. Royalty fees decreased by \$0.1 million, or 19.4%, in the forty weeks ended October 6, 2014 compared to the forty weeks ended October 7, 2013. The decrease was primarily attributable to the acquisition of the Destin, Florida and Mobile, Alabama franchise restaurants in January 2014, which resulted in lower royalty fees in the forty weeks ended October 6, 2014. We recognized no franchise fees for the forty weeks ended October 6, 2014 and October 7, 2013.

Cost of sales. Cost of sales increased \$14.9 million in the forty weeks ended October 6, 2014 compared to the forty weeks ended October 7, 2013, due primarily to the increase in restaurant sales. As a percentage of restaurant sales, cost of sales increased from 33.2% in the forty weeks ended October 7, 2013 to 33.4% in the forty weeks ended October 6, 2014. This increase was primarily driven by higher costs in beef, poultry and dairy; offset by lower raw material costs in produce, dry goods and paper.

Labor. Labor increased by \$12.0 million in the forty weeks ended October 6, 2014 compared to the forty weeks ended October 7, 2013, due primarily to opening 33 new Company-owned restaurants and acquiring two franchise restaurants since October 7, 2013. As a percentage of restaurant sales, labor decreased from 27.9% in the forty weeks ended October 7, 2013 to 27.7% in the forty weeks ended October 6, 2014. This decrease was driven by leverage from increased sales and improved management of hourly labor.

Store operating expenses. Store operating expenses increased by \$8.4 million in the forty weeks ended October 6, 2014 compared to the forty weeks ended October 7, 2013, due primarily to opening 33 new Company-owned restaurants and acquiring two franchise restaurants since October 7, 2013. As a percentage of restaurant sales, store operating expense increased from 18.4% in the forty weeks ended October 7, 2013 to 18.6% in the forty weeks ended October 6, 2014. This increase was primarily attributable to higher repair and maintenance and marketing costs.

General and administrative expenses. General and administrative expenses increased by \$12.7 million in the forty weeks ended October 6, 2014 compared to the forty weeks ended October 7, 2013. As a percentage of revenue, general and administrative expenses increased from 10.3% in the forty weeks ended October 7, 2013 to 16.5% in the forty weeks ended October 6, 2014. The increase was primarily driven by a \$6.2 million increase in equity-based compensation expense due to the accelerated vesting of stock and stock options as of the date of the IPO, \$0.8 million of additional accounting expense and \$1.2 million of non-capitalized IPO and follow-on offering-related expenses.

Other costs increased primarily due to costs associated with supporting an increased number of restaurants and incremental public company costs.

Depreciation. Depreciation increased by \$2.4 million in the forty weeks ended October 6, 2014 compared to the forty weeks ended October 7, 2013, due primarily to opening 33 new Company-owned restaurants and acquiring two franchise restaurants since October 7, 2013. As a percentage of revenue, depreciation increased from 4.9% in the forty weeks ended October 7, 2013 to 5.0% in the forty weeks ended October 6, 2014, due to slightly higher build-out costs.

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Amortization. Amortization increased by \$0.1 million in the forty weeks ended October 6, 2014 compared to the forty weeks ended October 7, 2013, due primarily to the increased amortization of the reacquired rights intangible asset and accelerated amortization of the franchise agreement intangible asset related to the January 2014 acquisition of the Destin, Florida and Mobile, Alabama franchise restaurants, as well as the November 2014 acquisition of the Louisiana restaurants.

Pre-opening costs. Pre-opening costs increased by \$0.3 million in the forty weeks ended October 6, 2014 compared to the forty weeks ended October 7, 2013, due primarily to opening 24 new Company-owned restaurants in the forty weeks ended October 6, 2014 compared to 18 new Company-owned restaurants in the forty weeks ended October 7, 2013.

Loss from disposal of equipment. Loss from disposal of equipment remained flat in the forty weeks ended October 6, 2014 compared to the forty weeks ended October 7, 2013.

Interest expense. Interest expense decreased by \$0.1 million in the forty weeks ended October 6, 2014 compared to the forty weeks ended October 7, 2013, due primarily to interest from deemed landlord financing increasing \$0.7 million offset by lower interest after repaying all outstanding borrowings under our Credit Facility on April 16, 2014.

Loss on extinguishment of debt. Loss on extinguishment of debt was \$1.0 million for the forty weeks ended October 6, 2014 as compared to none for the forty weeks ended October 7, 2013. The increase was due primarily to the repayment of the entire amount of outstanding borrowings under our Credit Facility.

Provision for income taxes. Provision for income taxes increased by \$0.4 million in the forty weeks ended October 6, 2014 compared to the forty weeks ended October 7, 2013. Tax expense typically remains relatively constant as it primarily reflects the accrual of income tax expense related to a valuation allowance in connection with the tax amortization of the Company's goodwill that was not available to offset existing deferred tax assets. Due to the uncertain timing of the reversal of this temporary difference, it cannot be considered as a source of future taxable income for purposes of determining a valuation allowance; therefore the tax liability cannot offset deferred tax assets. The comparison of our effective tax rate between periods is significantly impacted by the level of pre-tax income earned and projected for the year, which on a year-to-date basis is primarily impacted by additional expenses incurred as a result of our IPO in April 2014 and our follow-on offering in August 2014, as well as a few other operational expenses noted above.

Adjusted EBITDA

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

Adjusted EBITDA is defined as EBITDA plus equity-based compensation expense, management and consulting fees, asset disposals, loss on interest cap, loss on extinguishment of debt, non-capitalized offering-related expenses, executive relocation expenses and pre-opening costs. Adjusted EBITDA is intended as a supplemental measure of our performance that is not required by, or presented in accordance with GAAP. We believe that EBITDA and Adjusted EBITDA provide useful information to management and investors regarding certain financial and business trends relating to our financial condition and operating results. Our management uses EBITDA and Adjusted EBITDA (i) as a factor in evaluating management's performance when determining incentive compensation and (ii) to evaluate the effectiveness of our business strategies.

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

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

• Adjusted EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;

• Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

• Adjusted EBITDA does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debts;

although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;

equity-based compensation expense is and will remain a key element of our overall long-term incentive compensation package, although we exclude it as an expense when evaluating our ongoing operating performance for a particular period;

• Adjusted EBITDA does not reflect the impact of certain cash charges resulting from matters we consider not to be indicative of our ongoing operations; and

• other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

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

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The following table reconciles net income (loss) to EBITDA and Adjusted EBITDA:

	Twelve Weeks Ended		Forty Weeks Ended	
	October 6, 2014	October 7, 2013	October 6, 2014	October 7, 2013
	(Dollars in thousands)			
Adjusted EBITDA:				
Net income (loss), as reported	\$448	\$351	\$(8,421	) \$(617
Depreciation and amortization	2,515	1,728	7,798	5,334
Interest expense, net	605	839	2,885	2,967
Provision (benefit) for income taxes	(178	) 23	563	194
EBITDA	3,390	2,941	2,825	7,878
Asset disposals and loss on interest cap (1)	42	34	99	173
Management and consulting fees (2)	—	73	113	181
Equity-based compensation expense	54	14	6,245	59
Loss on extinguishment of debt	—	—	978	—
Pre-opening costs (3)	345	595	1,604	1,336
Offering related expenses (4)	650	—	1,176	—
Executive relocation expenses (5)	170	—	170	—
Adjusted EBITDA	\$4,651	\$3,657	\$13,210	\$9,627

(1) Represents costs related to loss on disposal of equipment and gain (loss) on interest cap.

(2) Represents fees payable to Brentwood Associates pursuant to the Corporate Development and Administrative Services Agreement dated October 31, 2007, and fees payable to Greg Dollarhyde pursuant to a consulting agreement entered into on March 22, 2011. Both agreements were terminated prior to the completion of the IPO.

(3) Represents expenses directly associated with the opening of new restaurants that are incurred prior to opening, including pre-opening rent.

(4) Represents fees and expenses that were incurred, but not capitalized, in relation to our IPO completed on April 16, 2014 and our follow-on offering completed on August 19, 2014.

(5) Represents costs associated with the relocation packages of an executive.

Liquidity and Capital Resources

Potential Impacts of Market Conditions on Capital Resources

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

We believe that cash and cash equivalents and expected cash flow from operations are adequate to fund operating lease obligations, capital expenditures and working capital obligations for the next 13 periods. However, our ability to continue to meet these requirements and obligations will depend on, among other things, our ability to achieve anticipated levels of revenue and cash flow from operations and our ability to manage costs and working capital successfully. See "Risk Factors—Risks Related to Our Business and Industry—We expect to need capital in the future, and we may not be able to generate sufficient cash flow or raise capital on acceptable terms to meet our needs" as filed under our final prospectus as filed on November 14, 2014.

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Summary of Cash Flows

Following the IPO, our primary sources of liquidity and cash flows are operating cash flows and the net proceeds from the IPO not used for repayment of our Credit Facility. We are using these sources to fund capital expenditures for new Company-owned restaurant openings, reinvest in our existing restaurants, repurchase restaurants from our franchisees, invest in infrastructure and information technology and maintain working capital. Our working capital position benefits from the fact that we generally collect cash from sales to customers the same day, or in the case of credit or debit card transactions, within several days of the related sale, and we typically have at least 20 days to pay our vendors.

	Forty Weeks Ended	
	October 6, 2014	October 7, 2013
	(Dollars in thousands)	
Consolidated Statement of Cash Flows Data:		
Net cash provided by operating activities	\$ 14,800	\$ 9,562
Net cash used in investing activities	(25,149	) (20,763
Net cash provided by financing activities	49,929	11,395

Cash Flows Provided by Operating Activities

Net cash provided by operating activities increased to \$14.8 million for the forty weeks ended October 6, 2014 from \$9.6 million for the forty weeks ended October 7, 2013. Cash flows from operating assets and liabilities increased by \$3.2 million, primarily due to an increase of \$1.5 million in cash flows from accounts payable and accrued expenses and other relating to an increase in the number of restaurants under construction. Additionally, cash flows from deferred rent increased \$2.5 million due to new Company-owned restaurant openings.

Cash Flows Used in Investing Activities

Net cash used in investing activities increased to \$25.1 million for the forty weeks ended October 6, 2014 from \$20.8 million for the forty weeks ended October 7, 2013. The increase was primarily due to construction costs for 24 new Company-owned restaurants opened in the forty weeks ended October 6, 2014 compared to 18 new Company-owned restaurants opened during the forty weeks ended October 7, 2013, as well as capital expenditures for future restaurant openings, maintaining our existing restaurants and certain other projects, including the acquisition of two franchise stores in the forty weeks ended October 6, 2014.

Cash Flows Provided by Financing Activities

Cash flows provided by financing activities increased to \$49.9 million for the forty weeks ended October 6, 2014 from \$11.4 million for the forty weeks ended October 7, 2013, primarily due to \$91.0 million in net proceeds from the sale of common stock in our IPO offset by a change of \$51.5 million in net payments on our Credit Facility which was repaid in full following the IPO.

Credit Facility

On April 16, 2014, we repaid all outstanding borrowings under our existing Credit Facility and at October 6, 2014, we no longer have a Credit Facility.

Off-Balance Sheet Arrangements

As of October 6, 2014, we did not have any off-balance sheet arrangements.

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Critical Accounting Policies and Estimates

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

We believe our critical accounting policies are affected by significant judgments and estimates used in the preparation of our consolidated financial statements and that the judgments and estimates are reasonable. Our critical accounting policies and estimates are described in our annual consolidated financial statements and the related notes in our final prospectus filed on November 14, 2014.

JOBS Act

On April 5, 2012, the JOBS Act was enacted. Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected not to avail ourselves of this extended transition period and, as a result, we will adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies.

We are in the process of evaluating the benefits of relying on other exemptions and reduced reporting requirements provided by the JOBS Act. Subject to certain conditions set forth in the JOBS Act, if as an emerging growth company we choose to rely on such exemptions, we may not be required to, among other things, (i) provide an auditor's attestation report on our systems of internal controls over financial reporting pursuant to Section 404, (ii) provide all of the compensation disclosure that may be required of non-emerging growth public companies under the Dodd-Frank Wall Street Reform and Consumer Protection Act, (iii) comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements (auditor discussion and analysis), and (iv) disclose certain executive compensation-related items such as the correlation between executive compensation and performance and comparisons of the Chief Executive Officer's compensation to median employee compensation. These exemptions will apply until we no longer meet the requirements of being an emerging growth company. We will remain an emerging growth company until the earlier of (1) the last day of the fiscal year (a) following the fifth anniversary of the completion of this offering, (b) in which we have total annual gross revenue of at least \$1.0 billion or (c) in which we are deemed to be a large accelerated filer, which means the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the last business day of our prior second fiscal quarter, and (2) the date on which we have issued more than \$1.0 billion in non-convertible debt during the prior three-year period.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

We have no long-term indebtedness and are not subject to any interest rate risk.

Commodity Price Risk

We purchase certain products that are affected by commodity prices and are, therefore, subject to price volatility caused by weather, market conditions and other factors which are not considered predictable or within our control. Although these products are subject to changes in commodity prices, certain purchasing contracts or pricing arrangements we use contain risk management techniques designed to minimize price volatility. In many cases, we believe we will be able to address material commodity cost increases by adjusting our menu pricing or changing our product delivery strategy. However, increases in commodity prices, without adjustments to our menu prices, could increase restaurant operating costs as a percentage of Company-owned restaurant sales.

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Item 4. Controls and Procedures

Our management establishes and maintains disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Such information is accumulated and communicated to our management, including our President and Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate to allow timely decisions regarding required disclosure.

We have evaluated the effectiveness of our disclosure controls and procedures (as defined in the Exchange Act) as of the end of the period covered by this report, with the participation of our CEO and CFO, as well as other key members of our management. Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were not effective as of October 6, 2014 because of the material weakness in our internal control over financial reporting as previously discussed in our final prospectuses filed on April 14, 2014, August 15, 2014 and November 14, 2014. This weakness related to the lack of adequately documented accounting policies and procedures. We are continuing to make the necessary investments to remediate this weakness by documenting additional policies, procedures and adding resources, among other steps.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II - Other Information

Item 1. Legal Proceedings

In the normal course of business, we are subject to other proceedings, lawsuits and claims. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Consequently, we are unable to ascertain the ultimate aggregate amount of monetary liability or financial impact with respect to these matters as of October 6, 2014. These matters could affect the operating results of any one financial reporting period when resolved in future periods. We believe that an unfavorable outcome with respect to these matters is remote or a potential range of loss is not material to our consolidated financial statements. Significant increases in the number of these claims, or one or more successful claims that result in greater liabilities than we currently anticipate, could materially and adversely affect our business, financial condition, results of operations or cash flows.

On October 31, 2014, Forsyth Consulting, Inc., a former music vendor for the Company, filed a complaint against the Company in the Circuit Court of Jefferson County, Alabama alleging breach of contract with respect to its prior music service contract. The Company believes this action is without merit and intends to vigorously defend this action.

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in our final prospectus filed on November 14, 2014.

Item 2. Unregistered Sales of Equity and Use of Proceeds

Use of Proceeds from Initial Public Offering of Common Stock

On August 19, 2014, we completed a follow-on offering of 5,175,000 shares of common stock at a price of \$30.25 per share, which included 675,000 shares sold to the underwriters pursuant to their over-allotment option. All of the shares in the offering were offered by the selling stockholders, except for 94,100 shares offered by us, the proceeds of which were used to repurchase the same number of shares from certain officers at the same net price per share.

Accordingly, from July 15, 2014 to August 14, 2014, we repurchased 94,100 shares of our common stock at \$29.04 per share.

On November 19, 2014, we completed a follow-on offering of 4,370,000 shares of common stock at a price of \$32.00 per share, which included 570,000 shares sold to the underwriters pursuant to their over-allotment option. All of the shares in the offering were offered by the selling stockholders. We did not receive any proceeds from the offering.

Purchases of Equity Securities by the Issuer

The table below reflects shares of common stock we repurchased during the third quarter of 2014:

	Total Number of Shares Purchased	Average Price Paid per Share
Purchased 7/15 through 8/11	—	\$—
Purchased 8/12 through 9/8	94,100	29.04
Purchased 9/9 through 10/6	—	—
Total	94,100	\$29.04

In connection with our follow-on offering in August 2014, 94,100 shares were purchased by us, the proceeds of which were used to repurchase the same number of shares from certain officers at the same net price per share and such repurchased shares are included in the table above.

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Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit Index

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

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

** Furnished with this Quarterly Report. Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933 and are deemed not filed for purposes of section 18 of the Securities and Exchange Act of 1934.

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SIGNATURES

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

Date: November 20, 2014

ZOE'S KITCHEN, INC.

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

By: /s/ Jason Morgan
Name: Jason Morgan
Title: Chief Financial Officer